FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K

[X] **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2024
[ ] **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _________ to _________

FDIC Certificate Number 32203

Summit State Bank
(Exact name of registrant as specified in its charter)

California	94-2878925
(State of incorporation)	(I.R.S. Employee Identification No.)
500 Bicentennial Way, Santa Rosa, California 95403	(707) 568-6000
(Address of principal executive offices)	(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
Yes [ ] No [X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes [X] No [ ]

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

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. [ ]

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). [ ]

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. [ ]

Indicate by check mark if the registrant is a shell company (as defined), in Rule 12b(2) of the Exchange Act. Yes [ ] No [X]

The aggregate market value of the Common Stock held by nonaffiliates as of June 30, 2024, the last business day of the registrant's most recently completed fiscal quarter, was approximately $64,110,000 (based upon the closing price of shares of the registrant's Common Stock, no par value, as reported by the NASDAQ Stock Market, LLC on such date). The number of shares outstanding of the registrant's common stock (no par value) at the close of business March 28, 2025 was 6,776,563.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2025 Annual Meeting of Shareholders to be filed within 120 days of the fiscal year ended December 31, 2024 are incorporated by reference into Part III.

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SUMMIT STATE BANK
ANNUAL REPORT ON FORM 10-K

PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on the current beliefs of the Bank management as well as assumptions made by and information currently available to the Bank's management. Forward-looking statements are those that predict or describe future events or trends or that do not relate solely to historical matters. However, our actual results and financial performance in the future will be affected by known and currently unknown risks, uncertainties and other factors that may cause our actual results or financial performance in the future to differ materially from the results or financial performance that may be expressed, predicted or implied by such forward-looking statements. In this report, the words "anticipate," "believe," "estimate," "expect," "should," "intend," "project," "may," "will," "would," variations of such words and words or phrases of similar meaning identify forward-looking statements may relate to, among other things, expectations as to the Summit State Bank's financial performance or condition, economic trends, the business environment in which the Bank operates, and perceived opportunities in the market.

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

- general economic conditions, either nationally or in the market areas in which we do or anticipate doing business;
- adverse changes in the economy;
- adverse changes in the market for real estate, which serves as collateral for the loans that we make;
- lower revenues than expected;
- credit quality deterioration which could cause an increase in the provision for credit losses;
- competitive pressure among depository institutions could increase significantly;
- the cost and availability of additional capital;
- changes in the interest rates and inflation;
- asset/liability repricing risks and liquidity risks;
- legislative or regulatory requirements or changes adversely affecting our business;
- changes in the securities markets;
- potential weakness of real estate collateral values;
- the adverse impact of a pandemic and governmental responses to the pandemic on the Bank and its customers, employees and third-party service providers;
- the risk of fraud and cybersecurity incidents; and
- the economic and regulatory effects of terrorism, events of war and civil unrest.

Also, other important factors that could cause actual results to differ materially from the Bank's expectations are disclosed under Item 1A. "RISK FACTORS," and below under Item 7.

"MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Critical Accounting Policies" and elsewhere in this report.

If any of these risks or uncertainties materialize, or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements.

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

ITEM 1. BUSINESS

INFORMATION ABOUT SUMMIT STATE BANK

General

Summit State Bank (the "Bank", "we" or "us") is a state-chartered commercial bank operating a traditional community banking business within our primary service area of Sonoma County in California. We also consider and make loans to borrowers primarily from Marin, Napa and San Francisco counties. We operate through five Sonoma County depository offices located in Santa Rosa, Rohnert Park, Healdsburg and Petaluma. The Bank also has loan production offices in California.

The Bank was incorporated on December 20, 1982 and commenced operations as a California state-chartered savings and loan in 1982. On January 15, 1999, the Bank converted its charter to a California state-chartered commercial bank. On July 13, 2006, the Bank completed an underwritten initial public offering and listed its stock on the NASDAQ Global Market under the symbol SSBI. The Bank's deposits are insured by the FDIC in accordance with the Federal Deposit Insurance Act and the related regulations of the FDIC.

We provide a broad array of financial services to small to medium-sized businesses and their owners and employees, entrepreneurs, high net worth families, foundations, estates and individual consumers. We believe that our principal competitive advantages are personal service, flexibility and responsiveness to customer needs. Our lending activities are primarily focused on commercial real estate, construction, and business loans to our targeted clientele.

We emphasize relationship banking and believe we offer customers many of the management capabilities of large financial institutions with the resourcefulness and superior customer service of a community bank. Through our branches and the use of technology, we offer a broad array of deposit products and services for both commercial and consumer customers, including electronic banking, cash management services and electronic bill payment. We provide a comprehensive set of loan products, such as commercial loans and leases, lines of credit, commercial real estate loans, Small Business Administration (SBA), loans, residential mortgage loans to employees, home equity lines of credit, and construction loans. We believe that local decision- making ensures that our lending process is fast, efficient, and focused on maintaining our high credit quality and underwriting standards.

Financial Statement Reclassification

For the year ended December 31, 2024, no reclassifications have occurred that require a Restatement.

Services and Financial Products

Deposit Products

The Bank offers a wide range of deposit products designed to attract commercial businesses, professionals, and residents in the Bank's primary service area. These accounts include personal and business checking accounts, money market accounts, time certificates of deposit, sweep accounts and specialized deposit accounts, including professional accounts, small business "packaged" accounts, tiered accounts designed to attract larger deposits, and retirement plan accounts including IRAs.

Lending Products

The Bank offers a full complement of lending products designed to meet the specialized needs of its customers, including commercial and industrial lines of credit and term loans, equipment loans, real estate and construction loans, and small business loans of which a portion may be guaranteed by the SBA or USDA. The Bank has the designation of "Preferred Lender" by the SBA, which allows for expedited loan approval and funding. The Bank offers loans in amounts which exceed the Bank's lending limits through participation arrangements with correspondent banks. On a selective basis, the Bank also offers loans to agriculture-related businesses.

Brokered Deposits and Reciprocal Deposits

The Bank will accept brokered deposits when it is determined that brokered deposits would be advantageous over other time deposits accepted through the Bank's branch system. The Bank is a member of a network offering a time deposit product called Certificate of Deposit Account Registry Service (CDARS) and demand deposit product called Insured Cash Sweep (ICS). When a customer places a large deposit with the Bank as a network member, the Bank can place the funds into certificates of deposit or demand accounts issued by other banks in the network in increments of less than $250,000, so that both principal and interest are eligible for complete FDIC protection. The network banks exchange deposits on a dollar-for-dollar basis, bringing the full amount of the original deposit back to the originating bank. Because the originating bank comes out "whole," it can make the full amount of deposits received available for community lending purposes or other initiatives of its choosing. Deposits placed using CDARS and ICS meet the pass-through insurance coverage guidelines established by the FDIC and the depositor can obtain up to a total of $150,000,000 in FDIC insurance coverage. The deposits received by the Bank from other network members in exchange for the Bank's customers' deposits placed in the program are not considered as brokered deposits for FFIEC Call Report purposes. Deposit funding raised through the CDARS products can vary significantly between financial reporting periods. CDARS and ICS reciprocal deposits totaled $208,328,000 or 22% of deposits at December 31, 2024 and $278,493,000 or 28% of deposits at December 31, 2023. Brokered deposits totaled $62,347,000 or 6% of deposits at December 31, 2024 and $37,380,000 or 4% of deposits at December 31, 2023. The Bank's strategy is to replace maturing brokered deposits with local deposits.

State of California Approved Depository

The Bank is an approved depository for the deposit of funds of the State of California. These time deposits may be placed with the Bank by the Treasurer of the State of California from time to time with maturities of three to six months, and are collateralized by investment securities, mortgage loans or letters of credit issued by the Federal Home Loan Bank ("FHLB"). There were no State of California deposits at December 31, 2024 or December 31, 2023.

Internet and Telephone Banking Services

The Bank offers internet banking, accessible on the Bank's website, that enables its customers to view account information, access cash management services (including the initiation of automated clearinghouse payments), make transfers between accounts, pay bills, make loan payments, pre-schedule deposit transfers and request loan draws, and view both the front and back of cleared deposit items. The Bank also offers telephone banking services that enable customers to obtain account information, make transfers between accounts, make stop payments, check cleared items, and pre-schedule deposit transfers and loan payments. The Bank has an "app" for cellular phones that allows check image deposits, account inquiries and account transfers.

Other Services

Other services which the Bank offers include banking by appointment, online banking services, direct payroll and social security deposits, letters of credit, access to national automated teller machine networks, courier services, safe deposit boxes, night depository facilities, notary services, travelers' checks, lockboxes, and banking by mail.

Management evaluates the Bank's services on an ongoing basis, and adds or discontinues services based upon customer needs, competitive factors, and the financial and other capabilities of the Bank. Future services may also be significantly influenced by improvements and developments in technology and evolving state and federal regulations.

Sources of Business

In marketing its services, the Bank capitalizes on its identity as a local, community bank, with executive officers, directors and shareholders who have business and personal ties to the community. Small to medium-sized businesses are targeted, as well as nonprofit charities.

The Bank competes with other financial institutions in its service area through localized promotional activities, personalized service, and personal contact with potential customers by employees, executive officers, directors, and shareholders. Promotional activities include media advertising, community advisory groups, and employee/officer participation in community business and civic groups. Officers and directors are active members of the community who call personally on their business contacts and acquaintances in the Sonoma County area to become customers.

Competition

The banking business in California generally, and in the Bank's service area in particular, is highly competitive with respect to both loans and deposits and is dominated by a relatively small number of major banks that have offices operating over wide geographic areas. The Bank competes for deposits and loans with these banks as well as with savings and loan associations, credit unions, mortgage companies, money market funds, stock brokerage firms, insurance companies, and other traditional and non-traditional financial institutions such as fintechs.

Major financial institutions with offices in the service area include Bank of America, Wells Fargo Bank, and JP Morgan Chase. Regional and independent financial institutions with offices in our service area include, among others, Redwood Credit Union, Luther Burbank Savings/Washington Federal, Poppy Bank, Exchange Bank, and Westamerica Bank.

The major banks and some of the other institutions can finance significant investments in technology, and extensive advertising campaigns and can shift their resources to regions or activities of greater potential profitability. Many of the competing banks and other institutions offer diversified financial services which may not be directly offered by the Bank. The major banks also have substantially more capital and higher lending limits.

The Bank competes for customers' funds with governmental and private entities issuing debt or equity securities or other forms of investments which may offer different or higher yields than those available through bank deposits.

Existing and future state and federal legislation could significantly affect the Bank's cost of doing business, its range of permissible activities, and the competitive balance among major, regional and independent banks, and other financial institutions. Management cannot predict the impact these matters may have on commercial banking in general or on the business of the Bank in particular.

To compete with the financial institutions operating in its service area, the Bank relies upon its independent status to provide flexibility and personalized service to its customers. The Bank emphasizes personal contacts with potential customers by employees, executive officers, and directors, develops local promotional activities, and seeks to develop specialized or streamlined services for customers. To the extent customers desire loans exceeding its lending limits or services not offered by the Bank, the Bank attempts to assist customers in obtaining such loans or other services through participations with other banks or assistance from correspondent banks.

Our Address, Telephone Number and Internet Website

Our principal executive offices are located at 500 Bicentennial Way, Santa Rosa, California 95403, and our telephone number is (707) 568-6000. Information about us is available at www.summitstatebank.com. The information on our website is not incorporated by reference into and does not form a part of this report.

We file reports with the FDIC under the Securities Exchange Act of 1934 (the "Exchange Act"), which include annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as proxy and information statements in connection with our shareholders meetings. The FDIC maintains a website that contains the Exchange Act reports that file with the FDIC. The address of the website is www.fdic.gov. Electronic copies of Exchange Act reports filed with the FDIC are available free of charge by visiting the Investor Relations section of our website. These reports are generally posted as soon as reasonably practicable after they are filed with the FDIC.

REGULATION AND SUPERVISION

Overview

Described below are the material elements of selected laws and regulations applicable to the Bank. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable laws or regulations, and in their interpretation and application by regulatory agencies and other governmental authorities, cannot be predicted, but may have a material effect on our business, results of operations or financial condition of the business.

The Bank is extensively regulated by federal and state authorities. Supervision, legal action and examination of the Bank by the bank regulatory agencies are generally intended to protect depositors and are not intended for the protection of shareholders. As a California state-chartered commercial bank, the Bank is regulated, supervised and examined by the California Department of Financial Protection & Innovation (the "DFPI") and the FDIC, which is the Bank's primary federal regulator. The regulations of the DFPI and the FDIC govern most aspects of the Bank's business relating to dividends, investments, loans, borrowings, capital requirements, branching, mergers and acquisitions, reserves against deposits, the issuance of securities and numerous other areas. Although the Bank is not a member bank of the Federal Reserve System, it is subject to certain regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), such as those dealing with check clearing activities and the establishment of reserves against deposits. The Bank is also subject to the rules and regulations of the Consumer Financial Protection Bureau ("CFPB"), which is responsible for implementing and enforcing federal consumer financial protection laws, though the FDIC has the authority to examine the Bank with respect to these laws and to bring enforcement actions against the Bank for any violations. The Bank is also subject to the requirements and restrictions of various consumer laws and regulations arising under California law.

As the Bank's primary regulators, the FDIC and the DFPI issue regulations, conduct examinations, require the filing of reports and generally supervise the operations of the Bank. The approval of the FDIC and DFPI is required for certain transactions in which the Bank may engage, including any merger or acquisition or assumption of deposits involving the Bank, a change in control over the Bank, or the establishment or relocation of any of the Bank's branch offices. In reviewing applications seeking approval of such transactions, the FDIC and DFPI may consider, among other things, the competitive effect and public benefits of the transactions, the capital position and financial and managerial resources and future prospects of the organizations involved in the transaction, the applicant's performance record under the Community Reinvestment Act (see "Community Reinvestment" below) and the effectiveness of the organizations involved in the transaction in combating money laundering activities. The FDIC and the DFPI also have the power to pursue enforcement actions against the Bank and its affiliated parties (see "Enforcement Authority" below).

Capital Adequacy Guidelines

The federal bank regulatory agencies, including the FDIC, have adopted risk-based capital guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a financial institution's operations. The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets, and a Tier 1 leverage ratio of Tier 1 capital to total assets. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for credit losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of pre-tax net unrealized gains on available-for-sale securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out must incorporate AOCI, including unrealized gains and losses on available-for-sale-securities, into common equity Tier 1 capital. The Bank exercised its opt-out election during the first quarter of calendar year 2015. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

The capital guidelines make regulatory capital requirements sensitive to the differences in risk profiles among banking institutions by risk-weighting a Bank's assets, including off-balance sheet items, for purposes of calculating a bank's capital ratios.

The capital guidelines require the Bank to maintain a minimum common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8%, and a Tier 1 leverage ratio of 4%. The guidelines also establish a "capital conservation buffer" of 2.5% above the regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions that fail to maintain the capital conservation buffer face constraints on dividends, equity repurchases and executive compensation based on the amount of the shortfall.

The above capital ratios are minimum requirements. In practice, banks are expected to operate with more than the minimum capital and the FDIC may establish greater minimum capital requirements for specific institutions.

The federal banking agencies have adopted a new community bank leverage ratio (the ratio of a bank's Tier 1 capital to average total assets) that qualifying institutions with less than $10 billion in assets may elect to use in lieu of the generally applicable leverage and risk-based capital requirements described above. A qualifying banking organization that elects to use the new ratio will be considered to have met all applicable federal regulatory capital and leverage requirements, including the minimum capital levels required to be considered "well capitalized" if it maintains community bank leverage ratio capital exceeding 9%. The Bank has elected not to implement the community bank leverage ratio at this time.

Prompt Corrective Action

Federal banking agencies, including the FDIC, have adopted regulations implementing a system of prompt corrective action under the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"). Under the prompt corrective action provisions and implementing regulations, every institution is classified into one of five categories, depending on its total risk-based capital ratio, its common equity Tier 1 ratio, its Tier 1 risk-based capital ratio, its leverage ratio, and subjective factors. The categories are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." To be considered well capitalized for purposes of the prompt corrective action rules, a bank must maintain total risk-based capital of 10.0% or greater, Tier 1 risk-based capital of 8.0% or greater, common equity Tier 1 capital of 6.5% or greater, and a leverage ratio of 5.0% or greater. An institution with a capital level that might qualify for well capitalized or adequately capitalized status may nevertheless be treated as though it were in the next lower capital category if its primary federal banking supervisory authority determines that an unsafe or unsound condition or practice warrants that treatment.

A financial institution's operations can be significantly affected by the financial institution's capital classification under the prompt corrective action rules. For example, an institution that is not well capitalized generally is prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market without advance regulatory approval, which can have an adverse effect on the bank's liquidity. At each successively lower capital category, an insured depository institution is subject to additional restrictions. Undercapitalized institutions are required to take specified actions to increase their capital or otherwise decrease the risks to the federal deposit insurance funds. Bank regulatory agencies generally are required to appoint a receiver or conservator shortly after an institution becomes critically undercapitalized (with tangible equity to total assets of 2% or less).

As of December 31, 2024, the Bank had a common equity Tier 1 capital ratio of 10.1%, a total risk-based capital ratio of 11.9%, a Tier-1 risk-based capital ratio of 10.1%, and a leverage ratio of 8.9%; all ratios are exceeding the minimums necessary to be considered well-capitalized.

Standards for Safety and Soundness

FDICIA requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. For insured institutions with assets of $1.0 billion or more, FDICIA requires that financial statements be prepared in accordance with GAAP, include management certifications concerning management's responsibility for the financial statements, and include an auditor's attestation regarding the institution's internal controls. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a "cease and desist" order or the imposition of civil money penalties.

Enforcement Authority

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, condition imposed in writing by the agency or written agreement with the agency. Enforcement actions may include the issuance of formal and informal agreements, the issuance of a cease-and-desist order that can be judicially enforced, the issuance of directives to increase capital, the imposition of civil money penalties, the issuance of removal and prohibition orders against institution-affiliated parties, the termination of insurance of deposits, the imposition of a conservator or receiver, and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

The California Financial Code affords the DFPI similar enforcement authority. In addition, the DFPI has authority to take possession of and to liquidate a bank, to appoint a conservator for a bank and to appoint the FDIC as receiver for a bank.

Deposit Insurance Premiums

The Deposit Insurance Fund of the FDIC insures deposits at insured depository institutions such as the Bank generally up to a maximum of $250,000 per depositor.

Insured depository institutions pay the FDIC insurance assessments. The amount of the insurance assessment is based on the bank's average assets less tangible equity capital.

Assessment rates are risk-based. For banks that have been FDIC insured for at least five years and have less than $10 billion in total assets, such as the Bank, assessment rates are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years and range from 2.5 to 42 basis points.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what assessment rates will be in the future.

The FDIC may terminate an institution's deposit insurance upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The termination of the Bank's deposit insurance would result in a loss of its charter to conduct business as a bank.

Limits on Loans to One Borrower

Under the California Financial Code, with certain limited exceptions, a bank's unsecured loans to one borrower generally may not exceed 15% of the sum of a bank's capital stock, allowance for credit losses and capital notes and debentures, and both secured and unsecured loans to one borrower (excluding certain secured lending and letters of credit) at any given time generally may not exceed 25% of the sum of the bank's capital stock, allowance for credit losses and capital notes and debentures. Except for limitations on the amount of loans to a single borrower, loans secured by real or personal property may be made to any person without regard to the location or nature of the collateral.

Brokered Deposit Restrictions

Well-capitalized institutions are generally not subject to limitations on brokered deposits, while an adequately capitalized institution is able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are generally not permitted to accept, renew, or roll over brokered deposits. Qualifying reciprocal deposits are generally exempt from these limitations on brokered deposits.

Limitations on Dividends

Under California law, the holders of the Bank's common stock are entitled to receive dividends out of funds legally available for the payment of dividends when and as declared by the Board of Directors, provided the conditions described below are satisfied. Federal law prohibits the Bank from paying a dividend if, after payment of the dividend, the Bank would not be "adequately capitalized" for purposes of prompt corrective action.

The Board may approve the Bank's payment of cash dividends from time to time depending on various factors, including the earnings and capital requirements of the Bank and other financial conditions. California law provides that, as a state-chartered bank, the Bank may not make a cash distribution to its shareholders in excess of the lesser of the following: (a) the Bank's retained earnings or (b) the Bank's net income for its last three fiscal years, less the amount of any distributions made by the Bank to its shareholders during that period. However, a bank, with the prior approval of the DFPI, may make a distribution to its shareholders of an amount not to exceed the greatest of (1) the Bank's retained earnings, (2) the Bank's net income for its last fiscal year, or (3) the Bank's net income for the current fiscal year. If the DFPI determines that the shareholders' equity of the Bank is inadequate or that the making of a distribution by the Bank would be unsafe or unsound, the DFPI may order the Bank to refrain from making a proposed distribution.

The FDIC and the DFPI have authority to prohibit a bank from engaging in business practices that are considered to be unsafe or unsound. Depending upon the financial condition of the Bank and upon other factors, the FDIC or the DFPI could assert that payments of dividends or other payments by the Bank might be an unsafe or unsound practice.

Transactions with Related Parties and Insider Lending

Transactions between banks and their related parties or affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank.

Generally, Section 23A of the Federal Reserve Act and the Federal Reserve Board's Regulation W limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10.0% of such bank's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20.0% of such bank's capital stock and surplus. The term ''covered transaction'' includes the making of loans, purchase of assets, issuance of guarantees and other similar transactions. In addition, loans or other extensions of credit by the bank to an affiliate are required to be collateralized in accordance with regulatory requirements and the bank's transactions with affiliates must be consistent with safe and sound banking practices and may not involve the purchase by the bank of any low-quality asset. Section 23B applies to covered transactions as well as certain other transactions and requires that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to non-affiliates.

Section 22(h) of the Federal Reserve Act and the Federal Reserve Board's Regulation O govern extensions of credit made by a bank to its directors, executive officers, and principal shareholders ("insiders"). Among other things, these provisions require that extensions of credit to insiders be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features. Further, such extensions may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. Extensions of credit in excess of certain limits must also be approved by the board of directors.

Customer Privacy

Federal law contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, a financial institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. Further, under the "Interagency Guidelines Establishing Information Security Standards," banks must implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer information. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

Cybersecurity

Federal banking regulators have indicated that financial institutions should design multiple layers of security controls to establish lines of defense against and to ensure that their risk management processes address cyber-security risks posed by compromised client credentials, including security measures to reliably authenticate clients accessing Internet-based services of the financial institution. Financial institution management is also expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If the Bank fails to observe regulatory guidance regarding appropriate cybersecurity safeguards, we could be subject to various regulatory sanctions, including financial penalties.

Community Reinvestment Act

Under the Community Reinvestment Act of 1977 ("CRA"), the FDIC is required to assess the record of all financial institutions regulated by it to determine if such institutions are meeting the credit needs of the community (including low and moderate-income neighborhoods) which they serve. CRA performance evaluations are based on a four-tiered rating system: Outstanding, Satisfactory, Needs to Improve and Substantial Noncompliance. The federal banking regulators consider an institution's CRA performance when evaluating applications for such things as mergers, acquisitions and applications to open branches. The Bank's most recent CRA rating was "Satisfactory".

Anti-Money Laundering and OFAC

Under federal law, financial institutions must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated Bank Secrecy Act/Anti-Money Laundering officer; an ongoing employee training program; and testing of the program by an independent audit function. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and customer identification in their dealings with foreign financial institutions and foreign customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and law enforcement authorities have been granted increased access to financial information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations, and they must consider an institution's compliance in connection with the regulatory review of applications, including applications for banking mergers and acquisitions. The bank regulatory agencies may impose cease and desist orders, civil money penalty sanctions and other enforcement measures against institutions found to be violating these obligations.

The Office of Foreign Assets Control ("OFAC") is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC sends bank regulatory agencies lists of persons and organizations suspected of aiding, harboring or engaging in terrorist acts or narcotics trafficking. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Bank must freeze such account, file a suspicious activity report and notify the appropriate authorities.

Consumer Protection Laws

The Bank is subject to a number of federal and state laws designed to protect borrowers and depositors and to promote lending to various sectors of the economy. These laws include the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the Fair and Accurate Credit Transactions Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act, and various state law counterparts. The Fair and Accurate Credit Transactions Act of 2003 and its implementing regulations to require financial institutions to develop and implement a written identity theft prevention program to detect, prevent and mitigate identity theft in connection with consumer and certain other accounts that present a reasonably foreseeable risk of identity theft. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties.

Legislation and Proposed Changes

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, in the California legislature and before various bank regulatory agencies. Typically, the intent of this type of legislation is to strengthen the banking industry. No prediction can be made as to the likelihood of any major changes or the impact that new laws or regulations might have on the Bank.

Employees

As of December 31, 2024, the Bank employed a total of 106 employees in various capacities, primarily located in California. The Bank's employees are not represented by any union or covered by any collective bargaining agreement. The Bank considers its relationships with its employees to be good. Our banking strategy is largely dependent on the personal relationships of our employees, the quality of service they provide and their involvement in the communities we serve. We strive to attract, develop and retain employees who can further our strategic goals and build long-term shareholder value. To do so, we offer compensation, benefits, and training designed to attract, develop and retain employees. While we expect to hire employees to further our growth strategy, as a result of attrition and as opportunities to recruit talent may arise, in general, we believe our human capital resources are adequate for our needs.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

Economic or Market Risks

Our business may be adversely affected by other general economic conditions, including conditions in California.

The banking business is affected by general economic and political conditions, both domestic and international, and by governmental monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, money supply, scarce natural resources, weather, natural disasters such as earthquakes, international disorders, and other factors beyond our control may adversely affect our profitability.

A substantial majority of our assets and deposits are generated in Northern California. Local economic conditions in this area can have a significant impact on the demand for our products and services, the ability of borrowers to pay interest on and repay the principal of our loans, and the value of the collateral securing these loans. Adverse changes in economic conditions in the Northern California market may negatively affect our business, results of operations or financial condition.

We are highly dependent on real estate and events that negatively impact the real estate market could hurt our business.

A significant portion of our loan portfolio is dependent on real estate. At December 31, 2024, real estate served as the principal source of collateral with respect to approximately 85% of our loan portfolio. A decline in the value of the real estate securing our loans and real estate owned by us could adversely impact our financial condition. In addition, acts of nature, including earthquakes, wildfires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact our financial condition. This is particularly significant in light of the fact that substantially all of the real estate that makes up the collateral of our real estate-secured loans is located in Northern California, where earthquakes, wildfires and floods are common. Part of this portfolio is secured by farmland, specifically wineries and vineyards, which are currently experiencing a downcycle.

We have significant exposure to risks associated with commercial real estate lending.

A substantial portion of our loan portfolio consists of commercial real estate loans. As of December 31, 2024, we had approximately $680,958,000 of commercial real estate loans outstanding, which represented approximately 74% of our total loan portfolio. Consequently, commercial real estate-related credit risks are a significant concern for us. Commercial real estate loans are generally viewed as having more risk of default than some other types of loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. In addition, these loans often involve larger loan balances to single borrowers or groups of related borrowers compared with other types of loans. In recent years, commercial real estate markets have been particularly impacted by the economic disruption resulting from the COVID-19 pandemic, which has been a catalyst for the evolution of various remote work options which could impact the long-term performance of some types of office properties within our commercial real estate portfolio. Accordingly, the federal banking regulatory agencies have expressed concerns about weaknesses in the current commercial real estate market. The adverse consequences from real estate-related credit risks tend to be cyclical and are often driven by national economic developments that are not controllable or entirely foreseeable by us or our borrowers. Our portfolio secured by farmland also goes through local agricultural cycles that may be different than national economic cycles.

Adverse developments affecting the banking industry may erode customer confidence in the banking system and could have a material effect on our operations and/or stock price.

We face the risk that customers may prefer to maintain deposits with larger financial institutions or invest in short-term fixed income securities instead of deposits with the Bank, either of which could materially adversely impact our liquidity, cost of funding, capital, and results of operations. In response to the failures of other depository institutions, we may face increased regulation and supervisory oversight, higher capital or liquidity requirements or a heightened risk of regulatory enforcement activities, any of which could have a material impact on our business. The high-profile failures of several depository institutions in 2023 negatively impacted customer confidence in the safety and soundness of some regional and community banks. In addition, concerns about the banking industry's operating environment and the public trading prices of bank holding companies are often correlated, particularly during times of financial stress, which could adversely impact the trading price of our common stock.

