FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2024

or

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

FDIC Certificate No. 32203

Summit State Bank

(Exact Name of Registrant as Specified in its Charter)

California
(State of Incorporation)

94-2878925
(I.R.S. Employer Identification No.)

500 Bicentennial Way, Santa Rosa, CA 95403
(Address of Principal Executive Offices)

707-568-6000
(Registrant's Telephone Number, Including Area Code)

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

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

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

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

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

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

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

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

Yes ☐ No ☐

As of March 15, 2024, there were 6,784,099 shares of common stock outstanding.

SUMMIT STATE BANK

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

	March 31, 2024 (Unaudited)	December 31, 2023 (1)
ASSETS		
Cash and due from banks	$ 37,712	$ 57,789
Investment securities:		
Available-for-sale, less allowance for credit losses of $53 and $58 (at fair value; amortized cost of $96,973 as of March 31, 2024 and $97,034 as of December 31, 2023)	83,832	84,546
Loans, less allowance for credit losses of $15,487 and $15,221	917,685	938,626
Bank premises and equipment, net	5,287	5,316
Investment in Federal Home Loan Bank stock (FHLB), at cost	5,541	5,541
Goodwill	4,119	4,119
Affordable housing tax credit investments	8,165	8,405
Accrued interest receivable and other assets	17,850	18,166
Total assets	$ 1,080,191	$ 1,122,508
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	$ 179,328	$ 201,909
Demand - interest-bearing	222,313	244,748
Savings	48,214	54,352
Money market	222,153	212,278
Time deposits that meet or exceed the FDIC insurance limit	65,763	63,159
Other time deposits	201,431	233,247
Total deposits	939,202	1,009,693
FHLB advances	28,600	-
Junior subordinated debt, net	5,924	5,920
Affordable housing commitment	4,094	4,094
Accrued interest payable and other liabilities	4,493	5,123
Total liabilities	982,313	1,024,830
Commitments and contingencies (Note 6)		
Shareholders' equity		
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 6,784,099 as of March 31, 2024 and 6,784,099 as of December 31, 2023	37,552	37,471
Retained earnings	69,539	68,957
Accumulated other comprehensive loss, net	(9,213)	(8,750)
Total shareholders' equity	97,878	97,678
Total liabilities and shareholders' equity	$ 1,080,191	$ 1,122,508

(1) Information derived from audited financial statements.

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

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

	Three Months Ended	
	March 31, 2024 (unaudited)	**March 31, 2023 (unaudited)**
Interest and dividend income:		
Interest and fees on loans	$ 13,274	$ 12,939
Interest on deposits with banks	362	906
Interest on investment securities	712	719
Dividends on FHLB stock	129	84
Total interest and dividend income	14,477	14,648
Interest expense:		
Deposits	6,786	4,400
FHLB advances	190	119
Junior subordinated debt	94	94
Total interest expense	7,070	4,613
Net interest income before provision for credit losses	7,407	10,035
(Reversal of) provision for credit losses on loans	(15)	400
(Reversal of) provision for credit losses on unfunded loan commitments	(65)	(33)
(Reversal of) provision for credit losses on investments	(5)	-
Net interest income after provision for (reversal of) credit losses on loans, unfunded loan commitments and investments	7,492	9,668
Non-interest income:		
Service charges on deposit accounts	233	208
Rental income	60	39
Net gain on loan sales	514	1,435
Other income	141	279
Total non-interest income	948	1,961
Non-interest expense:		
Salaries and employee benefits	4,182	3,793
Occupancy and equipment	485	452
Other expenses	1,733	1,573
Total non-interest expense	6,400	5,818
Income before provision for income taxes	2,040	5,811
Provision for income taxes	645	1,695
Net income	$ 1,395	$ 4,116
Basic earnings per common share	$ 0.21	$ 0.62
Diluted earnings per common share	$ 0.21	$ 0.62
Basic weighted average shares of common stock outstanding	6,698	6,688
Diluted weighted average shares of common stock outstanding	6,698	6,688

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

SUMMIT STATE BANK
STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended	
	March 31, 2024 (unaudited)	March 31, 2023 (unaudited)
Net income	$ 1,395	$ 4,116
Change in securities available-for-sale:		
Unrealized holding (losses) gains on available-for-sale securities arising during the period	(658)	1,121
Net unrealized (losses) gains, before provision for income tax	(658)	1,121
Income tax benefit (expense)	195	(332)
Total other comprehensive (loss) income, net of tax	(463)	789
Comprehensive income	$ 932	$ 4,905

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

SUMMIT STATE BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Three Months Ended
March 31, 2023 and 2024
(Unaudited)

(In thousands except per share data)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, January 1, 2023	6,732,699	$ 37,179	$ 61,386	$ (10,019)	$ 88,546
Net income	-	-	4,116	-	4,116
Other comprehensive income, net of tax	-	-	-	789	789
Stock based compensation - restricted stock	-	38	-	-	38
Cash dividends - $0.12 per share	-	-	(824)	-	(824)
Balance, March 31, 2023	6,732,699	$ 37,217	$ 64,678	$ (9,230)	$ 92,665
Balance, January 1, 2024	6,784,099	$ 37,471	$ 68,957	$ (8,750)	$ 97,678
Net income	-	-	1,395	-	1,395
Other comprehensive loss, net of tax	-	-	-	(463)	(463)
Stock based compensation - restricted stock	-	81	-	-	81
Cash dividends - $0.12 per share	-	-	(813)	-	(813)
Balance, March 31, 2024	6,784,099	$ 37,552	$ 69,539	$ (9,213)	$ 97,878

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

SUMMIT STATE BANK
STATEMENTS OF CASH FLOWS

(In thousands)	Three Months Ended March 31, 2024 (unaudited)	Three Months Ended March 31, 2023 (unaudited)
Cash flows from operating activities:		
Net income	$ 1,395	$ 4,116
Adjustments to reconcile net income to net cash from (used in) operating activities:		
Depreciation and amortization	102	94
Securities amortization and accretion, net	(8)	(2)
Accretion of net deferred loan fees	(445)	(826)
(Reversal of) provision for credit losses on loans	(15)	400
(Reversal of) provision for credit losses on unfunded loan commitments	(65)	(33)
Reversal of credit losses on investments	(5)	-
Net gain on loan sales	(514)	(1,435)
Amortization of debt issuance cost related to junior subordinated debt	4	4
Amortization of affordable housing tax credit investment	240	108
Net change in accrued interest receivable and other assets	511	1,900
Net change in accrued interest payable and other liabilities	49	(6,766)
Share-based compensation expense	(533)	(361)
Net cash from (used in) operating activities	716	(2,801)
Cash flows from investing activities:		
Proceeds from calls and maturities of available-for-sale investment securities	69	67
Loan origination and principal collections, net	12,031	(20,553)
Proceeds from sales of loans other than loans originated for resale	9,884	28,498
Purchases of bank premises and equipment, net	(73)	(140)
Cash paid for affordable housing tax credit commitment	-	(242)
Net cash provided by investing activities	21,911	7,630
Cash flows from (used in) financing activities:		
Net change in demand, savings and money market deposits	(41,279)	(1,912)
Net change in certificates of deposit	(29,212)	54,909
Net change in short term FHLB advances	28,600	(18,000)
Dividends paid on common stock	(813)	(824)
Net cash (used in) from financing activities	(42,704)	34,173
Net change in cash and cash equivalents	(20,077)	39,002
Cash and cash equivalents at beginning of period	57,789	77,567
Cash and cash equivalents at end of period	$ 37,712	$ 116,569
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 7,187	$ 4,063
Non-Cash Investing and Financing Activities:		
Net unrealized (losses) gains on available-for-sale securities	$ (658)	$ 1,121