Our investment securities portfolio may be negatively impacted by changes in market value, interest rates or credit quality.

We held $68,228,000, or approximately 6% of our assets, in investment securities at December 31, 2024. Beginning in 2022, the Federal Reserve made a series of increases to the target Federal Funds rate as part of an effort to combat elevated levels of inflation. Changes in market interest rates can affect the value of our investment securities, with increasing interest rates generally resulting in a reduction of value. The rising interest rate environment in recent years negatively impacted the fair value of our investment securities portfolio, which had $12,659,000 in net unrealized losses from available-for-sale investment securities at December 31, 2024. While the reduction in value from temporary increases in market interest rates does not affect our income until the security is sold, it does result in an unrealized loss recorded in other comprehensive income that can reduce our stockholders' equity.

Further, we must periodically test our investment securities for potential credit losses. In assessing whether there is a potential for actual credit loss of investment securities, we consider when it is likely the full amount of contractual principal and interest will be recouped over the life of the investment and whether we have specific plans to sell or be required to sell the security prior to full recovery. While the majority of the investment securities in our portfolio were issued by government or government sponsored entities, as of December 31, 2024, $23,009,000, or approximately 34% of our securities portfolio, were issued by corporate issuers which generally carry a greater credit risk. While we generally seek to minimize our exposure by strategically diversifying our credit exposure to obligations of issuers in various geographic locations throughout California and the U.S., investing in investment grade securities and actively monitoring the credit worthiness of the issuers and/or credit guarantee providers, there is no guarantee that the issuers will remain financially sound or continue their payments on these investment securities. If we determine we will incur a credit loss on our investment securities, we would be required to recognize an allowance for credit loss, which reduces our net income.

The process for determining whether the Bank should record an allowance for credit loss on investments requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security to assess the probability of receiving all contractual principal and interest payments on the security. There can be no assurance that the declines in market value will not result in an allowance for credit loss of these assets, and lead to accounting charges that could have a material adverse effect on our business, financial condition, and results of operations.

For the year ended December 31, 2024, the Bank identified two corporate investments with adverse conditions specific to those companies that indicate a credit loss could exist. As such, the Bank recorded the decline in fair value as an allowance for credit loss for those investments totaling $36,000 as of December 31, 2024.

Our ability to pay future dividends is subject to certain limitations.

Our ability to pay dividends is limited by law, regulation and our financial condition. We cannot assure you that we will continue to pay dividends at the rate and frequency that we have done in the past or we will declare and pay any dividends in the future at all. See Item 1. "Business Information About Summit State Bank - Regulation and Supervision - Limitations on Dividends".

Increases in FDIC insurance premiums could adversely affect our earnings.

Our deposits are insured by the FDIC up to applicable legal limits through the FDIC's Deposit Insurance Fund (the "DIF"). As an insured depository institution, we are required to pay periodic deposit insurance assessments to support the DIF. Generally, the amount of our assessments is based on a number of factors, including our regulatory capital levels, asset growth and asset quality. To maintain the DIF at an appropriate level, however, the FDIC could increase deposit insurance assessment rates and could charge a special assessment to all FDIC-insured financial institutions, particularly in the wake of several recent depository institution failures. Any future special assessments, increases in assessment rates or required prepayments of FDIC insurance premiums would increase our expenses, which could have a material adverse effect on our business, financial condition and results of operations.

Lending and Other Operating Risks

Our allowance for credit losses may prove to be insufficient to absorb losses in our loan portfolio.

Lending money is a substantial part of our business. Every loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the credit experience of a particular borrower;
- changes in economic and industry conditions; and
- the duration of the loan.

We maintain an allowance for credit losses, a reserve established through a provision for credit losses charged to expense, which we believe is appropriate to provide for expected credit losses over the life of our loan portfolio. For periods ending prior to December 31, 2024, the amount of this allowance was determined by our management through a periodic review and consideration of several factors, including, but not limited to:

- the Bank's own historical default and loss experience;
- reasonable and supportable forecasts of economic conditions such as unemployment rates, property values, Consumer Price Index, Gross Domestic Product, and treasury yields; and
- our evaluation of the collectability of non-performing loans and the value of their underlying collateral.

As of and for the year ended December 31, 2024, the allowance calculation has been updated to a discounted cash flow model that uses a combination of historical peer loss rates, qualitative adjustments, and forward-looking macroeconomic factors to estimate expected credit losses.

The determination of the appropriate level of the allowance for credit losses inherently involves a degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for credit losses. In addition, bank regulatory agencies periodically review our allowance for credit losses and may require an increase in the provision for possible credit losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for credit losses, we may need additional provisions to replenish the allowance for credit losses. Any increases in the allowance for credit losses will result in a decrease in net income and, most likely, capital, and may have a material negative effect on our financial condition and results of operations. See "Item 7. Management's Discussion and Analysis of Financial Controls and Results of Operations – Allowance for Credit Losses," below.

Changes to Our CECL Model May Result in Increased Earnings Volatility and Impact Our Financial Condition

In the fourth quarter of 2024 the Bank updated its Current Expected Credit Loss (CECL) model, which is used to estimate and recognize expected credit losses over the life of our financial assets.

This change in estimate reflects enhancements to our methodology, assumptions, and data sources to improve the accuracy of our credit loss projections. While we believe the updated CECL model provides a more precise estimate of expected credit losses, this transition may introduce greater volatility in our financial results and impact our financial condition in the following ways:

- Increased Earnings Volatility: The updated CECL model incorporates revised economic forecasts, portfolio segmentation, and other risk factors, which may result in fluctuations in our Allowance for Credit Losses (ACL) and provision for credit losses. This could lead to periods of higher or lower earnings volatility, particularly in response to changes in macroeconomic conditions.
- Impact on Regulatory Capital and Loan Loss Reserves: A change in our estimated credit losses may affect our regulatory capital levels, loan loss reserves, and capital adequacy ratios. If the revised CECL model increases the ACL, it could reduce our reported net income and available capital for lending and other business activities.
- Reliance on Economic Forecasts and Model Assumptions: The accuracy of our CECL model depends on multiple assumptions, including macroeconomic conditions, borrower behavior, and credit risk factors. If these assumptions prove inaccurate or economic conditions deteriorate, we may be required to further adjust our credit loss reserves, which could materially impact our earnings and financial stability.
- Potential Regulatory and Investor Scrutiny: Changes in CECL methodologies and estimates may attract scrutiny from regulators, investors, and analysts. If our updated CECL model results in significant variations in loan loss provisions compared to peer institutions, it could affect market perception and investor confidence.

We continue to monitor the effectiveness of our CECL model and may refine our estimates as new data, regulatory guidance, or risk factors emerge. However, there can be no assurance that future adjustments will not have an adverse impact on our financial results. See "Item 7. Management's Discussion and Analysis of Financial Controls and Results of Operations – Allowance for Credit Losses," below.

Regulatory requirements affecting our loans secured by commercial real estate could limit our ability to leverage our capital and adversely affect our growth and profitability.

Rising commercial real estate lending concentrations may expose institutions like us to unanticipated earnings and capital volatility in the event of adverse changes in the commercial real estate market. In addition, institutions that are exposed to significant commercial real estate concentration risk may be subject to increased regulatory scrutiny. The federal banking agencies have issued guidance for institutions that are deemed to have concentrations in commercial real estate lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential commercial real estate concentration risk, institutions that have (i) total reported loans for construction, land development, and other land which represent 100% or more of an institution's total risk-based capital; or (ii) total commercial real estate loans which represent 300% or more of the institution's total risk-based capital and an increase in the outstanding balance of the institution's commercial real estate loan portfolio of 50% or more during the prior 36 months, are identified as having potential commercial real estate concentration risk. As of December 31, 2024, our loans for construction, land development and other land represented 8% of our total risk-based capital. Our non-owner occupied commercial real estate concentration at December 31, 2024 was 395% of our capital. Management has implemented and continues to maintain heightened portfolio monitoring and reporting, and enhanced underwriting criteria with respect to its commercial real estate portfolio. Nevertheless, our level of commercial real estate lending could limit our growth or require us to obtain additional capital and could have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to liquidity risk and changes in our source of funds may affect our performance and financial condition.

Our ability to make loans is directly related to our ability to secure funding. In addition to local deposits, the Bank has the capacity to receive funding from the FHLB, Federal Reserve Bank , third-party brokers, the State of California, and unsecured lines from correspondent banks when such alternatives are attractive compared to the cost of attracting additional local deposits. These alternative sources of funds, along with local time deposits, are sensitive to interest rates and can affect the cost of funds and net interest margin. Liquidity risk arises from the inability to meet obligations when they come due or to manage the unplanned decreases or changes in funding sources. Although we believe we can continue to successfully pursue a local deposit funding strategy, if there are significant fluctuations in local deposit balances or if one of the alternative sources of funds becomes unavailable, we may experience an adverse effect on our financial condition and results of operations.

Changes in interest rates may reduce net income.

Our income depends to a great extent on the difference between the interest rates we earn on our loans, securities and other interest-earning assets and the interest rates we pay on deposits and other interest-bearing liabilities. These rates are highly sensitive to many factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory agencies, in particular the Federal Reserve Board. A change in interest rates could have a material adverse effect on our results of operations, financial condition and prospects by reducing the spread between income realized on interest earning assets and interest paid on interest bearing liabilities. Generally, the value of fixed-rate securities fluctuates inversely with changes in interest rates. Therefore, an increase in interest rates could cause the fair value of our securities investments to decrease, which could materially and adversely affect our results of operations, financial condition and prospects. See Item 7A. "Quantitative and Qualitative Disclosures About Market Risk".

We are exposed to adverse, regulatory, reputation and litigation risk with respect to laws concerning cannabis.

California permits adults over the age of 21 to possess, privately use and grow limited amounts of cannabis. California legalized the commercial sale, distribution and production of cannabis for adult use at state-licensed facilities beginning in January 1, 2018. Cannabis remains illegal under the federal Controlled Substances Act and banks are prohibited from knowingly providing banking services to enterprises that are illegal under federal law.

Although we generally do not offer banking services to cannabis-related businesses ("CRB"), in 2022 we implemented a pilot program in which we offer banking to a limited number of CRB customers following extensive due diligence and subject to ongoing monitoring. As of December 31, 2024, we had twenty customers in our pilot program consisting of five direct CRB deposit customers, fourteen ancillary CRB deposit customers, and two ancillary CRB commercial real estate loan customers.

Outside of the pilot program, we may be exposed to cannabis businesses if we foreclose and take title to real estate that is used in a CRB or may inadvertently offer loan or deposit services to customers who engage in that business if the customer misrepresents or hides its involvement in the cannabis industry.

If we provide banking services or hold funds for a CRB, whether as part or outside of our pilot program a cannabis business or CRB outside of the pilot program, or if we are seen as participating in an illegal enterprise, we may be subject to additional risks, including litigation, regulatory enforcement actions and collateral asset seizures and reputation risk.

We are subject to stringent capital requirements.

The federal banking agencies capital guidelines require that we meet minimum leverage and risk-based capital requirements applicable to bank holding companies and insured banks. Our satisfaction of these requirements is subject to qualitative judgments by regulators that may differ materially from our management's and that are subject to being determined retroactively for prior periods. Additionally, regulators can make subjective assessments about the adequacy of capital levels, even if our capital exceeds the minimums necessary to be considered "well-capitalized." Our failure to meet regulatory capital requirements could have a material adverse effect on our business, including damaging the confidence of customers in us, adversely impacting our reputation and competitive position and retention of key personnel. Our failure to meet capital requirements could also limit or suspend our ability to grow or expand our business, pay dividends and accept brokered deposits. A failure to meet regulatory capital standards may also result in higher FDIC insurance assessments. Maintaining adequate capital levels could require that we raise additional capital, which could reduce our earnings or dilute our existing shareholders. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our financial condition, results of operations and liquidity.

The accuracy of our judgments and estimates about financial and accounting matters will impact operating results and financial condition.

The Bank makes certain estimates and judgments in preparing its financial statements. The quality and accuracy of those estimates and judgments will have an impact on the Bank's operating results and financial condition. A primary item that is subject to material estimates and judgments is the allowance for credit losses of $13,693,000 as of December 31, 2024. Although management believes its estimates and judgments are reasonable and may seek to support its estimates and judgments by employing third party reviews there are no assurances that regulatory reviews may result in a different conclusion or future events may occur that impact the recorded values resulting in material fluctuations of financial results. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates".

Our business is highly competitive.

In California generally, and in our service area specifically, major banks and regional banks dominate the commercial banking market. By virtue of their larger capital bases, such institutions have substantially greater financial, marketing and operational resources than us and offer diversified services that we might not directly offer. We compete with larger commercial banks and other financial institutions, such as savings and loan associations and credit unions, which offer services traditionally offered only by banks. In addition, we compete with other institutions such as money market funds, brokerage firms, commercial finance companies, leasing companies, fintech companies and even retail stores seeking to penetrate the financial services market. No assurance can be given, however, that our efforts to compete with other banks and financial institutions will continue to be successful. In addition, the costs of providing a high level of personal service could adversely affect our operating results. See Item 1. "Business Information About Summit State Bank - Competition".

We depend on loan originations to grow our business.

Our success depends on, among other things, our ability to originate loans. Real estate valuations in our market area have escalated in recent years and may not be sustained. Our competitors may offer better terms, better service, or respond to changing capital and other regulatory requirements better than we are able to do. Some of our competitors make loans on terms that we may not be willing to match. Success in competing for loans depends on such factors as:

- Quality of service to borrowers, especially the time it takes to process loans;
- Economic factors, such as interest rates;
- Terms of the loans offered, such as rate adjustment provisions, adjustment caps, loan maturities, loan-to-value ratios and loan fees; and
- Size of the loan.

Risks Related to Information Systems and Controls

Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend to a significant extent on a number of relationships with third-party service providers. Specifically, we receive core systems processing, essential web hosting and other internet systems, deposit processing and other processing services from third-party service providers. If these third-party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Even if we can replace them, it may be at a higher cost, which could adversely affect our business, financial condition and results of operations.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology or we may experience operational challenges when implementing new technology.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area. We may experience operational challenges as we implement these new technology enhancements or seek to implement them across all of our offices and business units, which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we would be able to offer, which would put us at a competitive disadvantage. Accordingly, a risk exists that we will not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management and systems. We cannot assure that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately corrected. The occurrence of any such failures, interruptions or security breaches could damage our reputation, result in a loss of customer business, subject us to heightened regulatory scrutiny, or expose us to litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We may be adversely affected by disruptions to our network and computer systems or to those of our service providers as a result of denial-of-service or other cyber-attacks.

We may experience disruptions or failures in our computer systems and network infrastructure or in those of our service providers as a result of denial-of-service or other cyber-attacks in the future. We have developed, and continue to invest in, systems and processes that are designed to detect and prevent security breaches and cyber attacks. Due to the increasing sophistication of such attacks, we may not be able to prevent denial-of-service or other cyber-attacks that could compromise our normal business operations, compromise the normal business operations of our customers, or result in the unauthorized use of customers' confidential and proprietary information. While to date the Bank has not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, its systems and those of its clients and third-party service providers are under constant threat and it is possible we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by the Bank and its clients. The occurrence of any failure, interruption or security breach of network and computer systems resulting from denial-of-service or other cyber-attacks could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could adversely affect our business, results of operations or financial condition.

Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Bank's business, results of operations and financial condition.

A failure to maintain effective internal control over financial reporting could have a material adverse effect on our business and stock prices.

If we are unable to maintain the effectiveness of our internal control over financial reporting, we may be unable to report our financial results accurately and on a timely basis. In such an event, investors and clients may lose confidence in the accuracy and completeness of our financial statements, as a result of which our liquidity, access to capital markets, and perceptions of our creditworthiness could be adversely affected and the market prices of our common stock could decline. In addition, we could become subject to investigations by NASDAQ, the FDIC, the SEC, or other regulatory authorities, which could require us to expend additional financial and management resources. As a result, an inability to maintain the effectiveness of our internal control over financial reporting in the future could have a material adverse effect on our business, financial condition, results of operations and prospects.

Regulatory Risks

Our business is subject to extensive government regulation and legislation.

We are subject to extensive state and federal regulation, supervision and legislation, and the laws that govern us and our operations are subject to change from time to time. Applicable laws and regulations provide for the regular examination and supervision of institutions; impose minimal capital requirements; affect the cost of funds through reserve requirements and assessments on deposits; limit or prohibit the payment of interest on demand deposits; limit the kinds of investments we can make and the kinds of activities in which we can engage; and grant the bank regulatory agencies broad enforcement authority in case of violations. The bank regulatory agencies have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank's operations, reclassify assets, determine the adequacy of a bank's allowance for credit losses and determine the level of deposit insurance premiums assessed. The laws and regulations increase the cost of doing business and have an adverse impact on our ability to compete efficiently with other financial services providers that are not similarly regulated. See Item 1. "Business Information About Summit State Bank – Regulation and Supervision".

Changes in laws and regulations and the cost of compliance with new laws and regulations may adversely affect our operations and our income.

The potential exists for additional federal or state laws and regulations, or changes in policy, affecting lending and funding practices, for example, the fees we charge customers and liquidity standards. Moreover, bank regulatory agencies have been active in responding to concerns and trends identified in examinations and have issued many formal enforcement orders requiring capital ratios in excess of regulatory requirements. Any change in these regulations and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations. There can be no assurance that future regulations or legislation will not impose additional requirements and restrictions on us in a manner that will adversely affect its results of operations, financial condition and prospects.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act of 1970, the Uniting and Strengthening America by Providing Appropriate Tools to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, or Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and to file reports such as suspicious activity reports and currency transaction reports. We are required to comply with these and other anti-money laundering requirements. Our federal and state banking regulators, FinCEN, and other government agencies are authorized to impose significant civil money penalties for violations of anti-money laundering requirements. We are also subject to increased scrutiny of compliance with the regulations issued and enforced by OFAC. If our program is deemed deficient, we could be subject to liability, including fines, civil money penalties and other regulatory actions, which may include restrictions on our business operations and our ability to pay dividends, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have significant reputational consequences for us. The risk of non-compliance may be heightened to the extent we knowingly or unknowingly provide services to CRB's. Any of these circumstances could have a material adverse effect on our business, financial condition or results of operations.

General Risk Factors

We are dependent on our management team and key employees, and if we are not able to retain them, our business operations could be materially adversely affected.

Our success depends, in large part, on our management team and key employees. Our management team has significant industry and business experience and our future success depends on our continuing ability to attract, develop, motivate and retain key employees. Qualified individuals are in high demand, particularly in the banking business, and we may incur significant costs to attract and retain them. Because the market for qualified individuals is highly competitive, we may not be able to attract and retain qualified officers or candidates. The loss of any of our management team or our key employees could materially adversely affect our ability to execute our business strategy, and we may not be able to find adequate replacements on a timely basis, or at all. We cannot ensure that we will be able to retain the services of any members of our management team or other key employees. Though we have change-in-control agreements in place with certain members of our management team, they may still elect to leave at any time. Failure to attract and retain a qualified management team and qualified key employees could have a material adverse effect on our business, financial condition, and results of operations.

Our Stock Price May Be Volatile.

There is a limited trading market for our common shares which could lead to price volatility. The ability to sell common shares depends on the existence of an active trading market for our common shares. While our common stock is traded on the NASDAQ Global Market, the trading volume has been relatively low. As a result, a shareholder may be unable to sell or purchase our common shares at the volume, price and time they desire. The limited trading market for our common shares may cause fluctuations in the market value of our common shares to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market. In addition, even if a more active market of our common stock develops, we cannot make assurances that such a market will continue.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

As a financial institution, the Bank's business depends on the continuous operation of its information and data processing systems and the security of information received from customers, employees and others. The Bank has developed and implemented a cybersecurity program intended to protect the reliability of its critical systems and the confidentiality of nonpublic information.

The Bank's cybersecurity program is designed to assess, identify and manage the material risks from cybersecurity threats, including threats associated with third-party service providers, such as technology providers and cloud-based platforms. The program is based on the National Institute of Standards and Technology Cybersecurity Framework ("NIST CSF") and the guidance of banking and other regulatory agencies. As part of the program, the Bank has a cybersecurity incident response plan that includes procedures for responding to cybersecurity incidents and facilitates coordination and communication across multiple parts of the Bank.

The Bank's cybersecurity risk management process is integrated as part of its overall risk management program. The Bank's information security professionals have primary responsibility for overall cybersecurity risk management. The Bank's cybersecurity professionals are led by the Director of Information Technology who has over 20 years of experience in the information technology field, including experience with cybersecurity. The Bank's Director of Information Technology reports to the Chief Operating Officer and in conjunction they develop and maintain the cybersecurity program. In addition to its own employees, the Bank engages third party service providers to provide security products and services as needed, using their technology and expertise to evaluate and enhance its cybersecurity program, perform penetration testing and security audits, and to inform employees regarding evolving threats, risks and defensive measures. Generally, these third-party service providers are managed by the Director of Information Technology.

The Bank periodically reviews, tests and assesses its cybersecurity systems, using both internal resources and third-party service providers with cybersecurity expertise. At least once per year, the Bank reviews and tests its incident response plan through simulations and assessments.

The Bank has developed processes to identify and oversee risks from cybersecurity threats associated with third-party service providers, which includes the Director of Technology assisting with and evaluating cybersecurity readiness during vendor selection and onboarding, and the Finance Manager overseeing the risk-based monitoring of vendors on an ongoing basis.

The Bank requires periodic cybersecurity training for employees to learn about data security, how to identify and mitigate potential cybersecurity risks and how to protect our resources and information. Members of the risk management, cybersecurity and technology teams receive specialized training about evolving cybersecurity threats and new risk mitigation and detection technologies.

Cybersecurity Governance

The Bank's Board of Directors and its Information Technology Steering Committee are responsible for overseeing the Bank's cybersecurity program and policies. The Bank's management, led by the Director of Information Technology, is responsible for designing and implementing the program.

The Director of Information Technology regularly reports to the Information Technology Steering Committee regarding management's implementation of the cybersecurity program, cybersecurity risks and threats, assessments of the Bank's cybersecurity systems and the planning and status project to strength the Bank's information security. The Finance Manager also regularly tracks and reports to the Enterprise Risk Management Committee general cybersecurity risks and threats to the Bank. The Bank's cybersecurity incident response plan requires that management promptly advise the Director of Information Technology, Chief Operating Officer and Board of any material cybersecurity incident. The Chair of the Information Technology Steering Committee and Chair of the Enterprise Risk Management Committee regularly reports to the Board on cybersecurity risks and other matters reviewed by the Committee. Board members may attend both the Information Technology Steering Committee and Enterprise Risk Management Committee meetings where cybersecurity issues are discussed and they have access to the materials for each meeting.

Cybersecurity Incidents

Like many financial institutions, the Bank has experienced cyber-based attacks and other attempts to compromise its information systems and expects that it will continue to experience these attacks and attempts in the future. In October 2023, the Bank was the target of a "phishing" scheme which led to a Business Email Compromise where an external actor initiated a fraudulent outgoing wire transfer causing a loss of $470,000. The Bank investigated this incident to determine whether the external actor illegally accessed and/or acquired nonpublic data within one employee's email account. Impacted customers were notified in accordance with California law and provided optional credit monitoring services. While the Bank has not otherwise identified cybersecurity threats that have materially affected or are reasonably likely to materially affect the Bank, like all financial institutions, the Bank faces ongoing risks from cybersecurity threats that, if realized, are reasonably likely to materially affect its business, results of operations, or financial condition. See Item 1A – Risk Factors – "Risks Related to Information Systems and Controls -- We may be adversely affected by disruptions to our network and computer systems or to those of our service providers as a result of denial-of-service or other cyber-attacks," above.

ITEM 2. PROPERTIES

The Bank owns its head office building located at 500 Bicentennial Way, Santa Rosa, California. The building has approximately 31,000 square feet of usable space. The Bank occupies approximately 22,000 square feet as its headquarters. The remaining 9,000 square feet are currently leased to one tenant, with lease terms maturing in 2025 with a three-year extension option. The Bank also leases spaces for branch offices in three shopping centers and one commercial building. These leases expire at various dates from 2025 through 2029 and include renewal and termination options and rental adjustment provisions. The Bank leases three commercial spaces for loan production with lease expirations through 2028.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Bank's common stock trades on the NASDAQ under the symbol "SSBI." There were 148 common stock shareholders of record at March 7, 2025. There were no unregistered sales of securities or issuer purchases of equity securities for the three-month period ended December 31, 2024.

The Bank's Board of Directors considers on a quarterly basis the feasibility of paying a cash dividend to its shareholders. In 2024, the Bank's dividends were reduced to $0.04 following the release of the second quarter financial results and suspended dividends altogether following the third and fourth quarter 2024 financial results. The change in the payout of dividends was in response to the Bank focusing on maintaining strong capital levels by strategically managing the balance sheet and suspending cash dividends. As such, the Bank plans to suspend cash dividends until it can build more capital, increase liquidity, and position the Bank to create long-term value for its shareholders. Once these targets are achieved, it is anticipated the Board will consider recommending quarterly cash dividends commensurate with earnings and comparable to historic levels. See Item 1. "Business Information About Summit State Bank - Regulation and Supervision - Limitations on Dividends" in Item 1 of this report for more information.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides additional information about the financial condition of the Bank at December 31, 2024 and 2023 and results of operations for the years ended December 31, 2024 and 2023. The following analysis should be read in conjunction with the financial statements of the Bank and the notes thereto prepared in accordance with accounting principles generally accepted in the United States.

Overview

The Bank is a community bank serving Sonoma, Napa, San Francisco and Marin counties in California. It operates through five depository offices located in Santa Rosa, Petaluma, Rohnert Park and Healdsburg. The Bank also has loan production offices located in California. The Bank was founded as a savings and loan in 1982 under the name Summit Savings. On January 15, 1999, the Bank converted its charter to a California state-chartered commercial bank and thereby became subject to regulation, supervision and examination by the DFPI and the FDIC.

Government and Regulatory Oversight

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

Critical Accounting Policies and Estimates

The discussion and analysis of the Bank's results of operations and financial condition are based upon financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Bank's management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these financial statements. These estimates are discussed in more detail under "Financial Statements and Supplementary Data" "Notes to Financial Statements - Summary of Significant Accounting Policies".

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

Change in Allowance for Credit Losses – Loans. As part of the Bank's ongoing efforts to enhance the accuracy of its credit loss estimation process, the Bank transitioned from a Life of Loan Loss Model to a Discounted Cash Flow (DCF) Model for estimating the allowance for credit losses. This change, which was implemented December 31, 2024, is intended to improve the precision of the expected credit loss calculations.

<u>Nature of the Change</u>

The Life of Loan Loss Model previously used a combination of historical loss rates, qualitative adjustments, and forward-looking macroeconomic factors to estimate expected credit losses. The new DCF Model introduces a more dynamic and granular approach by incorporating:

- Loan-Level Discounted Cash Flow Analysis – The new model evaluates credit losses at an individual loan level, applying prepayment and loss estimated cash flows that are discounted using an effective interest rate.
- Incorporation of Peer Data - Utilizing peer loss experience to help enhance the Bank's limited loss experience by incorporating more historical loss activity over various economic cycles.
- Enhanced Economic Forecasting – The model integrates a reasonable and supportable forecast from FOMC forecasts. The quantitative loss drivers utilized in the model are based on a regression of economic factors to historical loss experience which best alights the expected credit losses to the economic forecast.
- More Detailed Portfolio Segmentation – The transition allows for the Bank to evaluate the portfolio at the call code level allowing for greater disaggregation, so the Bank can model fluctuations in portfolio mix. This leads to more accurate risk assessments and expected loss estimates.
- Qualitative Factors – Framework for qualitative factors are more robust and detailed at the call code level allowing for more accurate risk assessments and expected loss estimates.
- Framework for qualitative factors incorporates a calculated max loss scenario representing a severe economic environment as a basis to bound the upper end of the qualitative adjustments. These qualitative adjustments are more robust and detailed at the call code level, allowing for more accurate risk assessments and expected loss estimates.

Impact on Financial Statements

This change is considered a change in accounting estimate, rather than a change in accounting principle, as it results from an improved estimation methodology rather than a fundamental change in the underlying accounting framework. The transition to the DCF Model impacts the Bank's financial results for the year ended December 31, 2024 in the following ways:

- Allowance for Credit Losses (ACL): The updated model resulted in a $76,000 decrease in the ACL as of December 31, 2024, reflecting adjustments in expected credit losses due to the incorporation of discounted cash flow modeling.
- Provision for Credit Losses: The shift in methodology led to a net increase of $70,000, made up of $146,000 increase in reserve for undisbursed loans and a $76,000 decrease in the loan loss provision for the three and twelve months ending December 31, 2024, compared to what would have been recorded under the previous model.
- Earnings Volatility: While the DCF Model provides a more accurate estimate of expected losses, it may introduce increased volatility in the provision for credit losses, particularly during periods of significant economic uncertainty.

Allowance for Credit Losses. The Bank's process for determining the adequacy of the allowance for credit losses is set forth in a formal credit policy. Loans with similar risk characteristics are evaluated on a collective pool basis and prior to December 31, 2024 the allowance for credit losses is calculated using a life of loan pool estimate based on actual historical losses adjusted for economic forecasts and current conditions. Beginning on and for the year ended December 31, 2024, the allowance for credit losses is calculated using a discounted cash flow model that uses a combination of historical peer loss rates, qualitative adjustments, and forward-looking macroeconomic factors to estimate expected credit losses.

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

The Bank's credit policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, enable the Bank to assess such credit risk factors prior to granting new loans, evaluate the sufficiency of the allowance for credit losses and maintain the allowance for credit losses at an appropriate level. The Bank conducts an assessment of the allowance for credit losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors examine and formally approve the adequacy of the allowance. Management estimates the allowance for credit losses using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses is maintained at a level sufficient to provide for expected credit losses over the life of the loan based on evaluating historical credit loss experience and making adjustments to historical loss information for differences in the specific risk characteristics in the current loan portfolio. These adjustments to historical loss factors include, among others, changes in the economic factors that are not contemplated in the quantitative portion of the analysis, changes to internal policies and process, changes in the expertise and turnover of staff, changes in the type of products contained in the underlying portfolio, results of audits and reviews of the credit portfolio, changes in collateral values that support the repayment of loans, changes in the credit quality of the portfolio including amount of criticized and non-accrual loans, changes in the legal and regulatory environment, and changes in loan concentrations in the portfolio.

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

Ongoing Model Monitoring and Adjustments

The Bank will continue to assess the performance of the DCF Model and refine assumptions as necessary to ensure accurate credit loss estimation. Any material changes to the DCF model will be disclosed in future filings.

Goodwill Impairment. Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill is tested annually for impairment, or more often if conditions change and indicate a possible impairment. Significant judgment is used in the assessment of goodwill, both in a qualitative assessment and a quantitative assessment. Assessments of goodwill often require the use of fair value estimates, which are dependent upon various factors, including estimates concerning the Bank's long-term growth prospects and comparability to industry data. Uncertainty and imprecision in estimates can affect the estimated fair value of the reporting unit in a goodwill assessment. Additionally, various events or circumstances could have a negative effect on the estimated fair value of a reporting unit, such as declines in business performance, increases in credit losses, and deterioration in economic or market conditions, which may result in a material impairment charge to earnings in future periods.

In 2024, the Bank assessed goodwill for impairment by performing a quantitative assessment, which encompassed an income approach and a market approach. The income approach considered such factors as the estimated future cash flows based on internal long-term forecasts, assumptions concerning potential synergies and other economic benefits, and a discount rate used to present value such cash flows to determine the fair value. The market approach utilized observable market data from comparable public companies, including price-to-tangible book value ratios, to estimate the Bank's fair value. The market approach also incorporated a control premium to represent the Bank's expectation of a hypothetical acquisition. Management used judgment in the selection of comparable companies and included those with similar business activities, and related operating environments. In addition, the selection and weighting of the various fair value techniques may result in higher or lower estimates of fair value. Judgment is applied in determining the weightings between the income approach and the market approach in determining fair value.

Goodwill is tested for impairment annually as of December 31, or more frequently if events or changes in circumstances indicate a potential impairment. Due to the Bank's continued and sustained decline in stock price through 2024, Management identified this as a triggering event and selected November 30 as the date to perform the annual goodwill impairment test. The results of this assessment indicated that the value of goodwill was fully impaired as of the November 30, 2024 impairment testing date and an impairment loss of $4,119,000 was recognized by the Bank in the fourth quarter of 2024.

Results of Operations

Years Ended December 31, 2024 and 2023

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

Net Income

The Bank had net losses of $4,193,000, or ($0.62) per diluted share, for the year ended December 31, 2024 compared to net income available for common stockholders of $10,822,000, or $1.62 per diluted share, for the year ended December 31, 2023. The decrease in the Bank's results was impacted by expenses including a $7,882,000 provision for credit losses on loans and a $4,119,000 one-time impairment charge to write off the remaining balance of goodwill. The Bank has taken significant charge-offs and provisions for credit losses in 2024 as a proactive step towards resolving its problem loans.

The loss on average assets was (0.38%) for the year ended December 31, 2024, compared to a return on average assets of 0.95% for the years ended December 31, 2023.

The loss on average common equity was (4.23%) for the year ended December 31, 2024, compared to a return on average common equity of 11.56% for the year ended December 31, 2023.

Every year as part of the annual budgeting process the Bank updates its strategic plan. For the 2025 budget term, the 4-year strategy adopted by the Board of Directors focuses on managing balance sheet growth and sustaining income statement performance in response to the impact caused by the high interest rate environment. The Bank will achieve this plan by driving the best performance metrics possible through strategic balance sheet management, maintaining/improving margins, and managing expense growth to levels below income growth. Additional focus is being placed on growing capital ratios and lowering commercial real estate loan concentrations; both activities are expected to have a medium-term impact on loan growth and performance metrics while the Bank repositions portions of its balance sheet.

Net Interest Income and Net Interest Margin

Net interest income was $29,476,000 and the net interest margin was 2.78% for the year ended December 31, 2024, which represented a $5,986,000 or 17% decrease over 2023. For the year ended December 31, 2023, net interest income was $35,462,000 and the net interest margin was 3.19%. The decrease in net interest income was primarily attributable to the increase in interest expense outpacing the increase in interest income. The decrease in interest income was primarily attributable to a decrease in interest on investment securities and a decrease in interest on deposits with banks due to decreased balances in both categories. The increase in interest expense was due to increasing the volume of time deposits at the Bank and an increase in overnight FHLB borrowings.

At December 31, 2024, approximately 85% of the Bank's assets were comprised of net loans and 6% were comprised of investment securities, compared to 84% of net loans and 8% of investment securities at December 31, 2023.

The yield on average interest-earning assets was 5.55% for the year ended December 31, 2024 and 5.42% for December 31, 2023.

In 2024, average earning assets decreased 4.7% with average investment securities decreasing 4.0% and average loans decreasing 0.4%. The annualized rate on loans increased to 5.74% for the year ended December 31, 2024 when compared to 5.61% for the same period in 2023. The increase is primarily attributable to variable rate loans resetting to higher rates in 2024 and the Bank generating new loans at higher rates. Interest income decreased to $58,762,000 or 2.5% for the year ended December 31, 2024 compared to December 31, 2023. The decrease is attributable to a $2,350,000 decrease in interest on deposits with banks due to decreased volume offset by an increase of $1,014,000 in core loan interest yield primarily driven by increased yields.

For the year ended December 31, 2024, the cost of average interest-bearing liabilities was 3.70% compared to the cost of average interest-bearing liabilities of 3.05% for the year ended December 31, 2023.

Interest expense for the year ended December 31, 2024 was $29,286,000, an increase of $4,507,000 from $24,779,000 for the year ended December 31, 2023. Interest expense on deposits for the year ended December 31, 2024 was $28,495,000. Interest expense on deposits for the year ended December 31, 2023 was $24,227,000. Interest expenses have been increasing due to a mix of the Bank increasing its market share by increasing its time deposit and money market volume along with the significant and continued increases in the rate environment. To grow and retain deposits the Bank has been increasing its deposit rates to remain competitive.

The average cost of deposits, including the impact of noninterest bearing deposits, for the year ended December 31, 2024, was 2.94% compared to 2.37% for the year ended December 31, 2023. A majority of the increase in the cost of funds for the year ended December 31, 2024 was the result of an increase in interest-bearing demand deposit volume, increasing to an average balance of $213,483,000 for the year ended December 31, 2024 from $180,084,000 for the year ended December 31, 2023. This increase was also attributable to the total cost of funds for interest-bearing demand deposits increasing to 3.17% for the year ended December 31, 2024 compared to 2.46% for the same period in 2023. The cost of savings, and money market and time deposits also increased in response to increases in federal rates and competitor rates.

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

Average Balance Sheets and Analysis of Net Interest Income

	Year Ended December 31,					
	2024			2023		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Assets						
Interest earning assets:						
Interest-bearing deposits with banks	$ 39,332	$ 2,060	5.24%	$ 85,232	$ 4,410	5.17%
Taxable investment securities	79,616	2,614	3.28%	82,894	2,855	3.44%
FHLB Stock	5,786	514	8.88%	5,298	416	7.85%
Loans, net of unearned income (1)	934,032	53,574	5.74%	937,377	52,560	5.61%
Total earning assets/interest income	1,058,766	58,762	5.55%	1,110,801	60,241	5.42%
Non-earning assets	47,163			47,149		
Allowance for credit losses	(14,884)			(15,160)		
Total assets	$ 1,091,045			$ 1,142,790		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand deposits	$ 213,483	$ 6,769	3.17%	$ 180,084	$ 4,439	2.46%
Savings and money market	262,644	8,898	3.39%	227,114	5,718	2.52%
Time deposits	304,246	12,828	4.22%	388,155	14,070	3.62%
FHLB advances	5,995	337	5.62%	10,904	177	1.62%
Subordinated debt	5,927	454	7.66%	5,913	375	6.34%
Total interest-bearing liabilities/interest expense	792,295	29,286	3.70%	812,170	24,779	3.05%
Non interest-bearing deposits	190,850			225,043		
Other liabilities	8,820			11,956		
Total liabilities	991,965			1,049,169		
Shareholders' equity	99,080			93,621		
Total liabilities and shareholders' equity	$ 1,091,045			$ 1,142,790		
Net interest income and margin (2)		$ 29,476	2.78%		$ 35,462	3.19%
Net interest spread (3)			1.85%			2.37%

(1) The net amortization of deferred fees on loans included in interest income was $221,000 and $590,000 for the years ended December 31, 2024 and 2023, respectively.

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

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

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

Volume and Yield/Rate Variances

	2024 Compared to 2023		
	Change Due to		
(Dollars in thousands)	Volume	Rate	Net
Interest income:			
Interest-bearing deposits with banks	$ (2,347)	$ (3)	$ (2,350)
Taxable investment securities	(115)	(125)	(240)
Dividends on FHLB stock	40	57	97
Loans, net	(187)	1,201	1,014
Total interest income	(2,609)	1,130	(1,479)
Interest expense:			
Interest-bearing demand deposits	916	1,414	2,330
Savings and money market	991	2,189	3,180
Time deposits	(2,759)	1,517	(1,242)
FHLB advances	(49)	209	160
Subordinated debt	1	78	79
Total interest expense	(900)	5,407	4,507
Decrease in net interest income	$ (1,709)	$ (4,277)	$ (5,986)

Provision for Credit Losses

The Bank maintains an allowance for expected credit losses that are an incidental part of the banking business. Write-offs of loans are charged against the allowance for credit losses, which is adjusted periodically to reflect changes in the volume of outstanding loans and estimated losses due to changes in the financial condition of borrowers or the value of property securing nonperforming loans, or changes in general economic conditions and other qualitative factors. Additions to the allowance for credit losses are made through a charge against income referred to as the "provision for credit losses" or recoveries of previous write-offs.

The Bank's credit policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for credit losses. Management assesses the allowance for credit losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors evaluates and formally approves the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accrual loans, trends in loan volume, effects of any changes in the lending policies and procedures, current economic conditions at the local, state and national level, and a migration analysis of historical losses and recoveries. Beginning on and for the year ended December 31, 2024 the Bank implemented a change in accounting estimate and converted to a discounted cash flow model that uses a combination of historical peer loss rates, qualitative adjustments, and forward-looking macroeconomic factors to estimate expected credit losses.

The Bank's allowance for credit losses totaled $13,693,000, or 1.49% of gross loans at December 31, 2024, compared to $15,221,000 or 1.60% of gross loans at December 31, 2023. The real estate portfolio, which accounts for a majority of the Bank's loan portfolio, has an average loan-to-value of 55.8% and debt service coverage ratio of 1.89% as of December 31, 2024.

For the year ended December 31, 2024, the Bank recorded a $7,882,000 provision for credit losses on loans primarily due to an increase in specific loan reserves. For the year ended December 31, 2023, the Bank recorded a $342,000 provision for credit losses due to loan growth. For the year ended December 31, 2024 the Bank had gross charge-offs of $9,690,000 compared to no gross charge-offs for the year ended December 31, 2023. The significant increase in both provisions for credit losses and charge-offs was a proactive step towards resolving the Bank's problem loans. See "Balance Sheet – Allowance for Credit Losses," below.

For the year ended December 31, 2024, the Bank identified two corporate investments with adverse conditions specific to those companies that indicate a credit loss could exist. As such, the Bank recorded the decline in fair value as an allowance for credit loss and provision for those investments totaling $36,000 as of December 31, 2024 compared to $58,000 as of December 31, 2023.

Future provisions for credit losses are dependent on asset quality trends, loan portfolio growth and the general condition of the economy such as a recession or other economic impacts. The Bank expects some variability in its quarterly provision for credit losses going forward due to the CECL model's sensitivity to changes in the economic forecast. Also, since a significant portion of the Bank's loan portfolio is collateralized by real estate, the valuation of the underlying collateral can have a significant impact on the adequacy of the allowance for credit losses and specific allocations for impaired loans, which may require additional future credit loss provisions.

Non-interest Income

The following table summarizes non-interest income recorded for the years indicated.

Non-interest Income

	Year Ended December 31,	
(in thousands)	2024	2023
Service charges on deposit accounts	$ 926	$ 872
Rental income	241	193
Net gain on loan sales	2,114	2,481
Net gain on securities	6	-
Net loss on other real estate owned	(693)	-
FHLB prepayment fee	-	1,024
Other income	865	631
Total non-interest income	$ 3,459	$ 5,201

Service charges on deposit accounts were $926,000 for the year ended December 31, 2024, compared to $872,000 for the year ended December 31, 2023. Service charges for deposit account activity are dependent on volume and types of transactions in the accounts and activity in recent years is not a result of the type of activity that the Bank assesses service fees on.

The Bank owns its headquarters building with the capacity to lease about 29% of the office space to nonaffiliated tenants. Lease income from this office building was $241,000 and $193,000 for the years ended December 31, 2024 and 2023. The leases have annual rent increases.

The Bank operates several loan production offices in California focused on loans partially guaranteed by the Small Business Administration (SBA), the United States Department of Agriculture (USDA) and commercial real estate loans. Management may sell the guaranteed portion of the loans depending on market opportunities or for liquidity reasons. When a guaranteed portion of a loan is sold, a gain is recognized through a premium received on the sale. Total proceeds from sales of SBA guaranteed balances was $38,137,000 in 2024 with a gain recognized of $2,114,000. Total proceeds from sales of SBA guaranteed balances was $51,448,000 in 2023 with a gain recognized of $2,481,000.

The decrease in net gain on loans sales in 2024 compared to 2023 was due to lower volume of guaranteed loans sold. Losses inherent in loan relationships are mitigated by the portion of the loan that is guaranteed by U.S. government loan programs. A typical SBA 7(a) loan carries a 75% guarantee while USDA guarantees range from 50% to 90% depending on loan size and type, which reduces the risk profile of these loans. The Bank retains the servicing rights on all SBA loans sold.

Net securities gains can vary significantly from year to year based on the amount of investment securities sold or called and the net gain or loss realized. Additionally, gains or losses are highly dependent on the interest rate environment and its impact on the fair market value of investment securities. Due to interest rate increases, the Bank had few calls on its government agency and corporate bonds with a net gain of $6,000 in 2024 and no gains in 2023.

The Bank recorded a $693,000 other real estate owned valuation adjustment in 2024. The need for the valuation adjustment was determined through the Bank's process requiring an updated appraisal report.

Other income increased to $865,000 in 2024 from $631,000 in 2023. This growth is due to the increase in loan servicing income.

Due to strong deposit growth and ongoing increases in interest rates, the Bank voluntarily prepaid $23,000,000 of its FHLB Long Term borrowings and recognized a one-time fee income of $1,024,000 for this prepayment in 2023.

Non-interest Expenses

The following table summarizes non-interest expenses recorded for the years indicated.

Non-interest Expenses

	Year Ended December 31,	
(in thousands)	2024	2023
Salaries and employee benefits	$ 15,639	$ 15,399
Occupancy and equipment	1,761	1,713
Goodwill impairment	4,119	-
Other expenses	7,889	7,938
Total non-interest expenses	$ 29,408	$ 25,050

Non-interest expenses, also referred to as operating expenses, are commonly expressed as a percentage of average assets for the period and as a percentage of operating revenues, or the efficiency ratio. The efficiency ratio divides the non-interest expenses by total revenues, which is defined as net interest income plus non-interest income, excluding net security gains. The non-interest expenses as a percent of annual average assets for 2024 was 2.7% and 2023 was 2.2%. The efficiency ratio for 2024 was 89.31% and 2023 was 61.60%. The increase in the efficiency ratio for 2024 is due to the overall decrease in net interest income and an increase in non-interest expense due to a one-time non-cash impairment charge to write off the remaining balance of goodwill.

Salaries and employee benefits expense which include salaries, commissions, bonuses, employee benefits and FASB deferred loan costs increased slightly by $240,000 or 2% in 2024 compared to 2023. The increases were primarily attributable to a general increase in salary and benefit expenses caused by inflation. These increases were partially offset by a decrease in Stock Appreciation Rights (SARs), elimination of employee bonus payouts in 2024, and less commissions paid due to lower SBA loan production compared to prior years. The Bank also reduced its force by 8% in the fourth quarter of 2024 but the cost savings associated with this reduction were offset by severance payouts. The deferred loan origination costs netted against salaries and employee benefits were $1,898,000 and $2,634,000 for the years ended December 31, 2024 and 2023, respectively. The Bank employed a total of 106 and 115 employees as of December 31, 2024 and 2023, respectively.

Occupancy expenses include costs incurred with the Bank's owned headquarters building, four leased branch office buildings and five loan production offices.

The following table summarizes the categories of other expenses.

Other Expenses

(in thousands)	Year Ended December 31, 2024	Year Ended December 31, 2023
Information technology	$ 2,147	$ 1,895
Professional fees	1,448	1,449
Director fees and expenses	518	678
NASDAQ listing and regulatory license expense	259	275
Advertising and promotion	965	1,274
Deposit and other insurance premiums	1,252	915
Loan expense	213	325
Postage and delivery	57	52
Other expenses	1,030	1,075
	$ 7,889	$ 7,938

Information Technology expenses, which are primarily made up of core service provider expenses, are dependent on the Bank's implementation, upgrades, and maintenance of electronic delivery platforms such as mobile banking, and per account and transaction expenses from the Bank's third party data service provider. These expenses correspond directly to the decrease or increase in the number of new deposit and loan customers.

Professional fees vary depending on the use of legal, audit and consulting services. As an insured depository institution with assets of $1.0 billion or more, FDICIA requires that the Bank maintain appropriate internal controls and that its auditors attest to the adequacy of the Bank's internal controls in its report accompany the Bank's annual financial statements. Director fees and expenses vary depending on the number of directors, travel expenses incurred by directors for attendance of Board and number of committee meetings, stock-based compensation expenses, and director training expenses. Advertising and promotion expenses are dependent on the Bank's business development activities and targeted nonprofit charity business customers. Deposit and other insurance premiums increased in 2024 due to an increase in FDIC Insurance. Advertising and promotions decreased as the nonprofit partner program paid out $533,000 and $633,000 for the years ended December 31, 2024 and 2023, respectively. The Bank recognized a loss of $443,000 included in other expenses in 2024, due to an external check fraud event. The Bank has filed an insurance claim related to this fraud loss and may be partially reimbursed by insurance at a later day. The Bank recognized a loss of $470,000 included in other expenses, due to a fraudulent outgoing wire transfer that occurred in 2023 that does not qualify for reimbursement.

Provision for Income Taxes

The Bank accrues income tax expense based on the anticipated tax rates during the financial period covered. The reversal of income taxes for the year ended December 31, 2024 was $31,000 compared to a provision for income taxes of $4,459,000 in 2023. The combined effective Federal and State corporate income tax rates for the years ended December 31, 2024 and 2023 were 4.4% and 29.2%, respectively. The decrease in the effective tax rate for 2024 was primarily due to the bank recording a one-time goodwill impairment of $4,119,000 to write off the remaining balance of goodwill.

Balance Sheet

December 31, 2024 and 2023

Investment Portfolio

Securities classified as available-for-sale for accounting purposes are recorded at their fair value on the balance sheet. Securities classified as held-to-maturity are recorded at amortized cost. At December 31, 2024, investment securities comprised 6.4% of total assets and 6.6% of earning assets. At December 31, 2023, investment securities comprised 7.5% of total assets and 7.8% of earning assets. The Bank's accumulated other comprehensive loss has increased to $8,886,000 at December 31, 2024, from $8,750,000 at December 31, 2023. The significant and sustained amount of the Bank's accumulated other comprehensive loss on its AFS investments has been caused by the drastic increase in interest rates from 2023 and 2024. Except for two securities that are below investment grade with a combined par value of $750,000, no other allowance for credit losses has been recognized on the available-for-sale securities in an unrealized loss position. Management does not believe any of the securities are impaired due to credit risk factors at either December 31, 2024 or December 31, 2023. In addition, for the available-for-sale securities in an unrealized loss position, the Bank assessed whether it intended to sell the securities, or if it was more likely than not that it would be required to sell the securities before recovery of its amortized cost basis, which would require a write-down to fair value through net income. Because the Bank did not intend to sell any of its securities, and it was not more-likely-than-not that the Bank would be required to sell the securities before recovery of their amortized cost bases, the Bank determined that no write-down was necessary as of the reporting date. As of December 31, 2024 the bank had an allowance for credit loss of $36,000 compared to an allowance for credit loss of $58,000 at December 31, 2023.

The Bank limits risk in its investment security portfolio by holding a modest portion of assets in security investments, diversifies investments across various types of securities, diversifies corporate investments across various industries, and limits exposure on corporate debt by capping investments to a maximum of $750,000 per issuer.

Securities classified as available-for-sale were $68,228,000 and $84,546,000 for the 2024 and 2023 respective year ends. Changes in the fair value of available-for-sale securities (e.g., unrealized holding gains or losses) are reported as "other comprehensive income," net of tax, and carried as accumulated other comprehensive income within shareholders' equity until realized. The accumulated other comprehensive (loss) income was in an unrealized loss position of $8,886,000 and $8,750,000 at December 31, 2024 and December 31, 2023, respectively.

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At December 31, 2024, investment securities with a fair value of $8,160,000 or 12% of the portfolio, were pledged to secure municipal deposits. This compares to $8,215,000, or 10% of the portfolio pledged at December 31, 2023. At December 31, 2024, securities with a par value of $40,800,000 were callable within one year.

The composition of the investment portfolio by major category and contracted maturities or repricing of debt investment securities at December 31, 2024 and 2023 is shown below.

Investment Securities

(in thousands)	December 31, 2024	December 31, 2023
Available-for-sale (at fair value):		
Government agencies	$ 38,225	$ 52,430
Mortgage-backed securities - residential	6,994	7,884
Corporate debt	23,009	24,232
Total investment securities	$ 68,228	$ 84,546

Contractual Maturity or Repricing Schedule and Weighted Average Yields of Securities As of December 31, 2024

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(in thousands)	Carrying Amount	Yield	Carrying Amount	Yield	Carrying Amount	Yield	Carrying Amount	Yield
Available-for-sale:								
Government agencies	$ -	-	$ -	-	$ 15,783	2.60%	$ 22,442	2.07%
Mortgage-backed securities - residential	-	-	-	-	-	-	6,994	2.33%
Corporate debt	3,830	3.00%	16,185	3.07%	2,994	4.28%	-	-
Total investment securities	$ 3,830	3.00%	$16,185	3.07%	$ 18,777	2.87%	$ 29,436	2.13%

Yields are weighted-average yields, which are an arithmetic computation of income within each maturity range based on the amortized cost of securities, not on a tax-equivalent basis.

As of December 31, 2024, the Bank did not own securities to any single issuer (other than U.S. Government agencies) whose aggregate book value was in excess of 10% of the Bank's total equity at the time of purchase.

Loan Portfolio

Loan categories used in presentations in this report conform to the categorizations used by regulatory Call Reports as described by the instructions issued by the Federal Financial Institutions Examination Council (FFIEC).

The following table shows the composition of the Bank's loan portfolio by amount and percentage of total loans for each major loan category at the dates indicated.

Loans

(in thousands)	December 31, 2024	%	December 31, 2023	%	Net Change	Percent Change
Commercial & agricultural (1)	$ 138,460	15.1%	$ 133,389	14.0%	$ 5,071	3.8%
Real estate - commercial	682,355	74.2%	697,319	73.0%	(14,964)	-2.1%
Real estate - construction and land	9,419	1.0%	23,773	2.5%	(14,354)	-60.4%
Real estate - single family	54,922	6.0%	58,808	6.2%	(3,886)	-6.6%
Real estate - multifamily	33,602	3.7%	40,547	4.3%	(6,945)	-17.1%
Consumer & lease financing	10	0.0%	11	0.0%	(1)	-9.1%
	918,768	100%	953,847	100%	(35,079)	-3.7%
LESS:						
Allowance for credit losses	(13,693)		(15,221)		1,528	-10.0%
Total Loans, Net	$ 905,075		$ 938,626		$ (33,551)	-3.6%

(1) Includes loans secured by farmland.

The Bank experienced decreased loan demand in 2024 and marginal increased loan demand in 2023. In 2024, loan demand was impacted by the persistently high interest rate environment. The 3.6% decrease in net loans outstanding at December 31, 2024 compared to December 31, 2023, was primarily due to a decrease in the real estate – construction and land, real estate – commercial and real estate – multifamily loan categories offset by a slight increase in commercial and agricultural loans. The real estate portfolio, which accounts for a majority of the Bank's loan portfolio, has an average loan-to-value of 55.8% and debt service coverage ratio of 1.89% as of December 31, 2024.

At December 31, 2024, the Bank had approximately $60,732,000 in undisbursed loan commitments, of which approximately $17,004,000 related to real estate loan types. This compares with undisbursed commitments of approximately $75,234,000 at December 31, 2023, of which approximately $21,787,000 related to real estate loan types. At December 31, 2024 and 2023, there were $23,835,000 and $23,275,000, respectively, in standby letters of credit outstanding.

The following table shows the maturity distribution of Real Estate Construction and Land and Commercial & Agricultural loans, including rate repricing intervals on variable rate loans, at December 31, 2024. In the following table, the term floating (generally referring to loans for which the interest rate will change immediately given a change in the underlying index) also includes loans with adjustable rates (loans for which the rate may change, but which are also limited in occurrence).

Loan Portfolio Maturity Structure at
December 31, 2024

(in thousands)	Within One Year	After One But Within Five Years	After Five But Within Fifteen Years	After Fifteen Years	Total
Commercial & agricultural	$ 31,840	$ 34,001	$ 26,571	$ 46,048	$ 138,460
Real Estate - commercial	79,045	121,919	73,437	407,954	682,355
Real estate - construction and land	6,188	-	2,880	351	9,419
Real Estate - single family	3,140	8,792	5,562	37,428	54,922
Real Estate - multifamily	2,472	8,863	2,009	20,258	33,602
Consumer & lease financing	-	-	-	10	10
Total	$ 122,685	$ 173,575	$ 110,459	$ 512,049	$ 918,768
Loans with:					
Fixed interest rates	$ 38,703	$ 64,225	$ 109,981	$ 512,049	$ 724,958
Floating interest rates	83,982	109,350	478	-	193,810
Total	$ 122,685	$ 173,575	$ 110,459	$ 512,049	$ 918,768

Loan Policies and Procedures

The Bank’s underwriting practices include an analysis of the borrower’s management, current economic factors, the borrower’s ability to respond and adapt to economic changes outside its direct control and verification of primary and secondary sources of repayment. Risk within the loan portfolio is managed through the Bank’s loan policies and underwriting. These policies are reviewed and approved annually by the Board of Directors.