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

SUMMIT STATE BANK

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

The financial statements as of March 31, 2024 and for the three months ended March 31, 2024 and 2023 are unaudited. In the opinion of management, these unaudited financial statements contain all adjustments, consisting only of normal recurring accruals necessary to present fairly the financial statements of the Bank.

The accompanying unaudited interim financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles for interim financial information and Article 8 of Regulation S-X of the Securities and Exchange Commission. Operating results for the three months ended March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024. These unaudited financial statements do not include all disclosures associated with the Bank’s annual financial statements and notes thereto and accordingly, should be read in conjunction with the financial statements and notes thereto included in the Bank’s Annual Report for the year ended December 31, 2023 on Form 10-K, on file with the FDIC (the Form 10-K may also be found at www.summitstatebank.com).

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

Use of Estimates

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

Operating Segments

While the Bank’s chief decision makers monitor the revenue streams of the Bank’s various products and services, operations are managed, and financial performance is evaluated on a bankwide basis. Operating segments are aggregated into one segment for purposes of financial reporting.

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 of 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 9 Fair Value for a more complete discussion of accounting for the fair value of financial instruments.) Realized gains and losses on sale are computed on the specific identification method and are included in earnings on the trade date.

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

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

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

A debt security is placed on nonaccrual status at the time any principal or interest payments become greater than 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. There were no accrued interest amounts reversed against interest income for the three months ended March 31, 2024 or 2023. Accrued interest receivable on available-for-sale debt securities totaled $730,000 at March 31, 2024 compared to

$551,000 at December 31, 2023 and is excluded from the estimate of credit losses as of March 31, 2024 and December 31, 2023.

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

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

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

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

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

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

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

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

- Economic Forecast Scenarios – In order to produce a reasonable and supportable forecast, the Bank utilizes multiple economic forecasts to determine the appropriate level of life of loan loss reserves. The Bank will forecast out for 13 quarters and revert back to a straight-line historical average beyond this timeframe. At least annually, individual economic forecast scenarios are analyzed and selected by management based on current and expected economic activity.

- Economic Forecast Weighting – In order to produce a reasonable and supportable forecast, the Bank utilizes multiple economic forecasts to determine the appropriate level of life of loan loss reserves. At least annually, each individual economic forecast scenario is analyzed by management to evaluate the appropriate weighting based on current and expected economic activity. The sum of all weights will always total 100%.
- Near-term Loan Loss Stabilization – In order to produce a loan loss provision, management reviews the loan loss estimate of the CECL model for reasonableness and may make adjustments to estimated loss reserves in the near term based on known factors in the current portfolio.

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

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

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

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.

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 statements of condition at fair value with changes in fair value recorded in other income – loan servicing 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.

The Bank's servicing rights accounted for under the fair value method are initially recorded at fair value. However, these servicing rights are amortized in proportion to and over the period of estimated net servicing income. An impairment analysis is prepared on a quarterly basis by estimating the fair value of the mortgage servicing rights and comparing that value to the carrying amount. A valuation allowance is established when the carrying amount of these mortgage servicing rights exceeds fair value.

Loan Sales

Non-interest income generated from gain on loan sales is a secondary contributor to net income. The Bank generates Small Business Administration ("SBA") and United States Department of Agriculture ("USDA") loans, and the guaranteed portion of these loans are generally eligible to be sold in the secondary market. Loans where the guaranteed balance is sold at a premium are recorded as a gain on loan sales whereas discounts are recorded as a loss on loan sales. The Bank determines each quarter if it will be selling any loans and which loans it will sell. The decision to sell a loan is variable and can be determined based on how loan sales will contribute to net income, reduce loan concentrations, and/or address liquidity needs.

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. As of March 31, 2024 the Bank's ownership percentage is 13.4%. The investment is in qualified affordable housing tax credit funds and is accounted for using the proportional amortization method, where the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received. Low-income housing tax credits and other tax benefits received, net of the amortization of the investment, is recognized as part of provision for income taxes. The partnership must meet the regulatory minimum requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. If the partnership ceases to qualify during the compliance period, the credit may be denied for any period in which the project is not in compliance, and a portion of the credit previously taken is subject to recapture with interest. The Bank will record an impairment charge if the value of the future tax credits, and other tax benefits is less than the carrying value of the investment. The investment totaled $8,165,000 and $8,405,000 at March 31, 2024 and December 31, 2023. The unfunded commitments for low-income housing tax credit funds totaled $4,094,000 at March 31, 2024and December 31, 2023. The Bank did not recognize any impairment losses on these low-income housing tax credit investments during the three month periods ending March 31, 2024 and 2023as the value of the future tax benefits exceeds the carrying value of the investments.

Federal Home Loan Bank Borrowings

The Bank can utilize FHLB advances to manage balance sheet liquidity. Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The line was collateralized by $438,222,000 and $434,689,000 of loans under a blanket lien arrangement at March 31, 2024 and December 31, 2023, respectively. Based on this collateral, the Bank was eligible to borrow up to a total of $253,220,000 and $249,997,000 of which $184,615,000 and $209,991,000 was available for additional advances as of March 31, 2024 and December 31, 2023, respectively.

Reserve and Provision for Undisbursed Loan Commitments ("Unfunded Reserve")

The Unfunded Reserve represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit (available balance on lines of credit including construction lines of credit) and standby letters of credit. The Unfunded Reserve is recognized as a liability within accrued interest payable and other liabilities in the balance sheets, with adjustments to the reserve recognized in the provision for (reversal of) credit losses on unfunded loan commitments 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 the expected loss rates on those draws by loan pool.

Earnings Per Common Share

Basic earnings per common share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing income available to common shareholders by the weighted-average common shares outstanding plus the weighted average number of dilutive shares for the period. The Bank has two forms of outstanding common stock: common stock and unvested restricted stock awards. Holders of unvested restricted stock awards receive forfeitable dividends at the same rate as common shareholders. Stock options or unvested restricted stock awards that are considered anti-dilutive, such as options whose exercise prices exceed the current common stock price, are not included in computing diluted earnings per share as they would not reduce EPS under the treasury method. Stock options for 86,000 shares of common stock for the three months ended March 31, 2024 were not considered in computing diluted earnings per share because they were anti-dilutive. Stock options for 45,000 shares of common stock for the three months ended March 31, 2023 were not considered in computing diluted earnings per share because they were anti-dilutive.