- Management administers the credit policy, ensures proper loan documentation is maintained and develops the methodology for monitoring loan quality and the level of the allowance for credit losses and reports on these matters to the Board of Directors' Loan Committee and the Board of Directors.

- The Board of Directors' Loan Committee meets regularly to evaluate problem assets and the adequacy of the allowance for credit losses. The Committee also reviews and makes recommendations to the Board of Directors regarding the adequacy of the allowance for credit losses and is responsible for ensuring that an independent third party reviews the loan portfolio at least annually. Resultant reports are sent to this Committee and to the Audit Committee.

- The Board of Directors' Loan Committee is responsible for enforcement of the credit policy and has additional responsibilities which include approving loans or loan relationships for a customer that, when considered in the aggregate, exceed management's level of loan authority for that customer.

- The Board of Directors' Audit Committee engages a third party to perform a review of management's asset and liability practices to ensure compliance with the Bank's policies.

- The Board of Directors retains overall responsibility for all loan functions and reviews material loan relationships.

Loan approvals are granted according to established policies, and lending officers are assigned approval authorities within their levels of training and experience. Interest rates reflect the risk inherent in loans and collateral is generally taken for purchase-money financing. Collateral may consist of accounts receivable, direct assignment of contracts, inventory, equipment and real estate. Unsecured loans may be made when warranted by the financial strength of the borrower.

Nonperforming Assets

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

The following are the nonperforming assets for the respective periods:

Nonperforming Assets

	December 31,	
(in thousands)	2024	2023
Nonaccrual loans	$ 27,754	$ 44,158
Accruing loans past due 90 days or more	-	48
Total nonperforming loans	27,754	44,206
Other real estate owned	4,437	-
Total nonperforming assets	$ 32,191	$ 44,206
Nonperforming loans to total loans	3.02%	4.63%
Nonperforming assets to total assets	3.02%	3.94%
Allowance for credit losses to nonperforming loans	49.34%	34.43%

Nonperforming assets at December 31, 2024 decreased to $32,191,000, or 3.02% of total assets, at December 31, 2024, compared to $44,206,000, or 3.94% of total assets, at December 31, 2023. Nonperforming loans at December 31, 2024 consisted of fourteen loans; two loans totaling $1,027,000 are real estate secured commercial loans and twelve loans totaling $26,727,000 are commercial and agriculture secured loans. Nonperforming assets include $4,437,000 for one other real estate owned at December 31, 2024 compared to no other real estate owned at December 31, 2023. All nonperforming assets were individually assessed resulting in a corresponding reserve of $930,000 at December 31, 2024 compared to a reserve of $1,613,000 at December 31, 2023. Many of the nonperforming loans were negatively impacted by an unprecedented rise in interest rates. Management is actively working with their customers to proactively identify loans that could become nonperforming, resolve problem credits in a timely manner where possible, and maintain adequate reserves.

Allowance for Credit Losses

The Bank maintains the allowance for credit losses to provide for expected credit losses in the loan portfolio. The Bank uses the provisions of Accounting Standards Codification ("ASC") 326 – *Financial Instruments-Credit Losses*, which requires the Bank to record an estimate of expected lifetime credit losses for loans and off-balance sheet loan commitments at the time of origination or acquisition. This methodology is referred to as the "currently expected credit loss", or "CECL", methodology. In 2018, the federal banking regulators (the Federal Reserve, the OCC and the FDIC) adopted a rule that gives a banking organization the option to phase in over a three-year period the day-one adverse effects of CECL on its regulatory capital.

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

The Bank's credit policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for credit losses. Management assesses the allowance for credit losses monthly and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors evaluates and formally approves the adequacy of the allowance. For periods ending prior to December 31, 2024, the quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated life-of-loan loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accrual loans, trends in loan volume, effects of any changes in lending policies and procedures, changes in lending personnel, current economic conditions and reasonable and supportable forecasts at the local, state and national level, and a migration analysis of historical losses and recoveries. Beginning on and for the year ended December 31, 2024 the Bank implemented a change in accounting estimate and converted to a discounted cash flow model that uses a combination of historical peer loss rates, qualitative adjustments, and forward-looking macroeconomic factors to estimate expected credit losses.

In addition to the allowance for credit losses, the Bank also maintains a reserve for losses for undisbursed loan commitments which is reported in other liabilities on the balance sheets. The reserve for undisbursed loan commitments was $422,000 as of December 31, 2024 and $367,000 as of December 31, 2023. Beginning December 31, 2024, when the Bank shifted its methodology to DCF, this led to a $146,000 increase in reserve for undisbursed loans for the three and twelve months ending December 31, 2024, compared to what would have been recorded under the previous model.

The following table sets forth an analysis of the allowance for credit losses and provision for credit losses for the periods indicated.

Summary of Activity in the Allowance for Credit Losses

(in thousands)	Year Ended December 31	
	2024	2023
Balance at beginning of period	$ 15,221	$ 14,839
Charge-offs:		
Commercial & agricultural	(8,343)	-
Real estate - commercial	(1,347)	-
Real estate - construction and land	-	-
Real Estate - single family	-	-
Real Estate - multifamily	-	-
Consumer & lease financing	-	-
Total loans charged-off	(9,690)	-
Recoveries:		
Commercial & agricultural	280	40
Real estate - commercial	-	-
Real estate - construction and land	-	-
Real Estate - single family	-	-
Real Estate - multifamily	-	-
Consumer & lease financing	-	-
Total recoveries	280	40
Net loans (charged off) recovered	(9,410)	40
Provision for credit losses	7,882	342
Allowance for credit losses - end of period	$ 13,693	$ 15,221
Loans:		
Average loans outstanding during period, net of unearned income	$ 934,032	$ 937,377
Total loans at end of period, net of unearned income	$ 918,768	$ 953,847
Ratios:		
Commercial & agricultural loans (charged-off) recovered to average net loans	(0.86)%	0.00%
Real estate - commercial loans (charged-off) recovered to average net loans	(0.14)%	0.00%
Net loans (charged-off) recovered to total loans	(1.02)%	0.00%
Allowance for credit losses to average net loans	1.47%	1.62%
Allowance for credit losses to total loans	1.49%	1.60%
Net loans (charged-off) recovered to provision for credit losses	(119.39)%	11.70%

The following table summarizes the allocation of the allowance for credit losses by loan category and the amount of loans in each category as a percentage of total loans in each category as of the end of each year presented. The allocated portions of the allowance for credit losses are available to the entire portfolio.

Allocation of Allowance for Credit Losses

	Year Ended December 31,			
	2024		2023	
(in thousands)	**Allowance Allocation**	**Amount of Category Loans to Total Loans**	**Allowance Allocation**	**Amount of Category Loans to Total Loans**
Commercial & agricultural	$ 2,482	15.1%	$ 1,395	14.0%
Real estate - commercial	8,732	74.2%	8,812	73.0%
Real estate - construction and land	1,195	1.0%	3,413	2.5%
Real estate - single family units	591	6.0%	721	6.2%
Real estate - multifamily	464	3.7%	634	4.3%
Consumer & lease financing	229	0.0%	246	0.0%
Total	$ 13,693	100%	$ 15,221	100%

The allowance allocation is highly dependent on the current loan balance contractual terms, adjusted for expected peer segment loss analysis and prepayments, when appropriate. The specific loan pools evaluated at one period versus another can result in variations in the allocations. Different loan pools have different loss expectations in rising rate environments and at times of economic uncertainty. For the period ending December 31, 2024, the commercial & agricultural pool had an increase in the allowance allocated due to economic trends and outlook as well as increases in outstanding balances. For the period ending December 31, 2024, the real estate – commercial, real estate – construction and land, real estate single family units and real estate – multifamily pools had a decrease in the allowance allocated attributable to the reduced amount of loans in those pools.

Other Assets

Deferred income taxes were $3,624,000 and $3,115,000 in 2024 and 2023, respectively. There were $1,232,000 and $620,000 in low-income housing tax credits recorded in 2024 and 2023, respectively and a one-time year end deferred tax adjustment entry of $(722,000) in 2024 and $198,000 in 2023.

Other assets also included the right of use assets which totaled $1,242,000 at December 31, 2024 compared to $937,000 at December 31, 2023.

In addition, the Bank invested in a limited partnership that was formed to develop and operate affordable housing projects for low or moderate-income tenants. The investment is in qualified affordable housing tax credit funds and is accounted for using the proportional amortization method, where the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received. Low-income housing tax credits and other tax benefits received, net of the amortization of the investment, is recognized as part of provision for income taxes. As of December 31, 2024 this investment totaled $7,413,000.

Deposits

Deposits are the Bank's primary source of funds. The Bank developed a plan to attract and retain local customers and increase core deposits. This plan is being implemented by way of process improvements, upgrading technologies, training staff and enhancing the overall customer experience.

The following table sets forth total deposits by type.

Deposits by Type

	Year Ended December 31,			
	2024		2023	
(in thousands)	Balance	% of Total	Balance	% of Total
Demand Accounts	$ 379,111	39.4%	$ 446,657	44.2%
Savings and Money Market	274,114	28.5%	266,630	26.4%
Time Deposits	309,337	32.1%	296,406	29.4%
Total Deposits	$ 962,562		$1,009,693	

The Bank's strategy is to increase its funding from local deposits and to lower its dependence on institutional funding such as brokered time deposits, FRB borrowings and FHLB borrowings. Strategies employed to increase local deposits include a non-profit business account that provides annual donation awards for average balances, bundling non-maturity and time deposit products with competitive rates, promoting 12-month term time deposits, and continued focus on increasing customer retention and new customers through training staff.

The Bank offers local depositors with deposits in excess of $250,000 and who are concerned with FDIC insurance limits, a deposit placement service through programs called CDARS and ICS. Through these programs, amounts in excess of $250,000 can be placed in certificates of deposit or demand accounts at other institutions and the Bank receives reciprocal deposits from other institutions within the network. At December 31, 2024 and 2023, there were $50,998,000 and $71,123,000 in CDARS time deposits and $157,330,000 and $207,370,000 in ICS demand and money market deposits, respectively. In addition to these deposits, the Bank had $62,347,000 and $37,380,000 at December 31, 2024 and 2023, respectively, in wholesale brokered deposits. To the extent local deposits are not available to the Bank in the shorter term, the Bank may gap fund with FHLB overnight borrowings. In the longer term, the Bank has access to secured lines of credits at the FHLB and FRB totaling $323,938,000 and an unsecured line at a correspondent bank totaling $20,000,000. As of December 31, 2024, the Bank also had $60,068,000 in investment securities that it could pledge for additional sources of liquidity.

The following table sets forth the average balances by deposit category and the interest cost for the periods indicated.

Average Deposit Balances and Rates Paid

	Year Ended December 31,			
	2024		2023	
(in thousands)	Average Balance	Average Rate	Average Balance	Average Rate
Non interest-bearing demand deposits	$ 190,850		$ 225,043	
Interest-bearing demand deposits	213,483	3.17%	180,084	2.46%
Savings and money market	262,644	3.39%	227,114	2.52%
Time certificates of $250,000 or under	178,303	3.86%	201,401	3.07%
Time certificates over $250,000	125,943	4.72%	186,754	4.22%
Total deposits	$ 971,223	2.93%	$ 1,020,396	2.37%

The following table sets forth the maturities of time certificates of deposit of $250,000 or more outstanding at December 31, 2024 and 2023.

Maturity of Time Deposits of $250,000 or More

(in thousands)	December 31, 2024	December 31, 2023
Time deposits of $250,000 or more maturing in:		
Three months or less	$ 40,593	$ 21,161
Over three through six months	16,258	13,992
Over six to twelve months	13,866	28,006
Over twelve months	-	-
Total time deposits of $250,000 or more	$ 70,717	$ 63,159

Total uninsured deposits were estimated to be $236,573,000 at December 31, 2024 and $219,404,000 at December 31, 2023.

Borrowings

There were no outstanding borrowings at December 31, 2024 or at December 31, 2023. Borrowings consisted of FHLB advances. Management utilizes FHLB advances when the terms are deemed advantageous compared to raising time deposits or brokered deposits and to manage overall liquidity.

As of December 31, 2024 the Bank has a $20,000,000 Federal funds unsecured line of credit with a correspondent bank to cover any short or long-term borrowing needs compared to $15,000,000 in unsecured lines at December 31, 2023. During 2024 the Bank temporarily increased its unsecured lines to $50,000,000 across three correspondent banks. However, in the fourth quarter of 2024 two unsecured lines totaling $30,000,000 were closed due to the Bank’s financial performance not meeting minimum performance threshold requirements. There were no borrowings outstanding under the Federal funds line of credit as of December 31, 2024 or 2023.

Although these unsecured lines of credit are maintained by the Bank to support short-term liquidity needs and provide flexibility, it is important to note that such lines provide minimal funds, are not contractually guaranteed, and may be withdrawn at the discretion of the lender. In light of this, the Bank will evaluate the reliability of this credit source. Given that similar lines of credit were previously closed due to the Bank's financial performance, there is a concern that this line may also be unavailable when most needed. As a result, the Bank may consider proactively closing this existing unsecured line of credit and exploring more dependable alternatives for liquidity management.

The Bank also has two open letters of credit, one that was issued November 10, 2023 for $24,814,000 and one that was issued on July 1, 2021 for $15,192,000 by the FHLB. The balance on these letters of credit were $40,006,000 at December 31, 2024 and 2023. These letters of credit reduce the Bank's remaining borrowing capacity.

In 2019, the Bank issued $6,000,000 in fixed-to-floating rate subordinated notes (the "Notes") to support organic growth and for general corporate purposes. The Notes have a 10-year term and have been structured to qualify as Tier 2 capital for regulatory purposes. The Notes are reported net of any debt issuance cost which totaled $65,000 and $80,000 at December 31, 2024 and 2023, respectively (see Note 10. Junior Subordinated Debt).

Liquidity and Capital Resources

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

The Bank's liquid assets, defined as cash, deposits with banks, Federal funds sold and unpledged investment securities, totaled $111,471,000 and $134,120,000 at December 31, 2024 and December 31, 2023, respectively, and constituted 10% and 12% of total assets as of December 31, 2024 and December 31, 2023, respectively.

At December 31, 2024, the Bank had $343,938,000 in borrowing lines of credit capacity from FHLB, FRB and correspondent banks which includes no outstanding advances from FHLB and $40,006,000 in a letter of credit from the FHLB. At December 31, 2023, the Bank had $332,458,000 in borrowing lines of credit capacity from FHLB, FRB and correspondent banks which includes $41,000,000 in outstanding advances from FHLB and $40,006,000 in a letter of credit from the FHLB.

The primary sources of cash during 2024 and 2023 were from cash generated from operating activities, increase in time deposits, sales of SBA loans and calls and maturities of investment securities. Primary uses of cash were for loan originations.

In 2024, cash was primarily provided by $38,137,000 in proceeds on the sale of loans, $16,180,000 in proceeds from calls and maturities of investment securities and a $12,931,000 increase in time deposits. Cash was used in 2024 to fund $13,365,000 of loan originations and a $60,062,000 net change in demand, savings and money market deposits.

In 2023, cash was primarily provided by a $113,008,000 increase in demand, savings and money market deposits and $51,448,000 in proceeds on the sale of loans. Cash was used in 2023 to fund $71,004,000 of loan originations, net change in certificate of deposits and $41,000,000 in repayments of long term FHLB advances.

For additional information, please see the Statements of Cash Flows in Item 8 of this Form 10-K.

The Board of Directors believes that a strong capital position is vital to growth, continued profitability, and depositor and investor confidence. The policy of the Board of Directors is to maintain sufficient capital at not less than the "well-capitalized" thresholds established by banking regulators. As of December 31, 2024 and 2023, the Bank maintained capital ratios in excess of regulatory requirements.

Shareholders' equity also includes the Bank's accumulated other comprehensive loss, net of taxes of $8,886,000 at December 31, 2024 and $8,750,000 at December 31, 2023. Other comprehensive income reflects the fair value adjustment, net of tax, of investment securities classified as available-for-sale. This will fluctuate based on the amount of securities classified as available-for-sale, types of investment securities, and changes in market interest rates. Total shareholders' equity was $91,723,000 at December 31, 2024 and $97,678,000 at December 31, 2023.

Federal regulations establish guidelines for calculating "risk-adjusted" capital ratios and minimum ratio requirements. Under these regulations, banks are required to maintain a total capital ratio of 8.0%, common equity Tier 1 capital ratio of 4.5%, and Tier 1 risk-based capital (primarily shareholders' equity) of at least 6.0% of risk-weighted assets. The Bank had a total capital ratio of 11.9% and common equity Tier 1 capital and Tier 1 risk-based capital ratios of 10.1% at December 31, 2024, placing its capital ratios in excess of the minimum required to be considered "well-capitalized" under the regulatory guidelines.

In addition, regulators have adopted a minimum leverage ratio standard for Tier 1 capital to average assets. The minimum ratio for top-rated institutions may be as low as 4%. However, regulatory agencies have stated that most institutions should maintain ratios at least 1 to 2 percentage points above the 4% minimum. As of December 31, 2024, the Bank's leverage ratio was 8.9%. Capital levels for the Bank remain above established regulatory capital requirements. The Bank excludes other comprehensive income for regulatory capital computations.

Quarterly dividends are paid out of retained earnings. The Bank paid $0.28 per share or $1,895,000, in dividends on common stock during 2024. The California Financial Code restricts total dividend payment of any bank in any calendar year without permission of the DFPI, to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. The Bank's dividend payments during 2024 were within these limits.

Although the Bank's regulatory capital ratios are in excess of requirements and notwithstanding the requirements of the California Financial Code, the Board of Directors reviews and declares dividends on a quarterly basis and there is no assurance that future dividends will be declared.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Based on results of the quarterly model, the Bank is liability sensitive during a one- and two-year period, meaning that during that timeframe, more liabilities will reprice than assets. Liability sensitive banks typically expect a decrease in the net interest margin if rates increase and the net interest margin would increase when rates decline. If the Bank were asset sensitive, the opposite would occur and the bank would generally expect a decrease in the net interest margin if interest rates decline and an increase in the net interest margin when rates increase. Various factors influence the change in the Bank's margin when general market interest rates change. These factors include, but are not limited to, the growth and mix of new assets, deposit liabilities and borrowings, pricing changes, the extension or contraction of maturities of new and renewed assets and liabilities, the shape of the general economic yield curve, and the general influence on pricing by competition in the local market for loans and deposits. Additionally, when economic rates change, there may be an immediate impact to non-maturing deposits tied to an index rate and from loans that are tied to a daily prime lending rate or other index rate. Also, the repricing of term liabilities to offset this change requires time for those term deposits to mature and renew.

At December 31, 2024, the computer simulation model for a rising interest rate environment projects the Bank's net interest income for a twelve-month period would decrease -11.68% or ($4,167,000) when rates are shocked up +2.00%. In a declining interest rate shock scenario, the Bank's net interest income for a twelve-month period is projected to increase 10.09% or $3,601,000 when rates are shocked down -2.00%. Computer simulation models use information from the Bank's loan and deposit system at a static point in time and base the repricing of assets and liabilities on contractual terms, and certain assumptions as to movements of various rate indexes and management assumptions regarding when to reprice certain portfolios not linked to an index. The actual results experienced by the Bank from interest rate changes can vary from the results of the simulation.

The Bank uses the economic value of equity ("EVE") ratio to stress test longer-term interest rate risk exposure on capital. Stress testing EVE will show the impact that fluctuating interest rates will have on the Bank's capital and give insight into the Bank's earning capacity and risk. This ratio is calculated by taking the difference in the net present value of asset cash flows (loan and investment securities) and liability cash flows (deposits and borrowings). Major assumptions used in determining fair values include maturities, repricing periods, and decay rates of non-maturity deposits. As the calculation is highly dependent on assumptions, as well as the change in the shape of the yield curve being modeled, it is not considered to be an exact calculation and instead is used as an interest rate risk monitoring tool. As of December 31, 2024, the computer simulation model for a +2.00% non-parallel interest rate shock results in a 0.96% increase in EVE and a negative 2.00% non-parallel interest rate shock results in a -1.88% decrease in EVE.

When preparing the model, the Bank makes significant assumptions about the lag in the rate of change and impacts of optionality in various asset and liability categories. The Bank bases its assumptions on past experience and comparisons with other banks and tests the validity of its assumptions by reviewing actual results with past projected expectations annually. As the impact of changing interest rates depends on assumptions, actual experience can materially differ from projections. The purpose of the model is to forecast the likely impact of changing interest rates so management can monitor exposures to interest rate risk and make adjustments to the balance sheet if needed.

Impact of Inflation

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SUMMIT STATE BANK

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2024 AND 2023

AND FOR THE YEARS ENDED

DECEMBER 31, 2024 and 2023

AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Summit State Bank

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Summit State Bank (the "Bank") as of December 31, 2024 and 2023, the related statements of income, comprehensive income, changes in shareholders' equity and cash flows, for the years then ended, and the related notes to the financial statements (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the Bank's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Bank in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses – Loans

As described in Notes 1 and 3 to the financial statements, the Bank's allowance for credit losses – loans ("ACL") was $13.4 million at December 31, 2024.

As described in Note 1, the method in which the Bank calculates the allowance for credit losses – loans, was changed effective December 31, 2024, constituting a change in accounting estimate. The change was implemented to enhance the Bank's precision in identifying expected future credit losses. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Bank's credit loss assumptions are estimated using a discounted cash flow ("DCF") model for each loan segment, except 1-4 family construction loans. The weighted average remaining life method is used to estimate credit loss assumptions for 1-4 family construction loans. The DCF model calculates an expected life-of-loan loss percentage by considering the forecasted probability that a borrower will default (the "PD"), adjusted for relevant forecasted macroeconomic factors, and loss given default ("LGD"), which is the estimate of the amount of net loss in the event of default. This model utilizes peer-bank historical correlations between default experience and certain macroeconomic factors as determined through a statistical regression analysis. Projections of macroeconomic factors are obtained from an independent third party and are utilized to predict quarterly rates of default based on the statistical PD models. The weighted average remaining life method uses a peer-bank annual charge-off rate over several vintages to estimate credit losses. Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience.

We identified the Bank's estimate of ACL as a critical audit matter. The principal considerations for our determination of the ACL as a critical audit matter included the high degree of judgment and subjectivity relating to management's determination of the qualitative factors. Auditing these complex judgments and assumptions by the Bank involves especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- We obtained an understanding of the Company's process for establishing the ACL, including the basis for development and related adjustments of the qualitative factor components of the ACL.

- We evaluated the reasonableness of management's application of qualitative factor adjustments to the ACL, including the comparison of factors considered by management to third party or internal sources as well as evaluated the appropriateness and level of the qualitative factor adjustments.

- We assessed the overall trends in credit quality, including adjustments for the qualitative factors by comparing the overall allowance for credit losses to those recorded by the Company's peer institutions.

- We evaluated subsequent events and transactions and considered whether they corroborated or contradicted the Company's conclusion.

Goodwill Impairment Assessment

The Bank has recorded a full goodwill impairment of $4.1 million for the year ended December 31, 2024. As further described in Note 1 to the financial statements, goodwill is tested for impairment at least annually at the reporting unit level occurring on a date determined by management each year. In the current year, management elected to perform their analysis with an as of date of November 30, 2024, determined based upon continued declining stock prices, deemed to be a triggering event. The Bank engaged a third-party valuation specialist in performing its quantitative impairment analysis, which included a combination of valuation approaches to determine fair value of the reporting unit. These valuation approaches required certain assumptions such as the discount rate, economic conditions impacting interest and growth rates, and a relative weighting given to the fair value derived by each of the valuation approaches used.

We identified the Bank's quantitative goodwill impairment assessment for the reporting unit as a critical audit matter due to the high degree of complexity and auditor judgment involved and the extent of effort involved, including the use of professionals with specialized skill and knowledge. Specifically, evaluating the valuation approaches selected and key assumptions used by management in performing its assessment, such as the selection of comparable publicly-traded companies and control premium utilized in the valuation approaches.

The primary procedures we performed to address this critical audit matter included the following:

- We obtained an understanding of the relevant controls related to management's goodwill impairment assessment including controls over management's review of the quantitative analysis performed on the Bank reporting unit, including the key assumptions utilized in the analysis.

- We tested the completeness and accuracy of key financial data used within the valuation approaches by agreeing key inputs to internal and external sources.

- To further audit the accounting estimate in accordance with ASC 350 financial reporting requirements, we used internal valuation specialist to assist in evaluating the appropriateness of the methods used, reasonableness of significant assumptions, and testing of data.

/s/ Elliott Davis, PLLC

We have served as the Bank's auditor since 2023.

Greenville, South Carolina
March 28, 2025

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

	December 31, 2024	December 31, 2023
ASSETS		
Cash and due from banks	$ 51,403	$ 57,789
Investment securities:		
Available-for-sale, less allowance for credit losses of $36 and $58 (at fair value; amortized cost of $80,887 in 2024 and $97,034 in 2023)	68,228	84,546
Loans, less allowance for credit losses of $13,693 in 2024 and $15,221 in 2023	905,075	938,626
Bank premises and equipment, net	5,155	5,316
Investment in Federal Home Loan Bank (FHLB) stock, at cost	5,889	5,541
Goodwill	-	4,119
Other real estate owned	4,437	-
Affordable housing tax credit investments	7,413	8,405
Accrued interest receivable and other assets	19,494	18,166
Total assets	$ 1,067,094	$ 1,122,508
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	$ 185,756	$ 201,909
Demand - interest-bearing	193,355	244,748
Savings	47,235	54,352
Money market	226,879	212,278
Time deposits that meet or exceed the FDIC insurance limit	70,717	63,159
Other time deposits	238,620	233,247
Total deposits	962,562	1,009,693
Junior subordinated debt, net	5,935	5,920
Affordable housing commitment	511	4,094
Accrued interest payable and other liabilities	6,363	5,123
Total liabilities	975,371	1,024,830
Commitments and contingencies (Note 12)		
Shareholders' equity		
Preferred stock, no par value; 20,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 6,776,563 in 2024 and 6,784,099 in 2023	37,740	37,471
Retained earnings	62,869	68,957
Accumulated other comprehensive loss, net of tax	(8,886)	(8,750)
Total shareholders' equity	91,723	97,678
Total liabilities and shareholders' equity	$ 1,067,094	$ 1,122,508

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

SUMMIT STATE BANK
STATEMENTS OF INCOME
(In thousands)

	Year Ended December 31, 2024	2023
Interest and dividend income:		
Interest and fees on loans	$ 53,574	$ 52,560
Interest on deposits with banks	2,060	4,410
Interest on investment securities	2,614	2,855
Dividends on FHLB stock	514	416
Total interest and dividend income	58,762	60,241
Interest expense:		
Deposits	28,495	24,227
Federal Home Loan Bank advances	337	177
Junior subordinated debt	454	375
Total interest expense	29,286	24,779
Net interest income before provision for credit losses	29,476	35,462
Provision for credit losses on loans	7,882	342
Provision for (reversal of) credit losses on unfunded loan commitments	55	(68)
(Reversal of) provision for credit losses on investments	(22)	58
Net interest income after provision for (reversal of) credit losses on loans, unfunded loan commitments and investments	21,561	35,130
Non-interest income:		
Service charges on deposit accounts	926	872
Rental income	241	193
Net gain on loan sales	2,114	2,481
Net gain on securities	6	-
Loss on valuation of other real estate owned	(693)	-
FHLB prepayment fee	-	1,024
Other income	865	631
Total non-interest income	3,459	5,201
Non-interest expense:		
Salaries and employee benefits	15,639	15,399
Occupancy and equipment	1,761	1,713
Goodwill impairment	4,119	-
Other expenses	7,889	7,938
Total non-interest expense	29,408	25,050
(Loss) income before provision for income taxes	(4,388)	15,281
Provision for income tax (benefit) expense	(195)	4,459
Net (loss) income	$ (4,193)	$ 10,822
Basic (loss) earnings per common share	$ (0.62)	$ 1.62
Diluted (loss) earnings per common share	$ (0.62)	$ 1.62
Basic weighted average shares of common stock outstanding	6,714	6,695
Diluted weighted average shares of common stock outstanding	6,714	6,698

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

SUMMIT STATE BANK

STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended December 31,	
	2024	**2023**
Net (loss) income	$ (4,193)	$ 10,822
Change in securities available-for-sale:		
Unrealized holding gains (losses) on available-for-sale securities arising during the period	(187)	1,802
Reclassification adjustment for net gains realized in net income on sales of available-for-sale securities	(6)	-
Net unrealized (losses) gains, before provision for income tax	(193)	1,802
Income tax benefit (expense)	57	(533)
Total other comprehensive (loss) income, net of tax	(136)	1,269
Comprehensive (loss) income	$ (4,329)	$ 12,091

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

SUMMIT STATE BANK

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands except share and per share data)

	Common Stock		Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Earnings	Income (Loss)	Equity
Balance, January 1, 2023	6,732,699	$ 37,179	$ 61,386	$ (10,019)	$ 88,546
Net income	-	-	10,822	-	10,822
Other comprehensive income, net of tax	-	-	-	1,269	1,269
Restricted stock granted	51,400	-	-	-	-
Stock-based compensation - restricted stock	-	292	-	-	292
Cash dividends - $0.48 per share	-	-	(3,251)	-	(3,251)
Balance, December 31, 2023	6,784,099	$ 37,471	$ 68,957	$ (8,750)	$ 97,678
Net loss	-	-	(4,193)	-	(4,193)
Other comprehensive loss, net of tax	-	-	-	(136)	(136)
Restricted stock forfeited	(7,536)	-	-	-	-
Stock-based compensation - restricted stock	-	269	-	-	269
Cash dividends - $0.28 per share	-	-	(1,895)	-	(1,895)
Balance, December 31, 2024	6,776,563	$ 37,740	$ 62,869	$ (8,886)	$ 91,723

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

SUMMIT STATE BANK
STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2024	2023
Cash flows from (used in) operating activities:		
Net (loss) income	$ (4,193)	$ 10,822
Adjustments to reconcile net income to net cash (used in) from operating activities:		
Depreciation and amortization	392	385
Securities amortization and accretion, net	(27)	(15)
Accretion of net deferred loan fees	(2,119)	(3,224)
Provision for credit losses on loans	7,882	342
Provision for (reversal of) credit losses on unfunded loan commitments	55	(68)
(Reversal of) provision for credit losses on investments	(22)	58
Loss on valuation of other real estate	693	-
Net gain on securities	(6)	-
Net gain on loan sales	(2,114)	(2,481)
Amortization of debt issuance cost related to junior subordinated debt	15	15
Amortization of affordable housing tax credit investment	992	476
Goodwill impairment	4,119	-
Net change in accrued interest receivable and other assets	(1,271)	(1,613)
Net change in accrued interest payable and other liabilities	1,863	(7,093)
Share-based compensation expense	(409)	16
Net cash from (used in) operating activities	5,850	(2,380)
Cash flows from (used in) investing activities:		
Proceeds from calls and maturities of available-for-sale investment securities	16,180	998
Purchase of FHLB stock	(348)	(804)
Purchases of bank premises and equipment	(231)	(240)
Loan origination and principal collections, net	(13,365)	(71,004)
Proceeds from sales of loans other than loans originated for resale	38,137	51,448
Cash paid for affordable housing tax credit investment	(3,583)	(583)
Net cash from (used in) investing activities	36,790	(20,185)
Cash flows from (used in) financing activities:		
Net change in demand, savings and money market deposits	(60,062)	113,008
Net change in certificates of deposit	12,931	(65,970)
Proceeds from short term advances from FHLB	1,572,150	-
Repayment of short term advances from FHLB	(1,572,150)	-
Repayment of long term advances from FHLB	-	(41,000)
Dividends paid on common stock	(1,895)	(3,251)
Net cash (used in) from financing activities	(49,026)	2,787
Net change in cash and cash equivalents	(6,386)	(19,778)
Cash and cash equivalents at beginning of year	57,789	77,567
Cash and cash equivalents at end of period	$ 51,403	$ 57,789
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 28,217	$ 24,349
Income taxes	$ 429	$ 6,463
Noncash investing activities:		
Net unrealized (losses) gains on available-for-sale securities	$ (193)	$ 1,802
Transfer from loans to other real estate owned	$ (5,130)	$ -

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

SUMMIT STATE BANK

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Summit State Bank (the "Bank") is a California-chartered commercial bank that provides a variety of banking services to individuals and businesses in its primary service area of Sonoma County, California. The Bank is headquartered in Santa Rosa and operates branch offices in Santa Rosa, Petaluma, Rohnert Park and Healdsburg. The Bank offers depository and lending services primarily to meet the needs of its business and individual clientele. These services include a variety of transaction, money market, savings and time deposit account alternatives. The Bank's lending activities are directed primarily towards commercial real estate, construction and business loans.

The Bank received authority to transact business as a California-chartered commercial bank on January 15, 1999 and is subject to regulation, supervision and examination by the California Department of Financial Protection and Innovation (DFPI) and the Federal Deposit Insurance Corporation. The Bank was originally organized under a charter granted by the Department of Savings and Loan of the State of California under the name Summit Savings on December 20, 1982. The Bank converted to a federal savings bank under a charter granted by the Office of Thrift Supervision on May 24, 1990 prior to converting to its current California commercial bank charter.

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

Use of Estimates

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

Change in Allowance for Credit Losses – Loans

As part of the Bank's ongoing efforts to enhance the accuracy of its credit loss estimation process, the Bank transitioned from a Life of Loan Loss Model to a Discounted Cash Flow (DCF) Model for estimating the allowance for credit losses. This change, which was implemented December 31, 2024, is intended to improve the precision of the expected credit loss calculations.

Nature of the Change

The Life of Loan Loss Model previously used a combination of historical loss rates, qualitative adjustments, and forward-looking macroeconomic factors to estimate expected credit losses. The new DCF Model introduces a more dynamic and granular approach by incorporating:

- Loan-Level Discounted Cash Flow Analysis – The new model evaluates credit losses at an individual loan level, applying prepayment and loss estimated cash flows that are discounted using an effective interest rate.
- Incorporation of Peer Data - Utilizing peer loss experience to help enhance the Bank's limited loss experience by incorporating more historical loss activity over various economic cycles.
- Enhanced Economic Forecasting – The model integrates a reasonable and supportable forecast from FOMC forecasts. The quantitative loss drivers utilized in the model are based on a regression of economic factors to historical loss experience which best aligns the expected credit losses to the economic forecast.
- More Detailed Portfolio Segmentation – The transition allows for the Bank to evaluate the portfolio at the call code level as opposed to total portfolio, so the Bank can model fluctuations in portfolio mix. This leads to more accurate risk assessments and expected loss estimates.
- Qualitative Factors – Framework for qualitative factors are more robust and detailed at the call code level allowing for more accurate risk assessments and expected loss estimates.
- Framework for qualitative factors incorporates a calculated max loss scenario representing a severe economic environment as a basis to bound the upper end of the qualitative adjustments. These qualitative adjustments are more robust and detailed at the call code level, allowing for more accurate risk assessments and expected loss estimates.

Impact on Financial Statements

This change is considered a change in accounting estimate, rather than a change in accounting principle, as it results from an improved estimation methodology rather than a fundamental change in the underlying accounting framework. The transition to the DCF Model impacts the Bank's financial results for the year ended December 31, 2024 in the following ways:

- Allowance for Credit Losses (ACL): The updated model resulted in a $76,000 decrease in the ACL as of December 31, 2024, reflecting adjustments in expected credit losses due to the incorporation of discounted cash flow modeling.
- Provision for Credit Losses: The shift in methodology led to a net increase of $70,000, made up of $146,000 increase in reserve for undisbursed loans and a $76,000 decrease in the loan loss provision for the three and twelve months ending December 31, 2024, compared to what would have been recorded under the previous model.
- Earnings Volatility: While the DCF Model provides a more accurate estimate of expected losses, it may introduce increased volatility in the provision for credit losses, particularly during periods of significant economic uncertainty.

Operating Segments

The Bank adopted Accounting Standards Update 2023-07 "*Segment Reporting (Topic 280) - Improvement to Reportable Segment Disclosures*" on January 1, 2024. The Company has determined that all of its banking divisions meet the aggregation criteria of ASC 280, *Segment Reporting*, as its current operating model is structured whereby banking divisions serve a similar base of primarily commercial clients utilizing a company-wide offering of similar products and services managed through similar processes and platforms that are collectively reviewed by the Bank's Chief Executive Officer and Chief Financial Officer, who have been identified as the chief operating decision makers ("CODM").

The CODM regularly assesses the performance of the aggregated single operating and reporting segment and decides how to allocate resources based on net income calculated on the same basis as net income reported in the Bank's statements of income and other comprehensive income. The CODM is also regularly provided with expense information at a level consistent with that disclosed in the Bank's statements of income and other comprehensive income.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Bank considers cash and due from banks with original maturities under 90 days and Federal funds sold to be cash equivalents. Generally, Federal funds are sold for one-day periods. Net cash flows are reported for customer loan and deposit transactions, time deposits in banks and short-term borrowings with an original maturity of 90 days or less.

Investment Securities

Debt securities classified as available-for-sale are available for future liquidity requirements and may be sold prior to maturity. Purchase premiums and discounts are amortized in interest income using the interest method to the earlier of maturity or call date. Debt securities classified as available-for-sale are measured at fair value and unrealized holding gains and losses are excluded from earnings and reported net of tax as accumulated other comprehensive income (AOCI), a component of shareholders' equity, until realized. (See Note 16. Fair Value for a more complete discussion of accounting for the fair value of financial instruments.) Realized gains and losses on sale are computed on the specific identification method and are included in earnings on the trade date.

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

The allowance for credit losses ("ACL") on investment securities classified as available-for-sale is determined in accordance with Accounting Standards Codification ("ASC") 326 – *Financial Instruments-Credit Losses*. For AFS debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If the Bank intends to sell the security or it is more likely than not that the Bank will be required to sell the security before recovering its cost basis, the entire loss would be recognized in earnings. If the Bank does not intend to sell the security and it is more likely than not that the Bank will not be required to sell the security, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. Projected cash flows are discounted by the current effective interest rate. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. The remaining loss related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to AOCI.

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

A debt security is placed on nonaccrual status at the time any principal or interest payments become greater than 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. There was no accrued interest amounts reversed against interest income for the years ended December 31, 2024 and 2023. Accrued interest receivable on AFS debt securities totaled $432,000 at December 31, 2024 and $551,000 at December 31, 2023 and were excluded from the estimate of credit losses.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are stated at principal balances outstanding, net of deferred loan origination fees and costs and the allowance for credit losses, adjusted for accretion of discounts or amortization of premiums. Interest is accrued daily based upon outstanding loan balances. However, for all loan classes, when in the opinion of management, the future collectability of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest previously accrued, but unpaid, is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated, and collateral dependent loans that are individually evaluated for a required allowance for credit losses. A loan is moved to non-accrual status in accordance with the Bank's policy, typically after 90 days of non-payment.

For nonaccrual loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties, they are returned to accrual status when there has been a sustained period of repayment performance (generally, six consecutive monthly payments) according to the modified terms and there is reasonable assurance of repayment and of performance.

Allowance and Provision for Credit Losses – Loans and Leases

The Bank accounts for credit losses on loans in accordance with ASC 326 – *Financial Instruments-Credit Losses*. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. The Bank has elected to exclude accrued interest receivable from the amortized cost basis in the estimate of the allowance for credit losses. The provision for credit losses reflects the amount required to maintain the allowance for credit losses at an appropriate level based upon management's evaluation of the adequacy of collective and individual loss reserves. The Bank's methodologies for determining the adequacy of allowance for credit losses are set forth in a formal policy and take into consideration the need for a valuation allowance for loans evaluated on a collective pool basis which have similar risk characteristics, as well as allowances that are tied to individual loans that do not share risk characteristics. The Bank increases its allowance for credit losses by charging the provision for credit losses on its statement of income. Losses related to specific assets are applied as a reduction of the carrying value of the assets and charged against the allowance for credit loss when management believes the non-collectability of a loan balance is confirmed. Recoveries on previously charged off loans are credited to the allowance for credit losses.

Management conducts an assessment of the allowance for credit losses on a monthly basis and undertakes a more comprehensive evaluation quarterly. Management estimates the allowance for credit losses using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses is maintained at a level sufficient to provide for expected credit losses over the life of the loan based on evaluating historical credit loss experience and making adjustments to historical loss information for differences in the specific risk characteristics in the current loan portfolio and economic conditions. These adjustments to historical loss factors include, among others, changes in the economic factors that are not contemplated in the quantitative portion of the analysis, changes to internal policies and process, changes in the expertise and turnover of staff, changes in the type of products contained in the underlying portfolio, results of audits and reviews of the credit portfolio, changes in collateral values that support the repayment of loans, changes in the credit quality of the portfolio including amount of criticized and non-accrual loans, changes in the legal and regulatory environment, and changes in loan concentrations in the portfolio.

The ACL is segmented at the call code level where loans share similar risk characteristics. On December 31, 2024, the Bank adopted a new methodology for calculating the ACL. Beginning on and for the year ended December 31, 2024, the Discounted Cash Flow ("DCF") method is utilized for substantially all pools, with discounted cash flows computed for each loan in a pool based on its individual characteristics (e.g. maturity date, payment amount, interest rate, etc.), and the results are aggregated at the pool level. A probability of default and loss given default, as adjusted for recoveries, are applied to the discounted cash flows for each pool, while considering prepayment and principal curtailment assumptions. When the DCF method is used to determine the ACL, management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments. Loans are individually assessed when management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral. When loans are individually assessed, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs, as appropriate.

The Bank has identified the following primary pools for measuring expected credit losses. There are additional sub-segmentations within each pool, including risk categories.

- *Owner occupied commercial real estate loans* - Owner occupied commercial real estate mortgage loans are secured by commercial office buildings, industrial buildings, warehouses or retail buildings where the owner of the building occupies the property. For such loans, repayment is largely dependent upon the operation of the borrower's business. The Bank generally requires a loan to value of 75% or lower and debt service coverage of 1.25x or better. Terms outside of these guidelines will have strengths to mitigate additional risk.
- *Non-owner occupied commercial real estate loans* - These loans represent investment real estate loans secured by office buildings, industrial buildings, warehouses, retail buildings, and multifamily residential housing. Repayment is primarily dependent on lease income generated from the underlying collateral. The Bank generally requires a loan to value of 70% or lower, debt service coverage of 1.25x or better and overall lease terms to match or extend beyond the term of the loan.
- *Consumer real estate mortgage loans* - Consumer real estate mortgage consists primarily of loans secured by owner and non-owner occupied 1-4 family residential properties, including owner occupied home equity lines of credit. Repayment is primarily dependent on the personal cash flow of the borrower and may be affected by changes in general economic conditions. For owner occupied loans, the Bank generally requires a debt-to-income below 55% with loan to value generally 85% or less. For non-owner occupied loans, the Bank generally requires a loan to value of 75% or lower, debt service coverage of 1.10x or better.
- *Construction and land development loans* - This pool includes loans where the repayment is dependent on the successful completion and eventual sale, refinance or operation of the related real estate project and are thus impacted by market demand and real estate valuations. Construction and land development loans include 1-4 family construction projects and commercial construction projects. Residential construction loans for resale generally have a loan to value of 70% or lower. Commercial speculative (non-owner occupied) construction projects loan to value would generally be under 70% and debt service coverage of 1.30x or better. Commercial construction (owner occupied) projects loan to value would generally be under 75% for and debt service coverage of 1.25x or better. Owner occupied and non-owner occupied commercial construction projects are underwritten to standard guidelines discussed above.
- *Commercial and industrial loans* - These loans include loans to business enterprises issued for commercial, industrial and/or other professional purposes. These loans are generally secured by equipment, inventory, and accounts receivable of the borrower and repayment is primarily dependent on business cash flows. Commercial and industrial loans generally require debt service coverage of 1.25x or better.
- *Agricultural* – These loans include farm residential, finance agricultural productions and other related improvements. These loans are generally secured by farmland and agricultural production. Loan to value would generally be under 70% and debt service coverage of 1.25x or better.

In determining the proper level of default rates and loss given default, management has determined that the loss experience of peer banks provides the best basis for its assessment of expected credit losses due to the Bank’s lack of internal loss experience by segment. It therefore utilizes peer historical credit loss experience by each loan segment over an economic cycle. Management considers forward-looking information in estimating expected credit losses. For substantially all segments of loans, the Bank incorporates two or more macroeconomic drivers using a statistical regression modeling methodology. The Bank uses a third-party service which provides a quarterly macroeconomic baseline forecast for the United States economy.

Management has also evaluated the appropriateness of the reasonable and supportable forecast scenarios utilized for each period and has made adjustments as needed. For the contractual term that extends beyond the reasonable and supportable forecast period, the Bank reverts to the long-term mean of historical factors over four-quarters using a straight-line approach. The Bank generally utilizes a four-quarter forecast and a four-quarter reversion period to the long-term average, which is then held static for the remainder of the life of the loans.

Included in its systematic methodology to determine its ACL on loans, management considers the need to qualitatively adjust expected credit losses for information not already captured in the loss estimation process. These qualitative adjustments consider a range of maximum and minimum loss rates and can either increase or decrease the quantitative model estimation (i.e., formulaic model results). Each period the Bank considers qualitative factors that are relevant within the qualitative framework that includes the following: 1) changes in lending policies, procedures, and strategies, 2) changes in the nature and volume of the portfolio, 3) staff experience, 4) changes in volume and trends in classified loans, delinquencies, and nonaccrual loans, 5) concentration risk, 6) trends in underlying collateral value, 7) external factors, including competition and legal and regulatory factors, 8) changes in the quality of the Bank's loan review system, and 9) economic conditions not already captured.

The Bank is subject to periodic examinations by its federal and state regulatory examiners and may be required by such regulators to recognize additions to the allowance for credit losses based on their assessment of credit information available to them at the time of their examinations. Further, and particularly in times of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management’s current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future charge-offs will not exceed management’s current estimate of what constitutes a reasonable allowance for credit losses.

Unfunded Commitments

The Unfunded Reserve represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit (available balance on lines of credit including construction lines of credit) and standby letters of credit. The Unfunded Reserve is recognized as a liability within other liabilities in the balance sheets, with adjustments to the reserve recognized in provision for credit losses in the statements of income. The Unfunded Reserve is updated each reporting period and determined by taking the maximum unfunded credit limit as of the report date and applying an estimated funding rate and expected loss rate on draws by loan segment.

Loan Origination and Commitment Fees

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

Other Real Estate Owned (“OREO”)

Other real estate owned consists of property acquired through formal foreclosure, in-substance foreclosure or by deed in lieu of foreclosure. These assets are initially recorded at the lower of the recorded investment in the property or its fair value less costs to sell when acquired, establishing a new cost basis. The fair value of collateral is generally based on an independent appraisal of the property. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are charged to other real estate owned expense. Any subsequent gains or losses on dispositions are credited or charged to income in the period of disposition. The Bank recorded a $693,000 valuation adjustment to OREO in 2024 due to a decrease in appraisal value.

Bank Premises and Equipment

Land is carried at cost. Buildings, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of buildings are estimated to be 39 years and furniture, fixtures and equipment are estimated to be 3 to 15 years. Leasehold improvements are amortized over the estimated useful life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expenses as incurred.

The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Leases

The Bank leases real estate properties under long-term non-cancelable operating leases, most of which include escalation clauses and one or more options to extend the lease term, and some of which contain lease termination clauses. Only those renewal and termination options that management determines are reasonably certain of exercising are included in the calculation of the lease liability. In addition, the Bank leases photocopier equipment under finance leases. The equipment finance lease terms do not contain bargain purchase options or residual value guarantees. The Bank did not have any significant short-term leases during the reported periods.

Lease right-of-use assets represent the right to use the underlying asset while lease liabilities represent the present value of future lease obligations. The Bank elected not to separate non-lease components from lease components and to exclude short-term leases (i.e., lease term of 12 months or less at the commencement date) from right-of-use assets and lease liabilities for all lease classifications. When calculating the lease liability, because most lease contracts do not contain an implicit interest rate, the Bank discounts lease payments over a lease's expected term based on the collateralized Federal Home Loan Bank borrowing rate that was commensurate with lease terms and minimum payments at the lease commencement date. The discount rate is not subject to change during the life of the lease unless the lease period is modified. Right-of-use assets for operating leases are amortized over the lease term by amounts that represent the difference between periodic straight-line lease expense and periodic interest accretion on the related liability, whereas finance leases are amortized on a straight-line basis over the term of the lease. Expense recognition for operating leases is recorded on a straight-line basis while expense recognition for finance leases represents the sum of periodic amortization of the associated right-of-use asset and the interest accretion on the lease liability. Refer to Note 6. Leases, for further information.

Cash payments from subleases originated by the Bank are recorded as rental income and included in the other non-interest income category. Rental income is recognized in the month in which the rent is due. Leasehold improvements and operational expenses associated with the rental property are recorded separate from the income as an expense.

Investment in Federal Home Loan Bank Stock

In order to borrow from the Federal Home Loan Bank of San Francisco (FHLB), the Bank is required to maintain an investment in the capital stock of the FHLB. The investment is carried at cost and is generally redeemable at par. Both cash and stock dividends are reported as income.

Servicing Assets

Servicing rights are recognized as servicing assets when SBA loans are sold and the rights to service those loans are retained. Servicing rights are initially recorded at fair value by using a discounted cash flow model to calculate the present value of estimated future net servicing income.

The Bank's servicing rights accounted for under the fair value method are carried on the balance sheets at fair value with changes in fair value recorded in other income on the income statement in the period in which the change occurs. Changes in the fair value of servicing rights are primarily due to changes in valuation inputs, assumptions, and the collection and realization of expected cash flows.

An impairment analysis is performed on a quarterly basis by estimating the fair value of the servicing rights and comparing that value to the carrying amount. A valuation allowance is established when the carrying amount of these servicing rights exceeds fair value.

Goodwill

Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill is tested for impairment annually as of December 31, or more frequent if events or changes in circumstances indicate a potential impairment. Due to the Bank's continued and sustained decline in stock price through 2024, Management identified this as a triggering event and selected November 30 as the date to perform the annual goodwill impairment test.

Significant judgment is used in the assessment of goodwill, both in a qualitative assessment and a quantitative assessment. Assessments of goodwill often require the use of fair value estimates, which are dependent upon various factors, including estimates concerning the Bank's long-term growth prospects and comparability to industry data. Uncertainty and imprecision in estimates can affect the estimated fair value of the reporting unit in a goodwill assessment. Additionally, various events or circumstances could have a negative effect on the estimated fair value of a reporting unit, such as declines in business performance, increases in credit losses, and deterioration in economic or market conditions, which may result in a material impairment charge to earnings in future periods.

In 2024, the Bank assessed goodwill for impairment by performing a quantitative assessment, which encompassed an income approach and a market approach. The income approach considered such factors as the estimated future cash flows based on internal long-term forecasts, assumptions concerning potential synergies and other economic benefits, and a discount rate used to present value such cash flows to determine the fair value. The market approach utilized observable market data from comparable public companies, including price-to-tangible book value ratios, to estimate the Bank's fair value. The market approach also incorporated a control premium to represent the Bank's expectation of a hypothetical acquisition. Management used judgment in the selection of comparable companies and included those with similar business activities, and related operating environments. In addition, the selection and weighting of the various fair value techniques may result in higher or lower estimates of fair value. Judgment is applied in determining the weightings between the income approach and the market approach in determining fair value.

The results of the assessment indicated the value of goodwill was fully impaired as of November 30, 2024. An impairment loss of $4,119,000 was recognized by the Bank in the fourth quarter of 2024. Goodwill is a non-cash charge that does not impact the Bank's cash flows, liquidity, or regulatory capital.

Affordable Housing Tax Credit Investments

The Bank invested in a limited partnership that was formed to develop and operate affordable housing projects for low or moderate-income tenants. The investment fund covers four separate housing projects and the Bank's ownership percentage in the fund is 13%. The Bank holds a variable interest in this limited partnership, but it is not the primary beneficiary and, therefore, does not consolidate the variable interest entity in its financial statements. The investment is in qualified affordable housing tax credit funds and is accounted for using the proportional amortization method, where the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received. Low-income housing tax credits and other tax benefits received, net of the amortization of the investment, are recognized as part of provision for income taxes. The partnership must meet the regulatory minimum requirements for affordable housing for a minimum 15- year compliance period to fully utilize the tax credits. If the partnership ceases to qualify during the compliance period, the credit may be denied for any period in which the project is not in compliance and a portion of the credit previously taken is subject to recapture with interest. The Bank will record an impairment charge if the value of the future tax credits and other tax benefits is less than the carrying value of the investment. The investment totaled $7,413,000 and $8,405,000 at December 31, 2024 and December 31, 2023, respectively. The unfunded commitments for low-income housing tax credit funds totaled $511,000 and $4,094,000 at December 31, 2024 and December 31, 2023, respectively. The Bank did not recognize any impairment losses on these low-income housing tax credit investments during the years ended December 31, 2024 and 2023 as the value of the future tax benefits exceeds the carrying value of the investments.

As of December 31, 2024, the expected payments for unfunded affordable housing commitments were as follows:

		(in thousands)
Twelve Months Ended:		
December 31, 2025	$	227
December 31, 2026		104
December 31, 2027		11
December 31, 2028		11
December 31, 2029		73
Thereafter		85
Total Unfunded Commitments	$	511

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred financial assets is deemed to be surrendered when the assets have been isolated from the Bank, the transferee obtains the right free of conditions that constrain it for taking advantage of that right to pledge or exchange the transferred assets, and the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

Provision for income taxes is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. On the balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Bank recognizes interest and/or penalties related to income tax matters in provision for income tax. The Bank has not accrued any potential interest and penalties as of December 31, 2024 and December 31, 2023 and for the two years ended December 31, 2024 for uncertainties related to income taxes.

Earnings Per Common Share

Basic earnings per common share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period, excluding unvested restricted stock awards (RSAs). Diluted EPS reflects the potential dilution that could occur if contracts to issue common stock, such as stock options or RSAs, result in the issuance of common stock which share in the earnings of the Bank. Diluted EPS is computed by dividing income available to common shareholders by the weighted-average common shares outstanding plus the weighted average number of dilutive shares for the period. Holders of unvested restricted stock awards receive forfeitable dividends at the same rate as common shareholders. RSAs for 57 and 84 shares of common stock were not considered in computing diluted earnings per share for the years ended December 31, 2024 and 2023 because they were anti-dilutive.

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

	Year Ended December 31	
(in thousands except earnings per share)	2024	2023
Basic		
Net (loss) income available for common shareholders	$ (4,193)	$ 10,822
Weighted average common shares outstanding	6,714	6,695
Basic (loss) earnings per common share	$ (0.62)	$ 1.62
Diluted		
Net (loss) income available for common shareholders	$ (4,193)	$ 10,822
Weighted average common shares outstanding for basic earnings per common share	6,714	6,695
Add: Dilutive effects of assumed exercises of stock options	-	3
Average shares and dilutive potential common shares	6,714	6,698
Diluted (loss) earnings per common share	$ (0.62)	$ 1.62

Stock-Based Compensation

Compensation cost is recognized for stock options, stock appreciation rights ("SARs"), and restricted stock awards ("RSAs") granted to eligible employees and directors, based on the fair value of these awards at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period. The Bank's accounting policy is to recognize forfeitures as they occur.

Because SARs that the Bank issued require settlement in cash, the awards are treated as liabilities under ASC 718 – *Compensation-Stock Compensation*. The awards are measured at their fair value at the grant date and are subsequently remeasured each quarter at fair value. A calculation of the Bank's volatility is utilized to estimate the fair value of SARs. Changes in the fair value of the awards from quarter to quarter are classified in salaries and employee benefits.