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

	Three Months Ended	
(in thousands except earnings per share)	**March 31, 2024**	**March 31, 2023**
Basic		
Net income	$ 1,395	$ 4,116
Weighted average common shares outstanding (1)	6,698	6,688
Basic earnings per common share	$ 0.21	$ 0.62
Diluted		
Net income	$ 1,395	$ 4,116
Weighted average common shares outstanding for basic earnings per common share (1)	6,698	6,688
Add: Dilutive effects of assumed exercises of stock options and restricted stock awards	-	-
Average shares and dilutive potential common shares	6,698	6,688
Diluted earnings per common share	$ 0.21	$ 0.62

(1) excludes unvested RSAs

Accounting Standards Pending Adoption

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, enhanced interim disclosure requirements, clarifying circumstances in which an entity can disclose multiple segments measures of profit or loss, providing new segment disclosure requirements for entities with a single reportable segment, and requiring other disclosures. The provisions of this ASU are effective for fiscal years beginning after December 15, 2023 (i.e., 2024 Form 10-K), and interim periods within fiscal years beginning after December 15, 2024. The amendments in this ASU should be applied retrospectively to all prior periods presented in the financial statements. Early adoption is permitted. The amendments in this ASU is not expected to have a material impact on the Bank's consolidated financial statements or results of operations.

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.

2. INVESTMENT SECURITIES – AVAILABLE-FOR-SALE

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

	March 31, 2024				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
Government agencies	$ 62,296	$ -	$ (10,189)	$ -	$ 52,107
Mortgage-backed securities - residential	9,241	-	(1,634)	-	7,607
Corporate debt	25,436	20	(1,285)	(53)	24,118
Total investment securities available-for-sale	$ 96,973	$ 20	$ (13,108)	$ (53)	$ 83,832

	December 31, 2023				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
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 available-for-sale	$ 97,034	$ 51	$ (12,481)	$ (58)	$ 84,546

The unrealized loss on the investment portfolio including asset backed securities, corporates, and agencies 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 securities that have a total par value of $750,000. These securities are below investment grade and after a separate evaluation was performed, management determined these investments will be separately reserved. This determination was due to a continued and significant deterioration in the credit rating and the significantly negative impact current economic factors are projected to have on future earnings potential, asset quality, liquidity and projected cash flows. The Bank continues to monitor all its securities for changes in credit rating or other indications of credit deterioration.

Management has concluded the decline in fair value of its investment securities is attributable to changes in short-term interest rates, market shifts of the treasury yield curve and other variable market and economic conditions. Except for the two securities mentioned above, management further concludes unrealized losses did not result from any significant or persistent deterioration in the underlying credit quality of any of the investments, the portfolio consists primarily of debt securities with non-contingent contractual cash flows, and full realization of the principal balance is expected upon final maturity. The Bank has no specific plans to sell any of its securities in an unrealized loss position, is not anticipating it will be required to sell these securities prior to full recovery and has the intent and ability to hold the securities until it receives full recovery, which could be at the final maturity or prior to maturity for investments with a make-whole call provision. The Bank has determined two of the individual unrealized losses as of March 31, 2024 could result in a credit loss and the Bank has recorded an allowance for credit losses of $53,000 as of March 31, 2024 and $58,000 as of December 31, 2023.

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

	March 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	$ -	$ -	$ 52,107	$ (10,189)	$ 52,107	$ (10,189)
Mortgage-backed securities - residential	-	-	7,607	(1,634)	7,607	(1,634)
Corporate debt	1,623	(21)	20,152	(1,264)	21,775	(1,285)
Total investment securities	$ 1,623	$ (21)	$ 79,866	$ (13,087)	$ 81,489	$ (13,108)

	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)

At March 31, 2024, the Bank held three investment securities in an unrealized loss position for less than 12 months and seventy-eight investment securities in an unrealized loss position greater than 12 months.

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, 2023	$ -	$ -	$ 58
Additions for securities for which no previous expected credit losses were recognized	-	-	-
Additional increase (decrease) on securities that previously had an allowance	-	-	(5)
Write-offs charged against the allowance	-	-	-
Recoveries of amounts previously written-off	-	-	-
Balance, March 31, 2024	$ -	$ -	$ 53

At March 31, 2024, investment securities with a fair value of $8,145,000 were pledged to secure public deposits and represented 9.7% of the investment portfolio. At December 31, 2023, investment securities with a fair value of $8,215,000, or 9.7% of the investment portfolio, were pledged.

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

(in thousands)	Amortized Cost	Estimated Fair Value
Within one year	$ 8,003	$ 7,956
After one year through five years	27,213	26,049
After five years through ten years	15,527	14,311
After ten years	36,989	27,909
	87,732	76,225
Investment securities not due at a single maturity date:		
Mortgage-backed securities - residential	9,241	7,607
	$ 96,973	$ 83,832

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

3. LOANS

Outstanding loans are summarized as follows:

(in thousands)	March 31, 2024	December 31, 2023
Commercial & agricultural (1)	$ 135,327	$ 133,389
Real estate - commercial	687,030	697,319
Real estate - construction and land	14,422	23,773
Real estate - single family	57,722	58,808
Real estate - multifamily	38,647	40,547
Consumer & lease financing (2)	24	11
	933,172	953,847
Allowance for credit losses	(15,487)	(15,221)
	$ 917,685	$ 938,626

(1) Includes loans secured by farmland. Also includes all PPP loans, totaling $2,635 as of March 31, 2024 and $3,128 as of December 31, 2023.

(2) Consumer & lease financing includes overdrafts of $22 as of March 31, 2024 and $9 as of December 31, 2023.

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

Commercial and Agricultural Loans – Commercial and agricultural credit is extended to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, farmland, or other projects. 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.

In 2021 the Bank participated in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). PPP loans have terms of two to five years and earn interest at 1%. In addition, the SBA paid the Bank a fee of 1%-5% depending on the loan amount, which was netted with loan origination costs and accreted/amortized into interest income using the effective yield method over the contractual life of each loan. The recognition of fees and costs is accelerated when the SBA forgives the loan and/or the loan is paid off prior to maturity. PPP loans are fully guaranteed by the SBA and have virtually no risk of loss. As expected, a majority of PPP loans were forgiven by the SBA and the Bank has $2,635,000 in remaining PPP loan balances, or 0.3% of total loans, as of March 31, 2024. The remaining PPP loans are not eligible to be forgiven so they will continue to be paid down by the customer in accordance with the terms of the agreement.

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

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

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

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

Consumer and Lease Financing Loans – The Bank does not fund consumer loans with the exception of temporary loans to fund overdrafts and maintaining a small legacy portfolio. The balance in this category will adjust based on changes in investment provisions or reversals and increases or decreases to overdrafts. 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 class for the three months ended March 31, 2024 and 2023 are as follows:

	Three Months Ended March 31, 2024				
(in thousands)	Balance at December 31, 2023	Provision (reversal)	Charge-offs	Recoveries	Balance at March 31, 2024
Commercial & agricultural	$ 1,395	$ (6)	$ -	$ 281	$ 1,670
Real estate - commercial	8,812	1,010	-	-	9,822
Real estate - construction and land	3,413	(1,127)	-	-	2,286
Real estate - single family	721	36	-	-	757
Real estate - multifamily	634	33	-	-	667
Consumer, lease financing & other	246	39	-	-	285
Total	$ 15,221	$ (15)	$ -	$ 281	$ 15,487

	Three Months Ended March 31, 2023				
(in thousands)	Balance at December 31, 2022	Provision (reversal)	Charge-offs	Recoveries	Balance at March 31, 2023
Commercial & agricultural	$ 972	$ 140	$ -	$ 13	$ 1,125
Real estate - commercial	5,858	922	-	-	6,780
Real estate - construction and land	6,748	(806)	-	-	5,942
Real estate - single family	558	65	-	-	623
Real estate - multifamily	462	70	-	-	532
Consumer, lease financing & other	241	9	-	-	250
Total	$ 14,839	$ 400	$ -	$ 13	$ 15,252

For the three months ending March 31, 2024, the ACL for commercial real estate loans increased $1,010,000 due to an updated analysis of individually assessed loans. The ACL for real estate – construction and land loans decreased $1,127,000 due to paydowns on existing loan balances. The ACL for commercial & agricultural, real estate – single family, real estate – multifamily and consumer loans changed nominally.

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

	March 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	$ 8,948	$ -	$ -	$ -	$ -	$ -	$ 8,948	$ 1,080
Commercial Office	-	6,449	-	-	-	-	6,449	1,318
Hotel/Motel	-	260	-	-	-	-	260	-
Mixed Use	-	858	-	-	-	-	858	
UCC Blanket	3,767	-	-	-	-	-	3,767	1,194
UCC Crops	540	-	-	-	-	-	540	-
Unsecured	41	-	-	-	-	-	41	-
Vineyard	7,496	-	-	-	-	-	7,496	-
Winery Property	14,640	-	-	-	-	-	14,640	-
Total collateral dependent loans	**$ 35,432**	**$ 7,567**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 42,999**	**$ 3,592**

	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	-
Vineyard	7,531	-	-	-	-	-	7,531	-
Winery Property	11,841	-	-	-	-	-	11,841	-
Total collateral dependent loans	**$ 32,641**	**$ 12,139**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 44,780**	**$ 1,698**

Accrued interest receivable for the total loan portfolio was $3,082,000 and $3,152,000 and net deferred loan fees were $2,579,000 and $2,399,000 as of March 31, 2024 and December 31, 2023, respectively.

The following table represents the accrued interest receivable written off by reversing interest income during the three months ended March 31, 2024 and March 31, 2023.

	Three Months Ended	
(in thousands)	**March 31, 2024**	**March 31, 2023**
Commercial & agricultural (1)	$ -	$ -
Real estate - commercial	90	134
Real estate - construction and land	-	-
Real estate - single family	-	-
Real estate - multifamily	-	-
Consumer & lease financing (2)	-	-
Total	$ 90	$ 134

The following table presents the interest recognized on collateral dependent loans for the three month periods ending March 31, 2024 and March 31, 2023:

(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total
March 31, 2024							
Interest income recognized on collateral dependent loans during the three months ended	$ 179	$ 69	$ -	$ -	$ -	$ -	$ 248
March 31, 2023							
Interest income recognized on collateral dependent loans during the three months ended	$ 109	$ -	$ -	$ -	$ -	$ -	$ 109

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 March 31, 2024 and December 31, 2023:

	March 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	$ 11,911	$ 22,928	$ 34,839	$ -	$ 3,052	$ 28,967	$ 32,019	$ 48
Real estate - commercial	6,449	260	6,709	-	6,449	5,690	12,139	-
Real estate - construction and land	-	-	-	-	-	-	-	-
Real estate - single family	-	-	-	-	-	-	-	-
Real estate - multifamily	-	-	-	-	-	-	-	-
Consumer & lease financing	-	-	-	-	-	-	-	-
Total	$ 18,360	$ 23,188	$ 41,548	$ -	$ 9,501	$ 34,657	$ 44,158	$ 48

Interest income recognized on non-accrual loans totaled $230,000 for the three months ended March 31, 2024 and $109,000 for the three months ended March 31, 2023.

The following table presents the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of March 31, 2024, by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ 2,672	$ -	$ 32,435	$ 35,107	$ 100,220	$ 135,327
Real estate - commercial	6,141	260	6,449	12,850	674,180	687,030
Real estate - construction and land	-	-	-	-	14,422	14,422
Real estate - single family	-	-	-	-	57,722	57,722
Real estate - multifamily	-	-	-	-	38,647	38,647
Consumer & lease financing	-	-	-	-	24	24
Total	$ 8,813	$ 260	$ 38,884	$ 47,957	$ 885,215	$ 933,172

The following table presents the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of December 31, 2023 by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ 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.

For the three months ended March 31, 2024 and 2023, there were no loan modifications to borrowers experiencing financial difficulty. For the three months ended March 31, 2024 and 2023, there were no payment defaults on modified loans to borrowers experiencing financial difficulty.

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:

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

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

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

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

The following tables present the Bank's portfolio by loan type, risk category, and year of origination, as of March 31, 2024. Revolving loans that are converted to term loans are treated as new originations in the table below:

(in thousands)	March 31, 2024							
	Term Loans by Year of Origination						Revolving	
	2024	2023	2022	2021	2020	Prior	Loans	Total Loans
Commercial & agricultural								
Risk Rating								
Pass	$ 4,515	$ 8,098	$ 10,579	$ 12,320	$ 7,755	$ 31,809	$ 18,536	$ 93,612
Special Mention	-	-	330	721	-	3,787	1,445	6,283
Substandard	-	41	977	-	1,173	28,107	5,134	35,432
Doubtful	-	-	-	-	-	-	-	-
Total Commercial & agricultural	$ 4,515	$ 8,139	$ 11,886	$ 13,041	$ 8,928	$ 63,703	$ 25,115	$ 135,327
Real estate - commercial								
Risk Rating								
Pass	$ 5,929	$ 86,849	$ 193,849	$ 133,744	$ 85,619	$ 150,642	$ 11,898	$ 668,530
Special Mention	-	-	796	1,324	852	7,961	-	10,933
Substandard	-	-	-	260	-	7,307	-	7,567
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - commercial	$ 5,929	$ 86,849	$ 194,645	$ 135,328	$ 86,471	$ 165,910	$ 11,898	$ 687,030
Real estate - construction and land								
Risk Rating								
Pass	$ -	$ 206	$ 350	$ 8,268	$ 511	$ 5,087	$ -	$ 14,422
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - construction and land	$ -	$ 206	$ 350	$ 8,268	$ 511	$ 5,087	$ -	$ 14,422
Real estate - single family								
Risk Rating								
Pass	$ -	$ 718	$ 6,421	$ 6,423	$ 22,220	$ 19,644	$ 2,296	$ 57,722
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - single family	$ -	$ 718	$ 6,421	$ 6,423	$ 22,220	$ 19,644	$ 2,296	$ 57,722
Real estate - multifamily								
Risk Rating								
Pass	$ -	$ 1,866	$ 2,534	$ 5,377	$ 13,017	$ 15,485	$ 368	$ 38,647
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - multifamily	$ -	$ 1,866	$ 2,534	$ 5,377	$ 13,017	$ 15,485	$ 368	$ 38,647
Consumer & lease financing (1)								
Risk Rating								
Pass	$ 22	$ -	$ -	$ -	$ -	$ 2	$ -	$ 24
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Consumer & lease financing (1)	$ 22	$ -	$ -	$ -	$ -	$ 2	$ -	$ 24
Current-period gross writeoffs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) Consumer & lease financing includes overdrafts of $22 as of March 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:

December 31, 2023								
(in thousands)	Term Loans by Year of Origination						Revolving	
	2023	2022	2021	2020	2019	Prior	Loans	Total Loans
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 writeoffs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

Pledged Loans

The Bank maintains two lines of credit where the line is secured by pledging qualifying loans with unpaid principal balances. The first line is held at the Federal Home Loan Bank (FHLB) and secured under terms of a blanket collateral agreement; loans with unpaid principal balances of $438,222,000 at March 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 $240,485,000 at March 31, 2024 and $ 254,711,000 at December 31, 2023 secure the line of credit with FRB.

Related Party Loans

The Bank has, and expects to have, in the future, banking transactions in the ordinary course of its business with 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. Prior to August 1, 2020, non-employee Directors were also eligible to participate in the Bank's Employee Loan Program; after August 1, 2020, non-employee Directors are no longer eligible to participate in this program. 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 at the same time for comparable transactions with other persons of similar creditworthiness not related to the Bank. These transactions do not involve more than the normal risk of collectability or present other unfavorable features. Loans to individual non-employee Directors and Executive Officers must comply with the Bank's lending policies and statutory lending limits. In addition, in some cases, prior approval of the Bank's Board of Directors must be obtained for such loans, as required by federal and state regulations applicable to the Bank.

Related party loans totaled $3,063,000 at March 31, 2024 and $3,574,000 at December 31, 2023. Undisbursed commitments to related parties were $500,000 at March 31, 2024 and $500,000 at December 31, 2023.

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

(in thousands)	2024
Balance, January 1	$ 3,574
New borrowings	76
Amounts repaid	(587)
Balance, March 31	$ 3,063
Undisbursed commitments to related parties	$ 500

4. 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 non-interest income. 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)		March 31, 2024	December 31, 2023
Operating Leases	**Classification**		
Lease right-of-use assets	Accrued Int Rec & Other Assets	$ 814	$ 923
Lease liabilities	Accrued Int Payable & Other Liabilities	871	980
Financing Leases			
Lease right-of-use assets	Bank Premises & Equip	$ 13	$ 14
Lease liabilities	Accrued Int Payable & Other Liabilities	13	14

The following table represents lease costs for the three months ended March 31, 2024 and 2023:

	Three Months Ended	
(in thousands)	March 31, 2024	March 31, 2023
Lease Costs		
Operating lease cost	$ 120	$ 118
Financing lease cost		
Interest on lease liabilities	-	-
Amortization of right-of-use assets	1	2
Rental income	(60)	(39)
Net lease cost	$ 61	$ 81

	Three Months Ended	
(in thousands)	March 31, 2024	March 31, 2023
Other Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 123	$ 119
Operating cash flows from finance leases	-	-
Financing cash flows from finance leases	1	2
Noncash investing and financing activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	$ -	$ -
Right-of-use assets obtained in exchange for financing lease liabilities	-	-

	March 31, 2024
Weighted-average remaining lease term	
Operating leases	3.0 years
Financing leases	2.4 years
Weighted-average discount rate	
Operating leases	3.25%
Financing leases	2.71%

Rent expense for the three months ended March 31, 2024 was $133,000 compared to $129,000 for the same period in 2023.

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

(in thousands)				
Twelve Months Ended:		**Operating Leases**		**Financing Leases**
March 31, 2025	$	408	$	6
March 31, 2026		231		6
March 31, 2027		146		2
March 31, 2028		151		-
March 31, 2029		-		-
Thereafter		-		-
Total Future Minimum Lease Payments		936		14
Amounts Representing Interest		(65)		(1)
Present Value of Net Future Minimum Lease Payments	$	871	$	13

5. BORROWINGS AND OTHER OBLIGATIONS

<u>Federal Home Loan Bank Borrowings</u>

The Bank uses FHLB advances to manage balance sheet liquidity. Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The line was collateralized by $438,222,000 and $434,689,000 of loans under a blanket lien arrangement at March 31, 2024 and December 31, 2023. Based on this collateral, the Bank was eligible to borrow up to a total of $253,220,000 and $249,997,000 of which $184,615,000 and $209,991,000 was available for additional advances as of March 31, 2024 and December 31, 2023, respectively.

Advances outstanding from the FHLB were $28,600,000 at March 31, 2024 and there were no advances outstanding at December 31, 2023.

At March 31, 2024, FHLB advances are scheduled to mature as follows:

(in thousands)	Weighted Average Interest Rate		March 31, 2024
Due on or before March 31, 2025	5.69%	$	28,600
		$	28,600

Federal Reserve Line of Credit

The Bank has a secured line of credit with the Federal Reserve Bank of San Francisco secured by certain agricultural, real estate, construction, and land loans. The line was collateralized by $240,485,000 and $254,711,000 of loans under a Borrower-in-Custody arrangement at March 31, 2024 and December 31, 2023, respectively. The Bank had borrowing capacity under this line totaling $105,187,000 and $107,467,000 at March 31, 2024 and December 31, 2023, respectively, and had no outstanding borrowings with the Federal Reserve Bank at either period end date.

Federal Funds Purchased – Unsecured Borrowings

The Bank has an unsecured line of credit with a correspondent bank for overnight borrowings totaling $15,000,000 at March 31, 2024 and December 31, 2023. In general, the interest rate on this line approximates the federal funds target rate. The Bank had no overnight borrowing under this credit facility as of March 31, 2024 or December 31, 2023.