Stock options and RSAs issued by the Bank qualify for treatment as equity. Equity awards are measured at their fair value on the grant date and are not remeasured subsequent to the grant date unless the terms of the awards are subsequently modified. Stock options and RSA expenses for employees are accrued quarterly in salaries and employee benefits over the vesting term. Stock options and RSA expense for directors are accrued quarterly in other expense over the vesting term.

Revenue Recognition

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

Most of the Bank's revenue-generating transactions are not subject to Topic 606, including revenue generated from financial instruments, such as loans and investment securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, gain on sale of the guaranteed portion of SBA loans, financial guarantees, derivatives, lease contracts within the scope of ASC 842, and certain credit card fees are also not in scope of the guidance. The Bank's noninterest revenue streams are largely based on transactional activity, such as the gain on sale on the guaranteed portion of SBA loans. Consideration is often received immediately or shortly after the Bank satisfies its performance obligation and revenue is recognized. The following are descriptions of revenues within the scope of ASC 606.

Service charges on deposit accounts - The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts monthly. The performance obligation is satisfied, and the fees are recognized monthly as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer. Debit and ATM interchange income represent fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied, and the fees are earned when the cost of the transaction is charged to the cardholders' debit card. Certain expenses directly associated with the credit and debit card are recorded on a net basis with the interchange income.

Accounting Standards Adopted in 2024

In November 2023, the FASB issued ASU 2023-07 – Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The amendments in this ASU improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The new ASU adds required disclosure of significant segments expenses that are regularly provided to the chief operating decision maker

("CODM") and included within each reported measure of segment profit or loss, as well as the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance. The ASU also clarifies that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance, an entity may report one or more of those additional measures of segment profit; however, at least one of the reported segment profit or loss measures should be the measure that is most consistent with the measurement principals used in measuring the corresponding amounts in the entity's consolidated financial statements. Finally, the new ASU requires that an entity that has only one reportable segment provide all the disclosures required by this ASU and all existing segment disclosures in Topic 280. The provisions of this ASU became effective, on a prospective basis, for the Company for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption was permitted. The amendments in this ASU do not affect the Company's consolidated financial position or results of operations; however, the required disclosures have been added to the Company's consolidated financial statements after the ASU was adopted.

Accounting Standards Pending Adoption

In December 2023, the FASB issued ASU 2023-09 – Income Taxes (Topic 740): Improvements to Income Tax Disclosures. The amendments in this ASU address investor requests for more transparency about income tax information through improvements to income tax disclosures. The ASUs enhances existing requirements that an entity disclose a tabular reconciliation, using both reporting currency amounts and percentages, of the entity's reported income tax expense and the amount computed by multiplying income from continuing operations before income taxes by the applicable statutory Federal income tax rate by including specific categories in the rate reconciliation table and requiring additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income or loss by the applicable statutory income tax rate). The ASU also includes requirements to disclose the amount of income taxes paid (net of refunds received) disaggregated by Federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid is equal to or greater than 5 percent of total income taxes paid. The amendments in this ASU are effective, on a prospective basis, for annual periods beginning after December 31, 2024. Early adoption is permitted. The amendments in this ASU will not affect the Company's consolidated financial position or results of operations; however, the required disclosures will be added to the Company's consolidated financial statements after the ASU is adopted.

In November 2024, the FASB issued ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses. The amendments are intended to improve income statement expense disclosure requirements, primarily through enhanced disclosures about certain costs and expenses included in income statement expense captions. The amendments are effective for annual reporting periods beginning after December 15, 2026 (i.e., 2027 Form 10-K) and interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted. Since this ASU only requires additional disclosure, adoption of this ASU will not have an impact on our financial condition, results of operations or cash flows; however, the required disclosures will be added to the Company's consolidated financial statements after the ASU is adopted.

In January 2025, the FASB issued ASU 2025-01 Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date. The amendments in this ASU are intended to clarify that all public business entities should initially adopt the disclosure requirements in the first annual reporting period beginning after December 15, 2026, and interim reporting periods within annual reporting periods beginning after December 15, 2027. Since this ASU only requires additional disclosure, adoption of this ASU will not have an impact on our financial condition, results of operations or cash flows.

2. INVESTMENT SECURITIES

The amortized costs and estimated fair value of investment securities at December 31, 2024 and 2023 consisted of the following:

	December 31, 2024				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
Available-for-sale:					
Government agencies	$ 48,379	$ -	$ (10,154)	$ -	$ 38,225
Mortgage-backed securities - residential	8,612	-	(1,618)	-	6,994
Corporate debt	23,896	21	(872)	(36)	23,009
Total investment securities	$ 80,887	$ 21	$ (12,644)	$ (36)	$ 68,228

	December 31, 2023				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
Available-for-sale:					
Government agencies	$ 62,271	$ -	$ (9,841)	$ -	$ 52,430
Mortgage-backed securities - residential	9,314	-	(1,430)	-	7,884
Corporate debt	25,449	51	(1,210)	(58)	24,232
Total investment securities	$ 97,034	$ 51	$ (12,481)	$ (58)	$ 84,546

The were no sales of investment securities for the years ended December 31, 2024 and 2023.

Net unrealized losses on available-for-sale investment securities totaling $12,623,000 and $12,430,000 are recorded, net of $3,737,000 and $3,680,000 in deferred taxes, as accumulated other comprehensive income within shareholders' equity at December 31, 2024 and 2023, respectively.

There were 66 investment securities in a continuous unrealized loss position greater than 12 months at December 31, 2024. At December 31, 2024, the Bank held 4 investment securities which were in an unrealized loss position for less than twelve months.

The unrealized losses on the investment portfolio including asset backed securities, corporate securities and agency securities were generally caused by changes in required yields by investors for these types of securities and changes in interest rates. All the Bank's securities remain investment grade with the exception of two corporate securities that have a par value totaling $750,000. The two corporate securities below investment grade have been separately evaluated and management determined the Bank is expected to incur a credit loss due to adverse conditions specific to those two companies. Specific qualitative factors considered to arrive at this conclusion include negative impacts to current and future earnings projections caused by changes in short-term interest rates, market shifts of the treasury yield curve, shifts in consumer demand, organizational restructurings, and other variable operational, market and economic conditions impacting sales, profitability compression, over leveraging, and low liquidity. An allowance for credit loss on investments reflecting a fair value decline of $36,000 and $58,000 as of December 31, 2024 and December 31, 2023, respectively, was recorded because the issuing companies are a higher risk investment caused by changes in market conditions, economic conditions, and weak financial performance primarily as it pertains to net income, leverage and liquidity.

The Bank continues to monitor all its securities for changes in credit rating or other indications of credit deterioration. Except for the two securities mentioned above, no other allowance for credit losses has been recognized on the available-for-sale securities in an unrealized loss position. Management does not believe any of those securities are impaired due to credit risk factors at either December 31, 2024 or December 31, 2023. In addition, for the available-for-sale securities in an unrealized loss position, the Bank assessed whether it intended to sell the securities, or if it was more likely than not that it would be required to sell the securities before recovery of its amortized cost basis, which would require a write-down to fair value through net income. Because the Bank did not intend to sell any of its securities, and it was not more-likely-than-not that the Bank would be required to sell the securities before recovery of their amortized cost basis, the Bank determined that no write-down was necessary as of the reporting date.

Investment securities with unrealized losses at December 31, 2024 and 2023 are summarized and classified according to the duration of the loss period as follows:

	December 31, 2024					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Government agencies	$ -	$ -	$ 38,225	$ (10,154)	$ 38,225	$ (10,154)
Mortgage-backed securities - residential	-	-	6,994	(1,618)	6,994	(1,618)
Corporate debt	1,898	(29)	17,268	(843)	19,166	(872)
Total investment securities	$ 1,898	$ (29)	$ 62,487	$ (12,615)	$ 64,385	$ (12,644)

	December 31, 2023					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Government agencies	$ 6,983	$ (17)	$ 45,447	$ (9,824)	$ 52,430	$ (9,841)
Mortgage-backed securities - residential	-	-	7,884	(1,430)	7,884	(1,430)
Corporate debt	732	(20)	19,755	(1,190)	20,487	(1,210)
Total investment securities	$ 7,715	$ (37)	$ 73,086	$ (12,444)	$ 80,801	$ (12,481)

The following table sets forth an analysis of the allowance for credit losses on available for sale securities for the periods indicated.

(in thousands)	Government agencies	Mortgage-backed securities	Corporate debt
Balance, December 31, 2022	$ -	$ -	$ -
Provision for credit losses	-	-	58
Balance, December 31, 2023	$ -	$ -	$ 58
Reversal of credit losses	-	-	(22)
Balance, December 31, 2024	$ -	$ -	$ 36

The amortized cost and estimated fair value of investment securities at December 31, 2024 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
(in thousands)	Amortized Cost	Fair Value
Within one year	$ 3,855	$ 3,830
After one year through five years	16,929	16,185
After five years through ten years	21,500	18,777
After ten years	29,991	22,442
	72,275	61,234
Investment securities not due at a single maturity date:		
Mortgage-backed securities - residential	8,612	6,994
	$ 80,887	$ 68,228

Investment securities with amortized costs totaling $10,997,000 and $10,996,000 and estimated fair values totaling $8,160,000 and $8,215,000 were pledged to secure public deposits and represent 12% and 10% of the investment portfolio at December 31, 2024 and 2023, respectively.

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

3. LOANS

Outstanding loans are summarized as follows:

(in thousands)	December 31, 2024	December 31, 2023
Commercial & agricultural (1)	$ 138,460	$ 133,389
Real estate - commercial	682,355	697,319
Real estate - construction and land	9,419	23,773
Real estate - single family	54,922	58,808
Real estate - multifamily	33,602	40,547
Consumer & lease financing	10	11
	918,768	953,847
Allowance for credit losses	(13,693)	(15,221)
	$ 905,075	$ 938,626

(1) Includes loans secured by farmland.

Fundamental change in the level of ACL is due to the charge-offs as described below. Post charge-offs, fewer specific reserves are being held against the remaining non-performing loans, and the general (performing) loan pools continue to hold a similar level of reserves.

During the course of the year, the bank had charge-offs related to 4 borrowing relationships, three of which were tied to the sale or foreclosure of real property at levels below the prior carrying values. The fourth relationship involved a closed business and the write-down was after negotiating settlements with the loan's guarantors.

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

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

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

Real estate - construction and land – Construction and land real estate loans are extended to qualified commercial and individual customers and are underwritten and secured by the assets of the company or individual. Commercial construction credits are generally secured with personal guarantees of the business owner. Credits are underwritten to meet the general credit policy criteria for current and projected cash flow coverage and loan-to-value. Both types of credit are generally written as construction to permanent loans with terms consistent with policy and property type.

The Bank extends a majority of their construction loans in California and some in other states including Arizona, Missouri, Texas, Colorado, Utah, and Washington; a majority of these loans are under the SBA 7(a) or U.S. Department of Agriculture (USDA) loan guarantee programs. The majority of land real estate loans are with customers doing business within the Bank's geographic region. Repayment of construction loans is largely dependent on the ultimate success of the project and can be impacted by the inherent volatility in real estate values, delays due to weather, and labor or material shortages.

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

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

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

Changes in the allocation of allowance for credit losses by loan class for the years ended December 31, 2024 and 2023 are as follows:

	Year Ended December 31, 2024				
	Balance at December 31, 2023	Provision (reversal)	Charge-offs	Recoveries	Balance at December 31, 2024
(in thousands)					
Commercial & agricultural	$ 1,395	$ 9,150	$ (8,343)	$ 280	$ 2,482
Real estate - commercial	8,812	1,267	(1,347)	-	8,732
Real estate - construction and land	3,413	(2,218)	-	-	1,195
Real estate - single family	721	(130)	-	-	591
Real estate - multifamily	634	(170)	-	-	464
Consumer & lease financing	246	(17)	-	-	229
Total	$ 15,221	$ 7,882	$ (9,690)	$ 280	$ 13,693

	Year Ended December 31, 2023				
	Balance at December 31, 2022	Provision (reversal)	Charge-offs	Recoveries	Balance at December 31, 2023
(in thousands)					
Commercial & agricultural	$ 972	$ 383	$ -	$ 40	$ 1,395
Real estate - commercial	5,858	2,954	-	-	8,812
Real estate - construction and land	6,748	(3,335)	-	-	3,413
Real estate - single family	558	163	-	-	721
Real estate - multifamily	462	172	-	-	634
Consumer & lease financing	241	5	-	-	246
Total	$ 14,839	$ 342	$ -	$ 40	$ 15,221

The following table presents the amortized cost basis of collateral dependent loans by class of loans and by collateral type as of December 31, 2024 and 2023:

	December 31, 2024							
	Amortized Cost by Collateral Type							
(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total	Allowance for Credit Losses
Farmland	$ 8,016	$ -	$ -	$ -	$ -	$ -	$ 8,016	$ 546
Hotel/Motel	-	15,444	-	-	-	-	15,444	1,199
Multi Family 5+	-	-	-	-	2,146	-	2,146	-
Non Owner Occupied - Commercial Office	-	12,996	-	-	-	-	12,996	-
Non Owner Occupied - Commercial Special Purpose	-	7,297	-	-	-	-	7,297	-
Non Owner Occupied - Mixed Use	-	1,458	-	-	-	-	1,458	-
UCC Blanket	1,154	-	-	-	-	-	1,154	136
UCC Crops	535	-	-	-	-	-	535	268
Unsecured	37	-	-	-	-	-	37	-
Vineyard	17,451	-	-	-	-	-	17,451	-
Total collateral dependent loans	**$ 27,193**	**$ 37,195**	**$ -**	**$ -**	**$ 2,146**	**$ -**	**$ 66,534**	**$ 2,149**

	December 31, 2023							
	Amortized Cost by Collateral Type							
(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total	Allowance for Credit Losses
Farmland	$ 8,948	$ -	$ -	$ -	$ -	$ -	$ 8,948	$ -
Commercial Office	-	6,449	-	-	-	-	6,449	959
Hotel/Motel	-	5,690	-	-	-	-	5,690	-
Single Family Residence (SFR)	44	-	-	-	-	-	44	-
SFR/UCC Blanket	577	-	-	-	-	-	577	96
UCC Blanket	3,150	-	-	-	-	-	3,150	643
UCC Crops	550	-	-	-	-	-	550	-
Winery Property	11,841	-	-	-	-	-	11,841	-
Vineyard	7,531	-	-	-	-	-	7,531	-
Total collateral dependent loans	**$ 32,641**	**$ 12,139**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 44,780**	**$ 1,698**

Accrued interest receivable for the total loan portfolio was $3,052,000 and $3,152,000 as of December 31, 2024 and 2023. The Bank wrote off $120,000 and $1,083,000 in accrued interest receivable for the years ended December 31, 2024 and December 31, 2023, respectively. Net deferred loan fees were $2,547,000 and $2,399,000 as of December 31, 2024 and 2023. Salaries and employee benefits totaling $1,898,000 and $2,634,000 have been deferred as loan origination costs for the years ended December 31, 2024 and 2023 respectively. Accrued interest and unamortized net deferred loan fees are not included in the Bank's ACL calculation.

The following table represents the accrued interest receivable written off by reversing interest income as of December 31, 2024 and December 31, 2023:

(in thousands)	December 31, 2024	December 31, 2023
Commercial & agricultural	$ 11	$ 759
Real estate - commercial	109	324
Real estate - construction and land	-	-
Real estate - single family	-	-
Real estate - multifamily	-	-
Consumer & lease financing	-	-
Total	$ 120	$ 1,083

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still accruing by class of loans as of December 31, 2024 and 2023:

	December 31, 2024				December 31, 2023			
(in thousands)	Nonaccrual With Allowance for Credit Losses	Nonaccrual With No Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual With Allowance for Credit Losses	Nonaccrual With No Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial & agricultural	$ 6,753	$ 19,974	$ 26,727	$ -	$ 3,052	$ 28,967	$ 32,019	$ 48
Real estate - commercial	-	1,027	1,027	-	6,449	5,690	12,139	-
Real estate - construction and land	-	-	-	-	-	-	-	-
Real estate - single family	-	-	-	-	-	-	-	-
Real estate - multifamily	-	-	-	-	-	-	-	-
Consumer & lease financing	-	-	-	-	-	-	-	-
Total	$ 6,753	$ 21,001	$ 27,754	$ -	$ 9,501	$ 34,657	$ 44,158	$ 48

Interest income recognized on non-accrual loans totaled $580,000 and $2,652,000 for the years ended December 31, 2024 and December 31, 2023, respectively.

The following tables present the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of December 31, 2024 and December 31, 2023 by class of loans:

2024 (in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ 63	$ 417	$ 26,328	$ 26,808	$ 111,652	$ 138,460
Real estate - commercial	1,458	687	-	2,145	680,210	682,355
Real estate - construction and land	-	-	-	-	9,419	9,419
Real estate - single family	-	-	-	-	54,922	54,922
Real estate - multifamily	2,146	-	-	2,146	31,456	33,602
Consumer & lease financing	-	-	-	-	10	10
Total	$ 3,667	$ 1,104	$ 26,328	$ 31,099	$ 887,669	$ 918,768

2023 (in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ 1,954	$ 53	$ 23,164	$ 25,171	$ 108,218	$ 133,389
Real estate - commercial	7,553	323	-	7,876	689,443	697,319
Real estate - construction and land	-	-	-	-	23,773	23,773
Real estate - single family	-	-	-	-	58,808	58,808
Real estate - multifamily	-	-	-	-	40,547	40,547
Consumer & lease financing	-	-	-	-	11	11
Total	$ 9,507	$ 376	$ 23,164	$ 33,047	$ 920,800	$ 953,847

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

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis for loans in excess of $100,000. Smaller balances are graded at origination and updated based on payment status and other information obtained from borrowers. The Bank uses the following definitions for risk ratings:

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

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

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

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

The following tables present the Bank's portfolio by grade, presented by year of origination, as of December 31, 2024. Revolving loans that are converted to term loans are treated as new originations in the table below:

	December 31, 2024							
(in thousands)	Term Loans by Year of Origination						Revolving	
	2024	2023	2022	2021	2020	Prior	Loans	Total Loans
Commercial & agricultural								
Risk Rating								
Pass	$ 8,894	$ 6,744	$ 8,990	$ 11,271	$ 6,147	$ 20,351	$ 36,408	$ 98,805
Special Mention	-	-	650	-	-	7,931	950	9,531
Substandard	-	37	-	-	977	28,508	19	29,541
Doubtful	-	-	-	-	-	-	583	583
Total Commercial & agricultural	$ 8,894	$ 6,781	$ 9,640	$ 11,271	$ 7,124	$ 56,790	$ 37,960	$ 138,460
Current-period gross charge-offs	$ -	$ -	$ 127	$ 710	$ 43	$ 3,268	$ 4,195	$ 8,343
Real estate - commercial								
Risk Rating								
Pass	$ 29,108	$ 87,002	$ 180,916	$ 111,122	$ 81,502	$ 132,610	$ 9,796	$ 632,056
Special Mention	-	-	8,690	296	840	3,193	-	13,019
Substandard	-	-	-	27,775	653	8,852	-	37,280
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - commercial	$ 29,108	$ 87,002	$ 189,606	$ 139,193	$ 82,995	$ 144,655	$ 9,796	$ 682,355
Current-period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 1,347	$ -	$ 1,347
Real estate - construction and land								
Risk Rating								
Pass	$ 3,433	$ 195	$ 350	$ 859	$ 497	$ 4,085	$ -	$ 9,419
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - construction and land	$ 3,433	$ 195	$ 350	$ 859	$ 497	$ 4,085	$ -	$ 9,419
Current-period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real estate - single family								
Risk Rating								
Pass	$ 1,051	$ 691	$ 6,550	$ 6,199	$ 20,786	$ 18,387	$ 720	$ 54,384
Special Mention	-	-	-	-	-	538	-	538
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - single family	$ 1,051	$ 691	$ 6,550	$ 6,199	$ 20,786	$ 18,925	$ 720	$ 54,922
Current-period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real estate - multifamily								
Risk Rating								
Pass	$ -	$ 1,859	$ 1,769	$ 5,304	$ 12,823	$ 9,701	$ -	$ 31,456
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	2,146	-	2,146
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - multifamily	$ -	$ 1,859	$ 1,769	$ 5,304	$ 12,823	$ 11,847	$ -	$ 33,602
Current-period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer & lease financing (1)								
Risk Rating								
Pass	$ 10	$ -	$ -	$ -	$ -	$ -	$ -	$ 10
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Consumer & lease financing (1)	$ 10	$ -	$ -	$ -	$ -	$ -	$ -	$ 10
Current-period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) Consumer & lease financing includes overdrafts of $10 as of December 31, 2024

The following tables present the Bank’s portfolio by grade, presented by year of origination, as of December 31, 2023. Revolving loans that are converted to term loans are treated as new originations in the table below:

(in thousands)	December 31, 2023							
	Term Loans by Year of Origination						Revolving Loans	Total Loans
	2023	2022	2021	2020	2019	Prior		
Commercial & agricultural								
Risk Rating								
Pass	$ 9,621	$ 9,912	$ 13,420	$ 8,433	$ 7,063	$ 24,776	$ 22,971	$ 96,196
Special Mention	-	-	-	-	3,362	-	1,190	4,552
Substandard	44	998	-	1,009	10,189	15,424	4,977	32,641
Doubtful	-	-	-	-	-	-	-	-
Total Commercial & agricultural	$ 9,665	$ 10,910	$ 13,420	$ 9,442	$ 20,614	$ 40,200	$ 29,138	$ 133,389
Real estate - commercial								
Risk Rating								
Pass	$ 90,501	$ 194,737	$ 136,583	$ 82,518	$ 40,596	$ 114,716	$ 15,562	$ 675,213
Special Mention	-	-	1,141	855	-	7,971	-	9,967
Substandard	-	-	-	5,690	-	6,449	-	12,139
Doubtful	-	-	-		-		-	-
Total Real estate - commercial	$ 90,501	$ 194,737	$ 137,724	$ 89,063	$ 40,596	$ 129,136	$ 15,562	$ 697,319
Real estate - construction and land								
Risk Rating								
Pass	$ 7,545	$ 350	$ 10,193	$ 516	$ 2,325	$ 2,844	$ -	$ 23,773
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - construction and land	$ 7,545	$ 350	$ 10,193	$ 516	$ 2,325	$ 2,844	$ -	$ 23,773
Real estate - single family								
Risk Rating								
Pass	$ 722	$ 6,445	$ 6,512	$ 22,790	$ 7,717	$ 11,978	$ 2,513	$ 58,677
Special Mention	-	-	-	-	-	131	-	131
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - single family	$ 722	$ 6,445	$ 6,512	$ 22,790	$ 7,717	$ 12,109	$ 2,513	$ 58,808
Real estate - multifamily								
Risk Rating								
Pass	$ 2,442	$ 2,548	$ 5,401	$ 13,082	$ 4,044	$ 11,618	$ 1,412	$ 40,547
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - multifamily	$ 2,442	$ 2,548	$ 5,401	$ 13,082	$ 4,044	$ 11,618	$ 1,412	$ 40,547
Consumer & lease financing (1)								
Risk Rating								
Pass	$ 9	$ -	$ -	$ -	$ -	$ 2	$ -	$ 11
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Consumer & lease financing (1)	$ 9	$ -	$ -	$ -	$ -	$ 2	$ -	$ 11
Current-period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) Consumer & lease financing includes overdrafts of $9 as of December 31, 2023

The Bank maintains two lines of credit where the line is secured by pledging qualifying loans with unpaid principal balances. The first line is held at the Federal Home Loan Bank (FHLB) and secured under terms of a blanket collateral agreement; loans with unpaid principal balances of $335,020,000 at December 31, 2024 and $434,689,000 at December 31, 2023 are pledged to secure the line of credit with the FHLB. The second line is held at the Federal Reserve Bank of San Francisco (FRB) and secured under terms of a Borrower-in-Custody arrangement; loans with unpaid principal balances of $344,340,000 at December 31, 2024 and $ 254,711,000 at December 31, 2023 secure the line of credit with FRB (see Note 9. Secured Borrowings).

The Bank may modify terms of loans to provide borrowers with relief if they are experiencing financial difficulty and may not be able to meet the original terms of the loan. To determine whether a borrower is experiencing a financial difficulty, an evaluation is performed on the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policies. For the years ended December 31, 2024 and December 31, 2023, there were no loan modifications to borrowers experiencing financial difficulty. For the years ended December 31, 2024 and December 31, 2023, there were no payment defaults on modified loans to borrowers experiencing financial difficulty.

At December 31, 2024, the Bank had $60,733,000 in unfunded loan commitments and lines of credit and $23,835,000 in standby letters of credit. At December 31, 2023, the Bank had $106,667,000 in unfunded loan commitments and lines of credit and $23,275,000 in standby letters of credit. The loan commitments include real estate loans which are generally secured by property with a loan-to-value ratio not to exceed 80% and commercial loans which are generally secured by collateral other than real estate or are unsecured. Additional details for unsecured loan commitments are included in Note 12. Commitments and Contingencies.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the periods indicated.

	Years Ended December 31	
(in thousands)	2024	2023
Balance, beginning of period	$ 367	$ 435
Provision for (reversal of) credit losses on unfunded loan commitments	55	(68)
Balance, end of period	$ 422	$ 367
Unfunded Loan Commitments	84,568	103,667
Reserve for Unfunded Commitments to Unfunded Loan Commitments	0.50%	0.35%

4. OTHER REAL ESTATE OWNED

The following table represents other real estate owned activity for the periods indicated.

(in thousands)	
Balance, January 1, 2024	$ -
Loans transferred to other real estate owned	5,130
Valuation of other real estate owned	(693)
Sale of other real estate owned	-
Balance, December 31, 2024	$ 4,437

At December 31, 2024 the balance of other real estate owned was $4,437,000 which was the result of a foreclosed real estate-commercial loan recorded as a result of obtaining physical possession of the property. There was no other real estate owned at December 31, 2023. There was a $693,000 valuation allowance allocated to properties held as of December 31, 2024 and no valuation allowance allocated as of December 31, 2023.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

	December 31,	
(in thousands)	2024	2023
Land	$ 1,184	$ 1,184
Building	7,917	7,935
Furniture, fixtures and equipment	3,906	3,878
Leasehold improvements	889	884
	13,896	13,881
Less accumulated depreciation and amortization	(8,741)	(8,565)
	$ 5,155	$ 5,316

Depreciation and amortization included in occupancy and equipment expense totaled $392,000 and $385,000 for the years ended December 31, 2024 and 2023, respectively.

6. LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plan or equipment for a period of time in exchange for consideration.

The types of leases where the Bank is a lessee are real estate properties for four branches located in Healdsburg, Rohnert Park, Petaluma and Santa Rosa, office spaces in Santa Rosa, a lending office in Roseville and photocopier equipment. These leases have variable terms maturing prior to 2029. The Bank's leases do not include residual value guarantees or covenants. A majority of the leases are classified as operating leases.

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

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

Cash payments from subleases originated by the Bank are recorded as rental income and included in the other non-interest income category. Rental income is recognized in the month in which the revenue covers. Leasehold improvements and operational expenses associated with the rental property are recorded separate from the income as an expense.

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

(in thousands)		December 31, 2024	December 31, 2023
Operating Leases	**Classification**		
Lease right-of-use assets	Accrued Int Rec & Other Assets	$ 1,233	$ 923
Lease liabilities	Accrued Int Payable & Other Liabilities	1,279	980
Financing Leases			
Lease right-of-use assets	Bank Premises & Equip	$ 9	$ 14
Lease liabilities	Accrued Int Payable & Other Liabilities	9	14

The following table represents lease costs for the years indicated.