Subordinated Debenture

On June 28, 2019, the Bank completed a private placement of $6,000,000 in fixed-to-floating rate subordinated notes (the "Notes") to support organic growth and for general corporate purposes. The Notes are for a 10-year term and have been structured to qualify as Tier 2 capital for regulatory purposes. The Notes bear interest at a fixed rate of 6.0% per annum for the first half of the term and adjust to a floating rate tied to SOFR beginning July 1, 2024. Interest is payable quarterly in arrears and due on March 31, June 30, September 30, and December 31 of each year through the maturity date. The Notes are 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 unamortized debt issuance cost which totaled $76,000 and $80,000 at March 31, 2024 and December 31, 2023.

Other Obligations

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

6. COMMITMENTS AND CONTINGENCIES

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

The Bank's business activity is primarily with clients located within Northern California. Although the Bank has a diversified loan portfolio, a significant portion of its clients' ability to repay loans is dependent upon the real estate market and various economic factors within Sonoma County. Generally, loans are secured by various forms of collateral. The Bank's credit policy requires sufficient collateral to be obtained as necessary to meet the Bank's relative risk criteria for each borrower. The Bank's collateral for the lending portfolio consists primarily of real estate, accounts receivable, inventory and other financial instruments. At March 31, 2024, loans with real estate collateral approximated $797,821,000 or 85% of the loan portfolio compared to $898,168,000 or 94% at December 31, 2023.

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

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

Commitments to extend credit, which totaled $90,737,000 and $98,509,000 at March 31, 2024 and December 31, 2023, respectively, are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held relating to these commitments varies, but may include securities, equipment, accounts receivable, inventory and deeds of trust on residential real estate and owner-occupied or income-producing commercial properties.

Standby letters of credit, which totaled $23,200,000 at March 31, 2024 and $23,275,000 at December 31, 2023, 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 March 31, 2024 and December 31, 2023. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

7. SHAREHOLDERS’ EQUITY

Regulatory Capital

At March 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:

(in thousands)	March 31, 2024 Amount	Ratio	December 31, 2023 Amount	Ratio
Common Equity Tier 1 Capital Ratio				
Summit State Bank	$ 99,448	10.4%	$ 98,690	9.9%
Minimum requirement with capital conservation buffer	$ 67,140	7.0%	$ 69,760	7.0%
Minimum requirement for "Well-Capitalized" institution	$ 62,344	6.5%	$ 64,778	6.5%
Minimum regulatory requirement	$ 43,161	4.5%	$ 44,846	4.5%
Tier 1 Capital Ratio				
Summit State Bank	$ 99,448	10.4%	$ 98,690	9.9%
Minimum requirement with capital conservation buffer	$ 81,527	8.5%	$ 84,709	8.5%
Minimum requirement for "Well-Capitalized" institution	$ 76,731	8.0%	$ 79,726	8.0%
Minimum regulatory requirement	$ 57,548	6.0%	$ 59,795	6.0%
Total Capital Ratio				
Summit State Bank	$ 117,408	12.2%	$ 117,105	11.8%
Minimum requirement with capital conservation buffer	$ 100,709	10.5%	$ 104,641	10.5%
Minimum requirement for "Well-Capitalized" institution	$ 95,914	10.0%	$ 99,658	10.0%
Minimum regulatory requirement	$ 76,731	8.0%	$ 79,726	8.0%
Tier 1 Leverage Ratio				
Summit State Bank	$ 99,448	9.2%	$ 98,690	8.9%
Minimum requirement for "Well-Capitalized" institution	$ 54,016	5.0%	$ 55,766	5.0%
Minimum regulatory requirement	$ 43,213	4.0%	$ 44,613	4.0%

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 March 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. There were no awards granted during the three months ended March 31, 2024 or March 31, 2023.

Stock-Based Compensation Plans – Stock Appreciation Rights

Prior to 2021, the Bank granted Stock Appreciation Rights “SARs” to executive officers and directors. SARs provide long-term incentives to the employees and directors by providing a cash payment for the difference between the market price of the Bank’s common stock at time of exercise and the price at the grant date. SARs expire ten years from the date of grant, and typically have an annual vesting of 20% per year, unless otherwise approved by the Board of Directors. SARs granted to the Board of Directors typically vested immediately in their entirety or partially vest immediately with annual vesting for the next two years; these SARs also have an expiration of ten 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 SARs as of the report date. The Bank discontinued issuing SARs beginning 2021 and instead has been issuing RSAs; because of this there were no SAR grants for the three months ended March 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.

At March 31, 2024 and December 31, 2023, the total SAR liability was $292,000 and $907,000, respectively. The total expense accrued for the three months ending March 31, 2024 related to SARs was $(410,000) related to employee SARs which is reflected in the Salaries and Benefits line of the statements of income and $(204,000) related to director SARs which is reflected in the Other Expenses line of the statements of income. For the three months ended March 31, 2023, total expense accrued was $(166,000) related to employee SARs and $(233,000) related to director SARs. The decrease in the SAR liability at March 31, 2024 is due to the Bank’s stock price decreasing to $10.85 at March 31, 2024 compared to $12.30 at December 31, 2023.

There were SAR agreements based on 295,020 common shares as of March 31, 2024 and December 31, 2023. Of the SAR agreements, there were 268,620 vested and 26,400 unvested as of March 31, 2024 and 265,100 vested and 29,920 unvested as of December 31, 2023.

Stock Appreciation Rights

March 31, 2024
(In thousands except per share data)

Outstanding Rights					Exercise Price	Fair Value		Vested Expense Three Months Ended	
Vested	Unvested	Forfeited	Total	Settlement Date	at Grant	December 31, 2023	March 31, 2024	March 31, 2024	Cumulative
27,500	-	-	27,500	December 2016	$ 10.545	$ 2.852	$ 0.812	$ (56)	$ 22
22,000	-	-	22,000	December 2017	$ 11.364	$ 3.190	$ 0.834	$ (52)	$ 18
62,700	-	-	62,700	August 2018	$ 14.273	$ 2.168	$ 0.581	$ (100)	$ 36
33,000	-	-	33,000	December 2018	$ 10.527	$ 4.117	$ 1.534	$ (85)	$ 51
37,400	-	-	37,400	October 2019	$ 10.718	$ 4.202	$ 1.525	$ (100)	$ 57
35,200	8,800	-	44,000	December 2019	$ 11.627	$ 3.757	$ 1.228	$ (89)	$ 43
3,300	-	-	3,300	January 2020	$ 11.786	$ 3.687	$ 1.185	$ (8)	$ 4
21,120	-	(880)	20,240	February 2020	$ 11.273	$ 3.994	$ 1.181	$ (45)	$ 25
26,400	17,600	-	44,000	December 2020	$ 11.018	$ 4.330	$ 1.349	$ (79)	$ 36
268,620	26,400	(880)	294,140					$ (614)	$ 292