	Year Ended December 31,	
(in thousands)	2024	2023
Lease Costs		
Operating lease cost	$ 472	$ 476
Financing lease cost		
Interest on lease liabilities	1	-
Amortization of right-of-use assets	5	7
Sublease income	(241)	(193)
Net lease cost	$ 237	$ 290

	Year Ended	
(in thousands)	December 31, 2024	December 31, 2023
Other Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 481	$ 475
Operating cash flows from finance leases	1	-
Financing cash flows from finance leases	5	7
Noncash investing and financing activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	$ 743	$ -
Right-of-use assets obtained in exchange for financing lease liabilities	-	14

	December 31, 2024
Weighted-average remaining lease term	
Operating leases	3.8 years
Financing leases	1.7 years
Weighted-average discount rate	
Operating leases	3.10%
Financing leases	2.71%

Future minimum payments for finance leases and operating leases as of December 31, 2024 were as follows:

(in thousands)

Years Ended:	Operating Leases	Financing Leases
December 31, 2025	$ 438	$ 6
December 31, 2026	308	3
December 31, 2027	316	-
December 31, 2028	208	-
December 31, 2029	122	-
Thereafter	-	-
Total Future Minimum Lease Payments	1,392	9
Amounts Representing Interest	(113)	-
Present Value of Net Future Minimum Lease Payments	$ 1,279	$ 9

7. INTEREST-BEARING DEPOSITS

The aggregate amount of maturities of all time deposits is as follows:

Year Ending December 31,	(in thousands)
2025	$ 307,675
2026	1,427
2027	78
2028	25
2029	132
Thereafter	-
	$ 309,337

Wholesale brokered deposits included in deposits were $62,347,000 and $37,380,000 at December 31, 2024 and 2023. Deposits of $208,328,000 and $278,493,000 at December 31, 2024 and 2023 were through reciprocal deposit programs. At December 31, 2024 and 2023, the Bank had no concentrations to any one depositor greater than 5% of total deposits.

8. UNSECURED BORROWINGS

The Bank has a $20,000,000 Federal funds unsecured line of credit with a correspondent bank to cover any short or long-term borrowing needs.

9. SECURED BORROWINGS

The Bank maintains two secured lines of credit, one at the FHLB and another at the Federal Reserve Bank of San Francisco (“FRB”). As of December 31, 2024 and 2023, the Bank had an available secured borrowing capacity at the FRB of $180,380,000 and $107,467,000, respectively. Loans totaling $344,340,000 and $254,711,000 were pledged to secure a line of credit with the Federal Reserve Bank at December 31, 2024 and 2023, respectively.

For the Bank’s line at the FHLB, each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. This line of credit is collateralized by

$335,020,000 and $434,689,000 of loans under a blanket lien arrangement at December 31, 2024 and 2023. Based on this collateral, the Bank was eligible to borrow up to a total of $183,565,000 and $249,997,000, of which $143,558,000 and $209,991,000 was available for additional advances as of December 31, 2024 and 2023.

The Bank had no advances outstanding from the Federal Home Loan Bank as of December 31, 2024 and December 31, 2023.

The Bank also has two open letters of credit, one that was issued November 10, 2023 for $24,814,000 and one that was issued on July 1, 2021 for $15,192,000 by the FHLB. The balance on these letters of credit were $40,006,000 at December 31, 2024 and 2023. These letters of credit reduce the Bank's remaining borrowing capacity.

10. JUNIOR SUBORDINATED DEBT

On June 28, 2019 the Bank completed the private placement of $6,000,000 in fixed-to-floating rate subordinated notes (the "Notes") to support organic growth and for general corporate purposes. The Notes have a 10-year term and have been structured to qualify as Tier 2 capital for regulatory purposes. The Notes bear interest at a fixed rate of 6.0% per annum for the first half of the term. As of June 30, 2024 the Notes adjust to a floating rate tied to a rate equal to the forward-looking term SOFR rate for a corresponding period. At December 31, 2024 the interest rate was 8.34%. Interest is payable quarterly in arrears and due on March 31, June 30, September 30, and December 31 of each year through the maturity date. The Notes are redeemable by the Bank at its option, in whole or in part, on or after June 30, 2024, or in whole but not in part under certain other circumstances. The Notes are reported net of any debt issuance cost which totaled $65,000 at December 31, 2024 and $80,000 at December 31, 2023.

11. INCOME TAXES

The provision for income taxes for the years ended December 31, 2024 and 2023 consisted of the following:

(in thousands)

2024	Federal	State	Total
Current	$ (587)	$ (241)	$ (828)
Deferred	503	130	633
Benefit from income taxes	$ (84)	$ (111)	$ (195)

2023	Federal	State	Total
Current	$2,612	$1,747	$4,359
Deferred	124	(24)	100
Provision for income taxes	$2,736	$1,723	$4,459

Deferred tax assets (liabilities) are comprised of the following:

(in thousands)	December 31, 2024	December 31, 2023
Deferred tax assets:		
Allowance for credit losses	$ 4,178	$ 4,614
Mortgage servicing rights, net of discount	197	259
Future benefit of state tax deduction	-	318
Net unrealized losses on available-for-sale investment securities	3,736	3,679
Lease liability	381	294
Other accruals	215	374
Total deferred tax assets	8,707	9,538
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends	(64)	(64)
Deferred loan costs	(2,124)	(2,475)
Allowance for investment losses	(11)	-
Prepaid expenses and other	(51)	(57)
Right of use assets	(368)	(277)
Bank premises and equipment	(594)	(594)
Total deferred tax liabilities	(3,212)	(3,467)
Net deferred tax assets	$ 5,495	$ 6,071

The following table presents the differences between the provision for income taxes at the federal statutory rate and the amounts computed as reported for the periods stated.

(in thousands)	For the years ended December 31, 2024	%	2023	Rate
Income tax at federal statutory rate	$ (921)	21.0%	$ 3,209	21.0%
(Decrease) increase resulting from:				
State income tax, net of federal income tax effect	(250)	5.7%	1,345	8.8%
Impairment of goodwill	865	(19.7)%	-	0.0%
Federal tax credits	(55)	1.3%	(144)	(0.9)%
Prior year true up	164	(3.8)%	-	0.0%
Other	2	(0.1)%	49	0.3%
Provision for income tax (benefit) expense	$ (195)	4.4%	$ 4,459	29.2%

The Bank had no unrecognized tax benefits and recorded no interest and penalties for the years ended December 31, 2024 and 2023. Based on the level of historical taxable income and projections for future taxable income over the periods during which the deferred tax assets are expected to be deductible, management does not expect a significant change in unrecognized tax benefits and believes it will more likely than not realize the benefit of the remaining deferred tax assets. Accordingly, no valuation allowance has been established as of December 31, 2024 or 2023. The Bank is subject to U.S. Federal income tax as well as income tax of the State of California. The Bank is no longer subject to examination by Federal taxing authorities for tax years 2021 and prior and by California taxing authorities for tax years 2020 and prior.

12. COMMITMENTS AND CONTINGENCIES

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits less vault cash. The Bank had no reserve requirement as of December 31, 2024 and 2023.

Financial Instruments with Off-Balance-Sheet Risk

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

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

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows:

	December 31,			
(in thousands)	2024		2023	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ -	$ -	$ -	$ 5,158
Unused lines of credit	2,002	58,731	5,147	70,087
Standby letters of credit	2,979	20,856	3,083	20,192

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a client to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2024 and 2023. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2024, real estate loan commitments represent 28% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. Commercial loan commitments represent approximately 72% of total commitments and are generally secured by collateral other than real estate or are unsecured.

Concentrations of Credit Risk

The Bank's business activity is primarily with clients located within Northern California. Although the Bank has a diversified loan portfolio, a significant portion of its clients' ability to repay loans is dependent upon the real estate market and various economic factors within Sonoma County. Generally, loans are secured by various forms of collateral. The Bank's credit policy requires sufficient collateral be obtained as necessary to meet the Bank's relative risk criteria for each borrower. The Bank's collateral consists primarily of real estate, accounts receivable, inventory and other financial instruments.

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements, and $467,000 in deposits were uninsured at December 31, 2024.

Contingencies

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

13. SHAREHOLDERS' EQUITY

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by the Federal Deposit Insurance Corporation (FDIC). Failure to meet these minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's 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 of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. The Bank met all its capital adequacy requirements as of December 31, 2024 and 2023.

At December 31, 2024, The Bank's capital levels exceeded the minimums necessary to be considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1 capital, total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below.

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

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

	2024		2023	
(in thousands)	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital Ratio				
Summit State Bank	$ 97,173	10.1%	$ 98,690	9.9%
Minimum requirement with capital conservation buffer (1)	$ 67,058	7.0%	$ 69,760	7.0%
Minimum requirement for "Well-Capitalized" institution	$ 62,268	6.5%	$ 64,778	6.5%
Minimum regulatory requirement	$ 43,109	4.5%	$ 44,846	4.5%
Tier 1 Capital Ratio				
Summit State Bank	$ 97,173	10.1%	$ 98,690	9.9%
Minimum requirement with capital conservation buffer (1)	$ 81,428	8.5%	$ 84,709	8.5%
Minimum requirement for "Well-Capitalized" institution	$ 76,638	8.0%	$ 79,726	8.0%
Minimum regulatory requirement	$ 57,478	6.0%	$ 59,795	6.0%
Total Capital Ratio				
Summit State Bank	$ 113,922	11.9%	$ 117,105	11.8%
Minimum requirement with capital conservation buffer (1)	$ 100,587	10.5%	$ 104,641	10.5%
Minimum requirement for "Well-Capitalized" institution	$ 95,797	10.0%	$ 99,658	10.0%
Minimum regulatory requirement	$ 76,638	8.0%	$ 79,726	8.0%
Tier 1 Leverage Ratio				
Summit State Bank	$ 97,173	8.9%	$ 98,690	8.9%
Minimum requirement for "Well-Capitalized" institution	$ 54,772	5.0%	$ 55,766	5.0%
Minimum regulatory requirement	$ 43,818	4.0%	$ 44,613	4.0%

(1) Includes 2.5% capital conservation buffer.

Dividends

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any bank in any calendar year without approval of the Commissioner, to the lesser of (1) the Bank's retained earnings or (2) the Bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. The cash dividends paid during 2024 were within such limits.

Stock-Based Compensation Plans

The shareholders approved the 2023 Equity Incentive Plan ("Plan") on May 22, 2023. The Plan allows for various equity-based incentives such as options, stock appreciation rights (SARs), restricted stock awards (RSAs), restricted stock units, and other stock-based awards. The Plan reserves a total of 330,000 shares of common stock for issuance to Bank employees and directors. There are 330,000 shares that remain available for future grants under the Plan at December 31, 2024.

The Plan requires that the award exercise price may not be less than the fair value of the stock at the date it is granted. Awards have vesting periods of 5 years, unless otherwise approved by the Board of Directors. Expiration dates are determined by the Board of Directors but may not be later than ten years from the date of grant.

Prior to the shareholders' approval of the 2023 Plan, the Bank operated under the 2013 Equity Incentive Plan (the "Previous Plan") that also permitted the grant of stock options, restricted stock awards ("RSAs") and restricted stock units to executive officers, directors and employees for up to 206,250 shares of common stock. Option awards were generally granted with an exercise price equal to the market price of the Bank's common stock at the date of grant; those option awards also had a vesting period of five years unless otherwise approved by the Board of Directors and have 10-year contractual terms. Beginning May 22, 2023, no shares were available for future grants under the Previous Plan as it was superseded by the 2023 Plan.

Stock-Based Compensation – Stock Appreciation Rights

Prior to 2021, the Bank granted Stock Appreciation Rights ("SARs") to key employees and directors. SARs provide long-term incentives to the employees and directors by providing a cash payment of the difference between the market price of the Bank's common stock at time of exercise and the price at the grant date. SARs expire ten years from the date of grant and typically have an annual vesting of 20% for the first five years, unless otherwise approved by the Board of Directors. SARs granted to the Board of Directors typically have immediate vesting in their entirety or partially vest immediately and annual vesting for the next two years; these SARs also have an expiration of 10 years. The compensation expense is accrued quarterly as a liability.

Vested SARs are settled in the form of cash payments when the Bank receives written notification from an employee to exercise a SAR payment, the tenth anniversary of the effective date, or at termination of employment. Obligations associated with SARs are accounted for as liabilities and are included in accrued interest payable and other liabilities on the balance sheet. The Bank's SARs are valued based on the number of vested shares times the fair value of the stock price as of the report date. The Bank discontinued issuing

SARs beginning 2021 and instead has been issuing RSAs; accordingly, there were no SAR grants for the years ended December 31, 2024 or 2023.

The fair value of each vested SAR award is estimated quarterly using a closed form option valuation (Black-Scholes) model. The output of this valuation is updated quarterly and based on the Bank's actual historical stock price volatility, days to expirations, strike price, the current dividend yield, and the discount rate based on the current U.S. Treasury yield curve that matches the remaining term of each tranche.

For the years ended December 31, 2024 and 2023, there was $(678,000) and $(276,000), respectively, in compensation costs related to SARs granted. The decrease in 2024 was primarily due to the Bank's stock price decreasing from one year ago.

A summary of the activity for the SARs agreements is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Year Ended December 31, 2024				
Outstanding at beginning of the year	295,020	$ 12.83		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	6,600	12.50		
Outstanding at end of the year	288,420	$ 13.41	4.4 years	$ 240,209
Vested or expected to vest	288,420	$ 13.41	4.4 years	$ 240,209
Exercisable at end of year	279,620	$ 11.72	4.2 years	$ 228,154

As of December 31, 2024 and 2023, the Bank had a liability recorded of $229,000 and $907,000, respectively, related to outstanding SARs.

Stock-Based Compensation – Restricted Stock Awards

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

There were no RSAs awarded in 2024. On March 27, 2023, the Board of Directors awarded 51,400 RSAs to selected groups of employees. These RSAs have a grant date of April 3, 2023, and grant value of $13.85, which equals the closing trading price on the grant date.

For the years ending December 31, 2024 and December 31, 2023, the total expense related to RSAs was $269,000 and $292,000, respectively. As of December 31, 2024, there were $671,000 of total unrecognized compensation costs related to non-vested RSAs granted.

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

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

	Number of Shares	Weighted-Average Price per Share
Outstanding Unvested Balance, December 31, 2023	86,512	$ 15.12
Vested	(21,540)	15.12
Forfeited	(7,536)	15.08
Outstanding Unvested Balance, December 31, 2024	57,436	$ 15.13

	Number of Shares	Weighted-Average Price per Share
Outstanding Balance, December 31, 2022	44,740	$ 16.91
Granted	51,400	13.85
Vested	(9,628)	16.68
Outstanding Balance, December 31, 2023	86,512	$ 15.12

14. EMPLOYEE BENEFIT PLAN

401(k) Employee Savings Plan

The Bank offers a 401(k) matching contribution Employee Savings Plan (the "Plan"). The Plan is qualified under the Internal Revenue Code (Code), whereby participants may defer a percentage of their compensation, but not in excess of the maximum allowed under the Code.

Under the Plan, participating employees may make a pre-tax contribution of 1% to 80% of their eligible compensation (within federal limits) to the Plan. Employees over the age of 50 may elect to make catch-up contributions ($7,500 for 2024, indexed). The Bank makes matching contributions on behalf of the participants up to 5% of their eligible compensation.

An employee becomes eligible to enroll in the Plan upon completing at least 250 hours of employment in a three consecutive month period. Initial eligibility is measured from the employee's date of hire, and subsequent eligibility is measured over three-month periods and has a 2-year cliff vesting schedule. The Bank will begin making matching contributions on the first of the month following the completion of at least 1,000 hours of employment in a 12 consecutive month period.

Contributions by the Bank totaled $541,000 and $591,000 for the years ended December 31, 2024 and 2023, respectively.

15. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into loans with related parties, including non-employee Directors, Executive Officers, principal shareholders, as well as their businesses, associates, and members of their immediate family. The Bank makes available an Employee Loan Program which offers a preferred interest rate reduction on primary home mortgage loans; this program is compliant with the applicable restrictions of Section 22(h) of the Federal Reserve Act. Otherwise, all other transactions, including loans and commitments to lend, are made in the ordinary course of business on the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other persons of similar creditworthiness and do not involve more than the normal risk of collectability or present other unfavorable features. Loans to individual Directors and Executive Officers comply with the Bank's lending policies and statutory lending limits. In addition, in some cases, prior approval of the Bank's Board of Directors must be obtained for such loans, as required by federal and state regulations applicable to the Bank.

The following is a summary of the aggregate activity involving related party borrowers.

(in thousands)	2024	2023
Balance, January 1	$ 3,574	$ 3,724
New borrowings	555	1,413
Amounts repaid	(1,169)	(1,563)
Balance, December 31	$ 2,960	$ 3,574
Undisbursed commitments to related parties	$ 650	$ 500

At December 31, 2024 and 2023, deposits of related parties amounted to $5,616,000 and $2,743,000, respectively.

16. FAIR VALUE

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

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

The following table presents a summary of the carrying value and fair value by level of financial instruments on the Bank's balance sheets at December 31, 2024 and 2023:

	December 31, 2024			December 31, 2023		
(in thousands)	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and due from banks	$ 51,403	$ 51,403	Level 1	$ 57,789	$ 57,789	Level 1
Investment securities - available-for-sale	68,228	68,228	Level 2	84,546	84,546	Level 2
Loans, net of allowance	905,075	854,429	Level 3	938,626	886,878	Level 3
Investment in FHLB stock	5,889	5,889	Level 2	5,541	5,541	Level 2
Other Real Estate Owned	4,437	4,437	Level 3	-	-	Level 3
Originated servicing rights	3,436	3,436	Level 3	3,619	3,619	Level 3
Accrued interest receivable	3,484	3,484	Level 1	3,703	3,703	Level 1
Financial liabilities:						
Deposits	$ 962,562	$ 962,529	Level 2	$ 1,009,693	$ 1,007,745	Level 2
Junior subordinated debt	5,935	5,213	Level 2	5,920	5,019	Level 3
Accrued interest payable	1,674	1,674	Level 1	619	619	Level 1

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

Fair value of loans is based on exit price techniques and obtained from an independent third party that uses its proprietary valuation model and methodology and may differ from the actual price from a prospective buyer. The discounted cash flow valuation approach reflects key inputs and assumptions that are unobservable, such as loan probability of default, loss given default, prepayment speed, and market discount rates. Loans are classified as Level 3 measurements due to the use of significant unobservable inputs, as well as significant judgment and estimation.

The Bank holds Federal Home Loan Bank ("FHLB") of San Francisco stock which is recorded at cost as there is no impairment or changes resulting from observable price transactions for identical investments as of December 31, 2024 and 2023.

The Fair value of fixed-rate time deposits is estimated by discounting future contractual cash flows using discount rates that reflect the current observable market rates offered for time deposits of similar remaining maturities.

Junior subordinated debt fair valuation is estimated by discounting future contractual cash flows net of discounted premiums and amortized fees. The discount rate is adjusted to a floating rate tied to a rate equal to the forward-looking term SOFR rate for a corresponding period. This item is classified as a Level 2 measurements due to the use of observable inputs, judgements and estimations for projected cash flows and discount rates. The fair value of loan servicing assets is performed by an independent third party that calculates the discounted cash flow using a proprietary valuation model and may differ from actual price from a prospective buyer. The valuation is performed at the loan level and is based on objective attributes of the portfolio including note rate, fixed versus variable, term, interest rate, as well as observable market-based assumptions for servicing costs and prepayment speeds. The internal rate of return is used to discount the expected future cash flow stream from the portfolio.

Servicing assets are classified as Level 3 measurements due to the use of significant unobservable inputs, judgments and estimations, such as prepayment speeds, inflation rate, and market discount rates. The discount rates used on servicing assets for SBA 7(a) and USDA were 13.8% and 14.5% for the years ended December 31, 2024 and 2023, respectively. The Bank was servicing approximately $175,398,000 and $175,070,000 in loans as of December 31, 2024 and 2023, respectively.

Other real estate owned assets are initially recorded at fair value less costs to sell when acquired to establish a new cost basis. Fair value is commonly based on recent real estate appraisals which are updated at least annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach from data from comparable properties. Adjustments are routinely made during the appraisal process by the independent appraisers to adjust for differences between the comparable sale prices and income data available. Appraisals may be adjusted or discounted based on management's historical knowledge, change in market conditions from the time of the valuation, and/or management's expertise and knowledge of the collateral. Such adjustments result in a Level 3 classification of the inputs for determining fair value. OREO properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

The fair value of accrued interest receivable and accrued interest payable are recorded at carrying value.

Assets and Liabilities Measured on a Recurring Basis

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

		Fair Value Measurements at December 31, 2024 (In thousands)		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
Government agencies	$ 38,225	$ -	$ 38,225	$ -
Mortgage-backed securities - residential	6,994	-	6,994	-
Corporate debt	23,009	-	23,009	-
Total securities available-for-sale	$ 68,228	$ -	$ 68,228	$ -

		Fair Value Measurements at December 31, 2023 (In thousands)		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
Government agencies	$ 52,430	$ -	$ 52,430	$ -
Mortgage-backed securities - residential	7,884	-	7,884	-
Corporate debt	24,232	-	24,232	-
Total securities available-for-sale	$ 84,546	$ -	$ 84,546	$ -

No liabilities were measured at fair value on a recurring basis at December 31, 2024 or 2023.

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Bank's quarterly valuation process. There were no transfers between any levels during 2024 and 2023.

Assets and Liabilities Measured on a Non-Recurring Basis

The fair value of loans that are collateral dependent are generally based on real estate appraisals. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, less cost to sell, and the amortized cost. If the fair value of the collateral is greater than the amortized cost, no allowance is required. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales, primarily for owner occupied properties, and the income approach, primarily for non-owner-occupied loans. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Collateral values are subject to market forces or other circumstances that may cause deterioration in the value of the collateral, such as cap rates, vacancy and general economic weakness. Deterioration in valuations could result in additional reserves or charge off of a portion of the loan to the extent the amortized cost exceeds the fair value of collateral.

Commercial real estate loans can be secured by owner occupied or non-owner occupied commercial real estate. Typically, owner occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, hotels, multifamily, complexes, land under development, industrial properties, as well as other commercial or industrial real estate.

Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.

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

		Fair Value Measurements (In thousands)		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	December 31, 2024			
Assets:				
Individually assessed loans	$ 13,726	$ -	$ -	$ 13,726
Other real estate owned	4,437	-	-	4,437
Originated servicing rights	3,436	-	-	3,436

		Fair Value Measurements (In thousands)		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	December 31, 2023			
Assets:				
Individually assessed loans	$ 7,889	$ -	$ -	$ 7,889
Originated servicing rights	3,619	-	-	3,619

For Level 3 assets and liabilities measured at fair value on a recurring or nonrecurring basis as of December 31, 2024 and December 31, 2023, the significant unobservable inputs used in the fair value measurement were as follows:

(in thousands)	Valuation Technique	Description	December 31, 2024 Range	December 31, 2024 Weighted Average	December 31, 2024 Fair Value	December 31, 2023 Range	December 31, 2023 Weighted Average	December 31, 2023 Fair Value
Individually assesed loans, net of allowance	Appraised Value	Discounts to appraisals for estimated holding or selling costs	10.0%	10.00%	$ 13,726	10.0%	10.00%	$ 7,889
Other Real Estate Owned	Appraised Value / Comparable Sales	Discounts to appraisals for estimated holding or selling costs	10.0%	10.0%	4,437	N/A	N/A	-
Originated servicing rights	Discounted Cash Flow	Constant Prepayment Rate	14.13% - 16.87%	16.27%	3,436	13.9% - 16.47%	15.83%	3,619
		Discount Rate	13.75%	13.75%		15%	15%	

Significant increases or decreases in any of these inputs in isolation could result in a significantly lower or higher fair value measurement.

No liabilities were measured at fair value on a non-recurring basis at December 31, 2024 or 2023.

17. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Bank recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including these estimates inherent in the process of preparing the financial statements. The Bank’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are issued. The Bank has evaluated subsequent events after December 31, 2024 for potential recognition and disclosure matters and noted no items requiring accrual or disclosure.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Effectiveness of Disclosure Controls and Procedures

The Bank, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Bank's "disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2024. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Bank's disclosure controls and procedures are effective as of December 31, 2024.

Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, the disclosure controls and procedures were adequate and effective, and that the material information required to be included in this report was properly recorded, processed, summarized and reported, and was made known to the Chief Executive Officer and Chief Financial Officer by others within the Bank in a timely manner, particularly during the period when this report on Form 10-K was being prepared.

During the year-ended December 31, 2024, there have been no changes in the Bank's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

Management's Report on Internal Control Over Financial Reporting

Management of the Bank is responsible for establishing and maintaining effective internal control over financial reporting for the Bank, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). The Bank's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Bank's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and board of directors; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

For the 2024 term, management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting as of December 31, 2024, utilizing the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment,

Based on the Bank's assessment of the overall control environment and testing performed, management concludes the control system is deemed to be effective and provides materially correct presentation of the Bank's financial statements and financial disclosures. No material weaknesses in the Bank's internal controls have been identified by management for the year ended December 31, 2024. Management concludes that the Bank maintained effective internal control over financial reporting, as of December 31, 2024.

There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention of overriding of the systems and reasonable resource constraints. Because of its inherent limitations, the Bank's internal control over financial reporting may not prevent or detect misstatements. Projections or any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

During the quarter ended December 31, 2024, there were no significant changes that materially affected, or are reasonably likely to affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

For the quarter ended December 31, 2024, none of the Bank's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Bank securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) and/or any non-Rule 10b5-1 trading arrangement.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We intend to file a definitive proxy statement for the 2025 Annual Meeting of Shareholders (or the "Proxy Statement") with the FDIC within 120 days of December 31, 2024. Information required by this item will be included in the Proxy Statement and is incorporated herein by reference.

The Bank has adopted a code of ethics applicable to all of our directors and employees, including the principal executive officer, principal financial officer and principal accounting officer. The code of ethics is filed as an exhibit to this report.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item will be included in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table summarizes information as of December 31, 2024 relating to equity compensation plans of Summit State Bank pursuant to which grants of options, restricted stock, or other rights to acquire shares may be granted from time to time.

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans: Approved by security holders	91,824	$15.32	330,000
Equity compensation plans: Not approved by security holders	0	0	0
Total	91,824	$15.32	330,000

Information regarding security ownership of certain beneficial owners and management and related shareholder matters will appear in the Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item will be included in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item will be included in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. *Financial Statements*

The following documents are filed as part of this report:

Report of Independent Registered Public Accounting Firm (Elliott Davis, PLLC, Greenville, South Carolina)

Balance Sheets at December 31, 2024 and 2023

Statements of Income for each of the years in the two-year period ended December 31, 2024

Statements of Comprehensive Income for each of the years in the two-year period ended December 31, 2024

Statements of Changes in Shareholders' Equity for each of the years in the two-year period ended December 31, 2024

Statements of Cash Flows for each of the years in the two-year period ended December 31, 2024

Notes to Financial Statements

2. *Financial Statement Schedules*

Not applicable

3. *Exhibits*

(b) *Exhibits Required by Item 601 of Regulation S-K*

EXHIBIT NO.	EXHIBIT
3.1	Articles of Incorporation of Summit State Bank [(1) (2) (3)]
3.2	Amendment to Articles of Incorporation dated January 23, 2017 [(4)]
3.3	By-laws of Summit State Bank [(5)]
4.1	Specimen common stock certificate [(1) (2) (3)]
4.2	The total amount of the registrant's long-term debt does not exceed 10 percent of the total assets of the registrant. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the registrant agrees to file any instrument with respect to such long-term debt upon request of the FDIC.
4.3	Description of securities registered under Section 12 of the Exchange Act [(15)]
10.1	2013 Equity Incentive Plan [(6)]
10.2	2023 Equity Incentive Plan [(16)]
10.3	Change in Control Agreement with Genie Del Secco [(7)]
10.4	Change in Control Agreement with Brandy Seppi [(8)]
10.5	Change in Control Agreement with Brian Reed [(9)]
10.6	Change in Control Agreement with Camille Kazarian [(10)]
10.7	Change in Control Agreement with Michael Floyd [(11)]
10.8	Cash Incentive Bonus Plan [(12)]
10.9	Stock Appreciation Rights Agreement with Directors and Officers [(13)]
10.10	Form of Restricted Stock Award Agreement under 2013 Equity Incentive Plan[(14)]
14.1	Code of Ethics [(15)]
19.1	Insider Trading Policy
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	Section 1350 certifications
97.1	Compensation Clawback Policy [(16)]

1. Incorporated by reference to Summit State Bank's Form 10 filed with the FDIC on June 19, 2006.
2. Incorporated by reference to Summit State Bank's Form 10/A Amendment No. 1 filed with the FDIC on July 12, 2006.
3. Incorporated by reference to Exhibit 3.1 to Summit State Bank's Form 8-K filed with the FDIC on August 29, 2023.
4. Incorporated by reference to Exhibit 3.2 to Summit State Bank's Form 10-K filed with the FDIC on March 23, 2017.
5. Incorporated by reference to Exhibit 3.3 to Summit State Bank's Form 8-K filed with the FDIC on January 24, 2018.
6. Incorporated by reference to Summit State Bank's Definitive Proxy Statement filed with the FDIC on June 10, 2013.
7. Incorporated by reference to Exhibit 10.3 to Summit State Bank's Form 8-K filed with the FDIC on August 31, 2023.
8. Incorporated by reference to Exhibit 10.4 to Summit State Bank's Form 8-K filed with the FDIC on August 31, 2023.
9. Incorporated by reference to Exhibit 10.5 to Summit State Bank's Form 8-K filed with the FDIC on August 31, 2023.
10. Incorporated by reference to Exhibit 10.6 to Summit State Bank's Form 8-K filed with the FDIC on August 31, 2023.
11. Incorporated by reference to Exhibit 10.7 to Summit State Bank's Form 8-K filed with the FDIC on March 4, 2024.
12. Incorporated by reference to Exhibit 10.8 to Summit State Bank's Form 8-K filed with the FDIC on April 22, 2016.