March 31, 2023
(In thousands except per share data)

Outstanding Rights				Exercise Price	Fair Value		Vested Expense Three Months Ended	
Vested	Unvested	Total	Grant Date	at Grant	December 31, 2022	March 31, 2023	March 31, 2023	Cumulative
27,500	-	27,500	December 2016	$ 10.545	$ 5.700	$ 3.851	$ (51)	$ 106
22,000	-	22,000	December 2017	$ 11.364	$ 5.125	$ 3.427	$ (37)	$ 75
66,000	-	66,000	August 2018	$ 14.273	$ 3.499	$ 2.095	$ (93)	$ 138
26,400	6,600	33,000	December 2018	$ 10.527	$ 5.728	$ 3.908	$ (48)	$ 103
40,700	-	40,700	October 2019	$ 10.718	$ 5.686	$ 3.817	$ (76)	$ 155
26,400	17,600	44,000	December 2019	$ 11.627	$ 5.137	$ 3.337	$ (48)	$ 88
3,300	-	3,300	January 2020	$ 11.786	$ 5.044	$ 3.266	$ (6)	$ 11
17,600	4,400	22,000	February 2020	$ 11.273	$ 5.376	$ 3.556	$ (8)	$ 63
17,600	26,400	44,000	December 2020	$ 11.018	$ 5.641	$ 3.802	$ (32)	$ 67
247,500	55,000	302,500					$ (399)	$ 806

Stock-Based Compensation Plans – Restricted Stock Awards

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

There were no RSAs awarded during the three months ended March 31, 2024 and 2023.

There were 86,512 RSAs outstanding as of March 31, 2024 and December 31, 2023; this includes a total of 101,560 RSAs granted with 2,220 forfeited and 12,828 vested.

As of March 31, 2024 and December 31, 2023, there was $982,000 and $1,063,000 of total unrecognized compensation costs related to non-vested RSAs granted, respectively.

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

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

	Number of Shares	Weighted-Average Price per Share
Outstanding Unvested Balance, December 31, 2023	86,512	$ 15.30
Granted	-	-
Vested	-	-
Forfeited	-	-
Outstanding Unvested Balance, March 31, 2024	86,512	$ 15.30

8. OTHER EXPENSES

Other expenses consisted of the following:

	Three Months Ended	
(in thousands)	March 31, 2024	March 31, 2023
Information technology	$ 521	$ 461
Professional fees	408	350
Director fees and expenses	5	43
Nasdaq listing and regulatory license expense	80	59
Marketing and donations	245	227
Deposit and other insurance premiums	215	176
Other expenses	259	257
	$ 1,733	$ 1,573

9. FAIR VALUE

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

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

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

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

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

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

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

	March 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	$ 37,712	$ 37,712	Level 1	$ 57,789	$ 57,789	Level 1
Investment securities - available-for-sale	83,832	83,832	Level 2	84,546	84,546	Level 2
Loans, net of allowance	917,685	870,560	Level 3	938,626	886,878	Level 3
Investment in FHLB stock	5,541	5,541	Level 2	5,541	5,541	Level 2
Originated servicing rights	3,686	3,524	Level 3	3,691	2,495	Level 3
Accrued interest receivable	3,844	3,844	Level 1	3,703	3,703	Level 1
Financial liabilities:						
Deposits	$ 939,202	$ 937,340	Level 2	$ 1,009,693	$ 1,007,745	Level 2
Federal Home Loan Bank advances	28,600	28,600	Level 2	-	-	Level 2
Junior subordinated debt	5,924	5,030	Level 3	5,920	5,019	Level 3
Accrued interest payable	499	499	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 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 March 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 based on limited observable market prices for London Interbank Offered Rate ("LIBOR") or comparable market prices. This item is classified as a Level 3 measurement due to the use of significant unobservable inputs, judgements and estimations for projected cash flows and discount rate.

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. Servicing assets are classified as Level 3 measurements due to the use of significant unobservable inputs, judgements and estimations, such as prepayment speeds, inflation rate, and market discount rates.

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 (In thousands)		
	March 31, 2024	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	$ 52,107	$ -	$ 52,107	$ -
Mortgage-backed securities - residential	7,607	-	7,607	-
Corporate debt	24,118	-	24,118	-
Total securities available-for-sale	$ 83,832	$ -	$ 83,832	$ -

		Fair Value Measurements (In thousands)		
	December 31, 2023	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 March 31, 2024 or December 31, 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 the three ended March 31, 2024 or 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)		
	March 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Individually assessed loans	$ 39,407	$ -	$ -	$ 39,407

		Fair Value Measurements (In thousands)		
	December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Individually assessed loans	$ 43,082	$ -	$ -	$ 43,082

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

			March 31, 2024			December 31, 2023		
(in thousands)	Valuation Technique	Description	Range	Weighted Average	Fair Value	Range	Weighted Average	Fair Value
Loans, net of allowance	Discounted Cash Flow	Constant Prepayment Rate	4.96% - 10%	9.69%	$ 870,560	6.68% - 10%	9.80%	$ 886,878
		Discount Rate	6.64% - 8.80%	7.77%		6.64% - 8.80%	7.64%	
Originated servicing rights	Discounted Cash Flow	Constant Prepayment Rate	12.35% - 16.91%	16.29%	3,524	13.9% - 16.47%	15.83%	2,495
		Discount Rate	14.50%	14.50%		15%	15%	
Junior subordinated debt	Discounted Cash Flow	Discount Rate	9.18%	9.18%	5,030	9.21%	9.21%	5,019

Significant increases or decreases in any of these inputs in isolation could result in a significantly lower or higher fair value measurement. Although the constant prepayment rate and the discount rate are not directly interrelated, they generally move in the opposite direction of each other.

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

10. SUBSEQUENT EVENTS

Dividend

On April 29, 2024, the Board of Directors declared a $0.12 per common share cash dividend to shareholders of record at the close of business on May 16, 2024, to be paid on May 23, 2024. There were 6,697,587 eligible shares outstanding as of the record date totaling $804,000 in dividend costs or 58% of net income for the current quarter.

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

The following discussion provides additional information about the financial condition of the Bank at March 31, 2024 and December 31, 2023, and results of operations for the three months ended March 31, 2024 and 2023. The following analysis should be read in conjunction with the financial statements of the Bank and with the audited financial statements and accompanying notes included in our 2023 Annual Report on Form 10-K, which were prepared in accordance with U.S. Generally Accepted Accounting Principles. The interim financial information provided as of and for the three months ended March 31, 2024 and 2023 are unaudited. In the opinion of management of the Bank, the interim financial information presented reflects all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair representation of the results of such periods.