13. Incorporated by reference to Exhibit 10.9 to Summit State Bank's Form 8-K filed with the FDIC on December 14, 2016, December 22, 2017, August 2, 2018 and December 18, 2018.
14. Incorporated by reference to Exhibit 10.10 to Summit State Bank's Form 8-Ks filed with the FDIC on April 1, 2022.
15. Incorporated by reference to Exhibit 14.1 to Summit State Bank's Form 10-K filed with the FDIC on March 28, 2007.
16. Incorporated by reference to Exhibit 4.3 to Summit State Bank's Form 10-K filed with the FDIC on March 16, 2020
17. Incorporated by reference to Appendix A to Summit State Bank's Definitive Proxy Statement filed with the FDIC on April 12, 2023.

(c) *Additional Financial Statements*

Not applicable.

ITEM 16. FORM 10-K SUMMARY

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Summit State Bank

By *[/s/ Camille D. Kazarian]* March 28, 2025

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

Summit State Bank

By */s/ Brian J. Reed* March 28, 2025

Brian J. Reed
President and
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Dated:	March 28, 2025	*/s/ Brian J. Reed* Brian J. Reed, President and Chief Executive Officer (Principal Executive Officer) and Director
Dated:	March 28, 2025	*/s/ Camille D. Kazarian* Camille D. Kazarian, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
Dated:	March 28, 2025	*/s/ Jeffery B. Allen* Jeffery B. Allen, Director
Dated:	March 28, 2025	*/s/ Frank Chong* Frank Chong, Director
Dated:	March 28, 2025	*/s/ James A. Finley* James A. Finley, Director
Dated:	March 28, 2025	*/s/ Todd R. Fry* Todd R. Fry, Director
Dated:	March 28, 2025	*/s/ Belinda S. Guadarrama* Belinda S. Guadarrama, Director
Dated:	March 28, 2025	*/s/ Nicholas J. Rado* Nicholas J. Rado, Director
Dated:	March 28, 2025	*/s/ Douglas V. Reynolds* Douglas V. Reynolds, Director
Dated:	March 28, 2025	*/s/ Marshall T. Reynolds* Marshall T. Reynolds, Director
Dated:	March 28, 2025	*/s/ Dawn M. Ross* Dawn M. Ross, Chairperson of the Board and Director
Dated:	March 28, 2025	*/s/ John W. Wright* John W. Wright, Director

Dated: March 28, 2025 */s/ Sharon S. Wright*

Sharon S. Wright, Director

EXHIBIT 19.1
Insider Trading Policy

Department:	Accounting
Policy & Procedures For:	Insider Trading
Annual Board Approval:	July 29, 2024
Prior Approval Date:	August 28, 2023

SUMMIT STATE BANK

INSIDER TRADING POLICY

I. PURPOSE

This Insider Trading Policy (the "***Policy***") provides policies and guidelines with respect to transactions in the securities of Summit State Bank (the "***Bank***"). The Bank's Board of Directors has adopted this Policy to promote compliance with federal and state securities laws that prohibit certain persons who are aware of material nonpublic information about a company from trading in securities of that company or providing material nonpublic information to other persons who may trade on the basis of that information. This Policy is intended to supplement, and not replace, the Bank's Code of Ethics (with the more restrictive policy applying in any case where there is a conflict).

II. SCOPE

A. Persons Subject to this Policy

This Policy applies to each person who is an employee, officer or director of the Bank or any subsidiary of the Bank (each, a "***Covered Person***").

In addition, certain specified provisions of this this Policy apply to any person holding office, title, position or relationship listed on Exhibit A attached hereto (each, an "***Insider***"). Such persons are generally expected to regularly receive material nonpublic information. This list may be changed from time to time by the Compliance Officer or the Compliance Committee (each as defined below) to add or remove persons as appropriate.

This Policy will be delivered to all Covered Persons upon its adoption by the Bank or the commencement of such Covered Person's service or employment with the Bank. Upon first receiving a copy of this Policy or any revised version of this Policy, each Covered Person must sign an acknowledgment that he or she has received a copy, understands this Policy and will comply with its requirements. Covered Persons may be required to certify compliance with the Policy from time to time, at the direction of the Compliance Officer or the Compliance Committee.

B. Transactions Subject to this Policy

This Policy applies to any and all transactions in the Bank's securities ("***Bank Securities***"), including the Bank's common stock, options to purchase common stock, and any other type of securities that the Bank may issue, such as preferred stock, convertible debentures, warrants and exchange-traded options or other derivative securities.

C. Transactions by Family Members and Controlled Entities

Transactions by family members of a Covered Person should be treated for purposes of this Policy and applicable securities laws as if they were made by a Covered Person. A family member is defined as someone who lives full time in the same house as the Covered Person or a member of the Covered Person's immediate family living outside of the same house for whom the Covered Person provides financial support. Similarly, transactions by entities controlled or influenced by a Covered Person, including corporations, partnerships and trusts, should be treated for purposes of this Policy and applicable securities laws as if they were made by a Covered Person. Accordingly, all references to trading restrictions and prior approval procedures in this Policy also apply to family members and controlled entities of a Covered Person. A Covered Person is personally responsible for the actions of his or her family members and controlled entities.

D. Individual Responsibility

Persons subject to this Policy have ethical and legal obligations to maintain the confidentiality of information about the Bank and to not engage in transactions in Bank Securities while in possession of material nonpublic information. Each individual is responsible for making sure that he or she complies with this Policy, and that any family member or controlled entity whose transactions are subject to this Policy, as discussed above, also comply with this Policy. In all cases, the responsibility for determining whether an individual is in possession of material nonpublic information rests with that individual, and any action on the part of the Bank, the Compliance Officer or any other employee or director pursuant to this Policy (or otherwise) does not in any way constitute legal advice or insulate an individual from liability under applicable securities laws. You could be subject to severe legal penalties and disciplinary action by the Bank for any conduct prohibited by this Policy or applicable securities laws, as described below in more detail under the heading "Consequences of Violations."

III. COMPLIANCE OFFICER AND COMPLIANCE COMMITTEE

The Board of Directors has designated the Bank's Chief Financial Officer as the Bank's Insider Trading Compliance Officer for purposes of this Policy (the "***Compliance Officer***"). The Board of Directors also has designated its Audit Committee as the Bank's Insider Trading Compliance Committee (the "***Compliance Committee***"), to review and resolve any issues or questions, referred to it by the Compliance Officer or any director or officer, regarding the application of this Policy to any individuals or transactions or the interpretation of any provisions of this Policy. The decisions of the Compliance Committee with respect to this Policy and all such matters shall be subject to the review of the full Board of Directors; *provided* that, unless the Board of Directors determines otherwise, all decisions of the Compliance Committee relating to this Policy, including, but not limited to, the application of this Policy to any individuals or transactions shall be final, binding and non-appealable by any individuals affected by such decisions.

In addition to the trading approval duties described below, the duties of the Compliance Officer include, but are not limited to, the following: (i) administering, monitoring and enforcing compliance with this Policy; (ii) responding to all inquiries relating to this Policy; (iii) designating and announcing special trading "blackout" periods during which no Insiders may trade or engage in any transactions in Bank Securities; (iv) providing copies of this Policy and other appropriate materials to all Covered Persons; (v) administering, monitoring and enforcing compliance with all federal and state insider trading laws and regulations, including without limitation Sections 10(b), 16, 20A and 21A of the Securities Exchange Act of 1934 (the "***Exchange Act***") and the rules and regulations promulgated thereunder and assisting in the preparation and filing of all required reports with the Securities and Exchange Commission (the "***SEC***") or the Federal Deposit Insurance Corporation (the "***FDIC***") relating to insider trading in Bank Securities; and (vi) seeking the approval of the Compliance Committee for any exceptions to the Policy proposed to be granted to any Covered Persons that are subject to this Policy and any material change proposed to be made to this Policy, except that changes to the Policy may be made by the Compliance Officer, without obtaining the prior approval of the Compliance Committee, if the Compliance Officer believes such change or changes are needed to reflect changes in federal or state insider trading laws and regulations or if such Policy change or changes are not material; *provided, however*, that if, in reliance on the foregoing exceptions, the Compliance Officer adopts or implements any changes to this Policy, the Compliance Officer shall notify the Audit Committee Chairman of such changes as soon as practicable after their adoption.

The Compliance Officer shall, with respect to all matters relating to this Policy, report directly to the Compliance Committee. With the Compliance Committee's approval, the Compliance Officer may designate one or more individuals to perform the Compliance Officer's duties in the event that the Compliance Officer becomes unable or unavailable to perform his or her duties with respect to this Policy.

IV. DEFINITION OF MATERIAL NONPUBLIC INFORMATION

A. "Material" Information

Information about the Bank is "material" if it would be expected to affect the investment or voting decisions of the reasonable shareholder or investor, or if the disclosure of the information would be expected to significantly alter the total mix of the information in the marketplace about the Bank. Any information that could be expected to affect the price of Bank Securities, whether it is positive or negative, should be considered material. There is no bright-line standard for assessing materiality; rather, materiality is based on an assessment of all of the facts and circumstances, and is often evaluated by enforcement authorities with the benefit of hindsight. While it is not possible to identify all information that would be deemed "material," the following types of information ordinarily would be considered material:

- Information relating to the Bank's financial performance, especially quarterly and year-end earnings, or to any significant changes in financial performance or liquidity.
- Information containing or consisting of projections or forecasts of the future financial performance of or trends in the Bank's business.
- Business plans, and strategic growth or diversification plans or programs being considered or implemented by the Bank.
- The Bank's entry into or the existence of negotiations relating to any major corporate transaction, including a potential merger with or acquisition of any other company or business or any sale of Bank assets.
- The negotiation or entry by the Bank into any new major contracts, strategic relationships or the obtaining of new sources of financing, or the loss thereof.
- Information relating to a possible public offering or possible or ongoing private offerings of Bank stock or debt or other securities by the Bank.
- Significant changes or developments in the Bank's business.

- The commencement of any government investigations of or actions threatened or taken by any regulatory authorities against the Bank.

- Stock dividends or stock splits, or changes in Bank dividend policies.

- Significant changes in the senior management of the Bank.

- Significant labor disputes or negotiations.

- The threat or commencement of any major litigation involving the Bank or the resolution of any such litigation.

B. "Nonpublic" Information

Material information is "nonpublic" if it has not been widely disseminated to the public through major newswire services, national news services or financial news services, or through documents filed or furnished with the FDIC that are publicly available on the FDIC's website. For purposes of this Policy, information will be considered public (i.e., no longer "nonpublic") after the close of trading on the second (2nd) full trading day following the Bank's widespread public release of the information. By contrast, information would likely not be considered widely disseminated if it is available only to the Bank's employees, or if it is only available to a select group of analysts, brokers and institutional investors.

C. Consult the Compliance Officer for Guidance

Any Covered Persons who are unsure whether the information that they possess is material or nonpublic must consult the Compliance Officer for guidance before trading or effectuating any transactions in any Bank Securities.

V. STATEMENT OF COMPANY POLICY AND PROCEDURES

A. Prohibited Activities for All Covered Persons

1. ***No "Insider Trading."*** No Covered Person may trade or effectuate transactions in Bank Securities while possessing material nonpublic information concerning the Bank.

2. ***No "Tipping."*** No Covered Persons may "tip" or disclose material nonpublic information concerning the Bank to any outside person (including family members or affiliates of the Covered Persons, analysts, individual investors and members of the investment community and news media). In any instance in which such information is disclosed to outsiders, the Bank will use commercially reasonable efforts to preserve the confidentiality of the information, including requiring the outsider to agree in writing to comply with the terms of this Policy and/or to sign a confidentiality agreement. All inquiries from outsiders regarding material nonpublic information about the Bank must be forwarded to the Compliance Officer and no Covered Persons should attempt to respond to those inquiries.

3. ***Advice Involving Bank Securities***. No Covered Persons may give trading advice of any kind about the Bank to anyone while possessing material nonpublic information about the Bank, except that Covered Persons should advise others not to trade if doing so might violate the law or this Policy. The Bank strongly discourages all Covered Persons and from giving trading advice concerning the Bank to third parties even when the Covered Persons do not possess material nonpublic information about the Bank.

4. ***No Hedging or Short Sales.*** No Covered Persons may trade in any interest or position relating to the future price of Bank Securities, such as a put, call or short sale. No Covered Persons may, directly or indirectly, purchase any financial instrument (such as prepaid variable forward contracts, equity swaps, collars or exchange funds), or enter into any other transaction, for the purpose of hedging or offsetting any decrease in the market value of any Bank Securities.

5. ***No "Insider Trading" with Respect to Other Companies.*** No Covered Persons may (a) trade in the securities of any other public company while possessing material nonpublic information concerning that company, (b) "tip" or disclose material nonpublic information concerning any other public company to anyone, or (c) give trading advice of any kind to anyone concerning any other public company while possessing material nonpublic information about that company.

6. ***Special Blackout Periods.*** No Covered Person may trade in Bank Securities during any special trading blackout period as may be designated by the Compliance Officer if and as directed by the Compliance Officer. If applicable, the Compliance Officer will notify Covered Persons that there is a special trading black out period that applies to the Covered Person. A Covered Person who is not listed as an Insider might become subject to a special black out period if, for example, the Covered Persons is involved in a special project for the Bank that constitutes material nonpublic information or inadvertently learns material nonpublic information about the Bank.

B. Additional Prohibited Activities for Insiders

The following additional restrictions apply to persons who are Insiders. These restricts are in addition to the restrictions that generally apply to Covered Persons that are listed above.

1. ***Trading Windows.*** No Insider may trade or effectuate transactions in Bank Securities outside of the applicable "trading windows" described below or during any special trading blackout periods designated by the Compliance Officer.

2. ***Preclearance of Trades***. No Insider may trade or effectuate transactions in Bank Securities unless and until the proposed trade(s) have been approved by the Compliance Committee or the Compliance Officer in accordance with the procedures set forth below. Insiders who wish to sell Bank Securities in order to diversify their investment portfolio are encouraged to sell their securities pursuant to a predetermined written plan which (i) is adopted in accordance with and meets the requirements of Rule 10b-5(1) under the Exchange Act, (ii) is approved in advance by the Compliance Committee or the Compliance Officer, and (iii) generally cannot be

modified during the term of the plan. To the extent possible, Insiders should retain all records and documents that support their reasons for making each trade.

3. ***Compliance Officer.*** The Compliance Officer may not trade in Bank Securities unless the trade(s) have been approved by the Compliance Committee in accordance with the procedures set forth below.

4. ***Margin Accounts.*** No Insider may (a) place or hold any Bank Securities in a margin account or (b) pledge or grant a security interest in any such securities as collateral for any loan or other extension of credit (whether for the benefit of the Insider or any other person or entity), *provided, however,* that with the prior approval of the Compliance Committee, an Insider may pledge Bank Securities for a specific loan or other extension of credit (but not to secure margin debt), if (i) the Insider is able to demonstrate to the satisfaction of the Compliance Committee that he or she has the financial capacity to repay such loan without the sale of or other resort to any of the Insider's Bank Securities that he/she proposes to use as collateral for the loan (the "***Pledged Securities***"), or (ii) the lender (and any pledgee who is not the lender) enters into a written agreement with the Bank, satisfactory to the Compliance Committee and its legal counsel, pursuant to which the lender and any such pledgee agree (x) to refrain from foreclosing on or selling any of the Pledged Securities at any time that the lender or any such pledgee possesses any material nonpublic information about the Bank, and (y) to effectuate any such foreclosure or sale only on three (3) business days' prior written notice to the Compliance Officer and then only during a time period when the Insider would be permitted to sell any of his/her Bank Securities in compliance with this Policy.

C. Trading Windows and Blackout Periods for Insiders

Trading Windows

After obtaining trading approval from the Compliance Officer in accordance with the procedures set forth below, Insiders may trade in Bank Securities only during periods beginning at the close of trading on the second (2^{nd}) full trading day following the Bank's widespread public release of quarterly or year-end earnings and ending on the close of trading on the 15th day of the last month of each fiscal quarter ("***trading windows***").

Notwithstanding the above paragraph, no Insider possessing material nonpublic information concerning the Bank may trade in Bank Securities even during trading windows. Persons possessing such information may trade during a trading window only after the close of trading on the second full trading day following the Bank's widespread public release of the information.

Blackout Periods

Any time which is not considered a trading window shall be considered a "***Blackout Period***". The Board of Directors, the Compliance Committee or the Compliance Officer also may designate special Blackout Periods during which no Insider may trade or effectuate transactions in Bank Securities. Without limiting the generality of the foregoing, a special Blackout Period may be established for any period during which the Bank possesses any material inside information about the Bank and continuing until the earlier of the close of trading on the second full trading day following the Bank's widespread release of such information or following a determination by the Compliance Officer or Compliance Committee that such information has ceased to be material (whether due to subsequent developments or events or the receipt of additional information that leads the Compliance Officer or Compliance Committee to conclude that the information has ceased to be material). For example, if the Bank were to enter into confidential negotiations of an acquisition or joint venture transaction that could be material to the Bank, a special Blackout Period would then commence and would continue until the earlier of (i) the close of trading on the second (2nd) full trading day following the Bank's widespread release of information regarding the negotiations or the transaction or (ii) the date the parties to the proposed transaction terminate such negotiations with finality. No Insider may disclose to any outside third party that a special Blackout Period has commenced or been designated.

The Board of Directors, the Compliance Committee or the Compliance Officer also may designate Covered Persons who are not listed as Insiders as being subject to a special Blackout Period during which the Covered Person may trade or effectuate transactions in Bank Securities. The Company Committee or the Compliance Offer shall notify any such Covered Persons that they are subject to a Black Period that is in effect.

Hardship Cases

The Compliance Committee may, on a case-by-case basis, authorize trading in Bank Securities outside of the applicable trading windows (but not during special Blackout Periods) due to a financial hardship or other hardships, but only in accordance with the procedures set forth below.

D. Procedures for Approving Trades by Insiders

No Insider may trade or effectuate transactions in any Bank Securities until:

- the Insider proposing to effectuate such trade or other transaction has notified the Compliance Officer in writing of the number or amount of the Bank Securities proposed to be traded and the nature of the proposed trade or other transaction;

- the Insider proposing to effectuate such trade or other transaction has certified to the Compliance Officer in writing no earlier than two (2) business days prior to the proposed trade or other transaction that (i) he or she is not in possession of material nonpublic information concerning the Bank and (ii) the proposed trade or other transaction does not violate the trading restrictions of Section 16 of the Exchange Act; and

- the Compliance Committee or the Compliance Officer has approved the trade or other transaction.

Such notification and certification by an Insider shall be substantially in the form of Annex A attached hereto.

Hardship Trades

The Compliance Committee may, on a case-by-case basis, authorize a transaction in Bank Securities outside of the applicable trading windows due to financial hardship or other hardships only after:

- the Insider proposing to effectuate such trade or other transaction has notified the Compliance Committee in writing of the hardship and the number or amount of the Bank Securities proposed to be traded and the nature of the proposed trade or other transaction; and

- the Insider proposing to effectuate such trade or other transaction has certified to the Compliance Committee in writing no earlier than two (2) business days prior to the proposed trade or other transaction that (i) he or she is not in possession of material nonpublic information concerning the Bank and (ii) the proposed trade or other transaction does not violate the trading restrictions of Section 16 of the Exchange Act.

Such notification and certification by an Insider shall be substantially in the form of Annex A attached hereto. Notwithstanding the foregoing, no hardship trades shall be permitted during any special Blackout Period.

No Obligation to Approve Trades

The existence of the foregoing approval procedures does not in any way obligate the Compliance Committee or Compliance Officer to approve any trades or other transactions requested by Insiders or hardship applicants. The Compliance Committee or Compliance Officer may reject any such trades or other transactions at their sole discretion.

D. Transactions Under Bank Plans

This Policy does not apply in the case of the following transactions, except as specifically noted:

Stock Option Exercises

This Policy does not apply to the exercise of an employee stock option acquired pursuant to the Bank's plans, or to the exercise of a tax withholding right pursuant to which a person has elected to have the Bank withhold shares subject to an option to satisfy tax withholding requirements. This Policy does apply, however, to any sale of stock as part of a broker-assisted cashless exercise of an option, or any other market sale for the purpose of generating the cash needed to pay the exercise price of an option.

Restricted Stock Awards

This Policy does not apply to the vesting of restricted stock or restricted stock unit, or the exercise of a tax withholding right pursuant to which an Insider elects to have the Bank withhold shares of stock to satisfy tax withholding requirements upon the vesting of any restricted stock or restricted stock unit. This Policy does apply, however, to any market sale of stock as to which restrictions have elapsed or that is delivered upon vesting of a restricted stock unit.

401(k) Plan

This Policy does not apply to purchases of Bank Securities in the Bank's 401(k) plan resulting from an Insider's periodic contribution of money to the plan pursuant to his or her payroll deduction election. This Policy does apply, however, to certain elections an Insider may make under the 401(k) plan, including: (a) an election to increase or decrease the percentage of his or her periodic contributions that will be allocated to the Bank stock fund; (b) an election to make an intra-plan transfer of an existing account balance into or out of the Bank stock fund; (c) an election to borrow money against his or her 401(k) plan account if the loan will result in a liquidation of some or all of his or her Bank stock fund balance; and (d) an election to pre-pay a plan loan if the pre-payment will result in allocation of loan proceeds to the Bank stock fund.

Employee Stock Purchase Plan

This Policy does not apply to the purchase of Bank Securities through the Bank's employee stock purchase plan ("***ESPP***") by means of a periodic contribution or lump-sum contribution of money to the plan pursuant to an election made at the time of enrollment in the ESPP.

Other Similar Transactions

Any other purchase of Bank Securities from the Bank or sales of Bank Securities to the Bank are not subject to this Policy.

E. 10b5-1 Plans

Rule 10b5-1 under the Exchange Act provides a defense from insider trading liability if a person enters into a "10b5-1 plan" for trading in securities that meets the requirements of the rule.

Insiders are permitted to enter into 10b5-1 plans with respect to Bank Securities. In general, an Insider may only enter into a 10b5-1 plan when the Insider is not aware of material nonpublic information and only during a trading window. In addition, the Compliance Officer or the Compliance Committee must approve the 10b5-1 plan before the Insider enters into the plan. Insiders are encouraged to submit plans for approval as early as possible.

Once the plan is adopted, the Insider must not exercise any influence over the amount of securities to be traded, the price at which they are to be traded or the date of the trade. The plan must either specify the amount, pricing and timing of transactions in advance or delegate discretion on these matters to an independent third party.

F. Priority of Statutory or Regulatory Trading Restrictions

The trading prohibitions and restrictions set forth in this Policy will be superseded by any greater prohibitions or restrictions prescribed by federal or state securities laws and regulations (e.g., short-swing trading, prohibitions on short sales of Bank securities). Any Insider who is uncertain whether other prohibitions or restrictions apply should ask the Compliance Officer before effectuating any purchase or sale or other transaction in any Bank Securities.

VI. CONSEQUENCES OF VIOLATIONS

The purchase or sale of securities while aware of material nonpublic information, or the disclosure of material nonpublic information to others who then trade in Bank Securities, is prohibited by the federal and state laws. Insider trading violations are pursued vigorously by the SEC, U.S. Attorneys and state enforcement authorities as well as the laws of foreign jurisdictions. Punishment for insider trading violations is severe, and could include significant fines and imprisonment. While the regulatory authorities concentrate their efforts on the individuals who trade, or who tip inside information to others who trade, the federal securities laws also impose potential liability on companies and other "controlling persons" if they fail to take reasonable steps to prevent insider trading by company personnel.

In addition, an individual's failure to comply with this Policy may subject the individual to Bank-imposed sanctions, including dismissal for cause, whether or not the Insider's failure to comply results in a violation of law. Needless to say, a violation of law, or even an SEC investigation that does not result in prosecution, can tarnish a person's reputation and irreparably damage a career.

VII. INQUIRIES

Please direct all inquiries regarding any of the provisions or procedures of this Policy to the Compliance Officer or the Bank's outside legal counsel.

RECEIPT AND ACKNOWLEDGMENT

I, ________________________________, hereby acknowledge that I have received and read a copy of the Summit State Bank Insider Trading Policy and agree to comply with its terms. I understand that violation of any insider trading or tipping laws or regulations may subject me to severe civil and/or criminal penalties, and that violation of the Insider Trading Policy may subject me to discipline by the Bank up to and including termination for cause.

Dated this _____ day of _______________, 20_____.

____
Signature

____
Print Name

EXHIBIT A

Persons holding any of the following offices, titles or positions with Summit State Bank or any of its subsidiaries:

- Board of Directors
- President and Chief Executive Officer
- Chief Financial Officer
- Chief Credit Officer
- Chief Lending Officer
- Chief Operating Officer
- Chief Risk Officer
- Controller
- Director of Information Technology
- Finance Manager
- Corporate Secretary / Executive Assistant to the President/CEO
- Backup Corporate Secretary / Executive Assistant to the COO

ANNEX A

APPLICATION AND CERTIFICATION FORM
FOR TRADING BY INSIDERS

Name	
Title	
Proposed Trade/Transaction Date	
Type of Security to be Traded	
Type of Trade or other Transaction	
Number of Shares to be Traded, Sold or Purchased	
Identify Any Transactions in Bank Securities Completed During the Previous Six Months	

I, ______________________________, hereby certify that (i) I am not in possession of any "material nonpublic information" concerning the Bank (as defined in the Bank's Insider Trading Policy) and (ii) to the best of my knowledge, the proposed trade(s) or other transactions listed above do not violate the trading restrictions of Section 16 of the Securities Exchange Act of 1934. I understand that if I trade while possessing any material inside information relating to the Bank or "tip" or disclose such information to another person in violation of such trading restrictions, I may be subject to severe civil and/or criminal penalties and may be subject to discipline by the Bank up to and including termination for cause.

______________________________ ______________________________
Signature Date

EXHIBIT 31.1
Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.

I, Brian J. Reed, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Summit State Bank (the Registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

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

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

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

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

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent functions):

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

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

Dated: March 28, 2025

/s/ Brian J. Reed
Brian J. Reed
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2
Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.

I, Camille D. Kazarian, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Summit State Bank (the Registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

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

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

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

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

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent functions):

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

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

Dated: March 28, 2025

/s/ Camille D. Kazarian
Camille D. Kazarian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1
Certification pursuant to 18 U.S.C. §1350

In connection with the annual report on Form 10-K of Summit State Bank (the Registrant) for the year ended December 31, 2024, as filed with the Federal Deposit Insurance Corporation, the undersigned hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: March 28, 2025

/s/ Brian J. Reed
Brian J. Reed
President and Chief Executive Officer
(Principal Executive Officer)

Dated: March 28, 2025

/s/ Camille D. Kazarian
Camille D. Kazarian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)