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

Forward Looking Statements. This report includes forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on the current beliefs of the Bank management as well as assumptions made by and information currently available to the Bank's management. 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 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 increases 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," in our Annual Report on Form 10-K for the year ended December 31, 2023 on file with the Federal Deposit Insurance Corporation ("FDIC"), Item 1A of Part II of this report, and below under this "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – *Critical Accounting Policies*" and elsewhere in this report.

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

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

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 examinations of the Bank. There is a potential that a regulatory examination may derive different estimates than those reached by management and could require material adjustments or restatements.

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

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

Results of Operations

Three months ended March 31, 2024 and March 31, 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 and gains and losses on loans. 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 fires, 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

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

(Dollars in thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Change
Net income	$ 1,395	$ 4,116	$(2,721)
Earnings per diluted share	$ 0.21	$ 0.62	$ (0.41)
Annualized return on average assets	0.51%	1.47%	(0.96)%
Annualized return on average common shareholders' equity	5.74%	18.38%	(12.64)%

Net Interest Income and Net Interest Margin

Net interest income decreased $2,628,000 or 26% for the three months ended March 31, 2024 compared to March 31, 2023. The annualized net interest margin was 2.81% for the three months ended March 31, 2024, compared to 3.69% for the same period of 2023. The decrease in net interest income when comparing the three months ending March 31, 2024 to March 31, 2023 is due to the drastic growth in interest expense. The increase in interest expense was due to an increase in the cost of funds for both non-maturing deposits and maturing CD's.

Average earning assets decreased 4% to $1,057,338,000 for the three months ended March 31, 2024. For the three months ended March 31, 2024, the annualized yield on average earning assets was 5.49% and the annualized cost of average interest-bearing liabilities was 3.59%, as compared to the annualized yield on average earning assets of 5.38% and annualized cost of interest-bearing liabilities of 2.39% for the same period of 2023.

The annualized rate on loans stayed consistent at 5.66% for the three months ended March 31, 2024 and March 31, 2023.

Interest income decreased to $14,477,000 or 1% for the three months ended March 31, 2024 compared to March 31, 2023 primarily due to a decrease in interest on deposits with banks due to decreased volume in these accounts.

Interest expense for the three months ended March 31, 2024 was $7,070,000, an increase of $2,457,000 from $4,613,000 for the three months ended March 31, 2023. Interest expense on deposits for the three months ended March 31, 2024 was $6,786,000. Interest expense on deposits for the three months ended March 31, 2023 was $4,440,000. Interest expense has been increasing due to the Bank increasing its interest-bearing deposit volume along with the drastic 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 three months ended March 31, 2024, was 2.83% compared to 1.77% for the three months ended March 31, 2023. A majority of the increase in the cost of funds for the three months ended March 31, 2024 was the result of an increased rate paid on deposits along with an increase in interest-bearing demand deposit and savings and money market deposit volume, increasing to a combined average balance of $499,052,000 for the three months ended March 31, 2024 from $338,589,000 for the three months ended March 31, 2023.

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.

	Three Months Ended March 31, 2024			Three Months Ended March 31, 2023		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate (4)	Average Balance	Interest Income/ Expense	Average Rate (4)
Assets						
Interest earning assets:						
Interest-bearing deposits with banks	$ 27,260	$ 362	5.33%	$ 87,614	$ 905	4.19%
Taxable investment securities	83,786	712	3.41%	84,024	720	3.48%
FHLB Stock	5,541	129	9.34%	4,737	84	7.19%
Loans, net of unearned income (1)	940,751	13,274	5.66%	927,759	12,939	5.66%
Total earning assets/interest income	1,057,338	14,477	5.49%	1,104,134	14,648	5.38%
Non-earning assets	46,048			46,629		
Allowance for credit losses	(15,426)			(14,851)		
Total assets	$ 1,087,960			$ 1,135,912		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand deposits	$ 231,315	$ 1,814	3.15%	$ 142,963	$ 506	1.44%
Savings and money market	267,737	2,289	3.43%	195,626	689	1.43%
Time deposits	272,292	2,683	3.95%	406,722	3,205	3.20%
FHLB advances	13,606	190	5.60%	31,489	119	1.53%
Subordinated debt	5,922	94	6.37%	5,907	94	6.45%
Total interest-bearing liabilities/interest exp	790,872	7,070	3.59%	782,707	4,613	2.39%
Non interest-bearing deposits	189,826			250,895		
Other liabilities	9,791			11,496		
Total liabilities	990,489			1,045,098		
Shareholders' equity	97,471			90,814		
Total liabilities and shareholders' equity	$ 1,087,960			$ 1,135,912		
Net interest income and margin (2)		$ 7,407	2.81%		$ 10,035	3.69%
Net interest spread (3)			1.90%			2.99%

(1) Average balances on loans outstanding include non-performing loans. The net amortization of deferred fees on loans included in interest income was $116,000 and $29,000 for the three months ended March 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 average total interest-bearing liabilities.

(4) Annualized.

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

	Volume and Yield/Rate Variances Comparison of the Three Months Ended March 31, 2024 to March 31, 2023 Change Due to		
(Dollars in thousands)	Net	Volume	Yield/Rate
Interest income:			
Interest-bearing deposits with banks	$ (543)	$ (498)	$ (45)
Taxable investment securities	(8)	(2)	(6)
Dividends on FHLB stock	45	15	30
Loans, net	335	183	152
Total interest income	(171)	(302)	131
Interest expense:			
Interest-bearing demand deposits	$ 1,308	$ 441	$ 867
Savings and money market	1,600	329	1,271
Time deposits	(522)	(908)	386
FHLB advances	71	(36)	107
Subordinated Debt	-	-	-
Total interest expense	2,457	(174)	2,631
Increase in net interest income	$ (2,628)	$ (128)	$ (2,500)

Provision for Credit Losses

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

There was $15,000 reversal of credit losses for the three months ended March 31, 2024 and $400,000 provision for credit losses for the three months ended March 31, 2023. Most of the decrease in the allowance for credit loss was due to slowing growth in the loan portfolio and adjusting the Bank's qualitative factors in response to recent economic changes. There were $41,548,000 in nonperforming loans at March 31, 2024 compared to $10,411,000 nonperforming loans at March 31, 2023. Nonperforming loans at March 31, 2024 consisted of seventeen loans; two loans totaling $6,709,000 are real estate secured commercial loans and fifteen loans totaling $34,839,000 are commercial and agriculture secured loans. All nonperforming assets were individually assessed resulting in a corresponding reserve of $3,592,000. 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. There were no charge-offs for the three months ended March 31, 2024 and March 31, 2023. There were gross recoveries of $281,000 during the three months ended March 31, 2024 compared to $13,000 for the same period in 2023. See Balance Sheet Activity – Nonperforming Assets and Allowance for Credit Losses for additional discussion.

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

For the three months ended March 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 $53,000 as of March 31, 2024.

Non-interest Income

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

	Three Months Ended		
(in thousands)	March 31, 2024	March 31, 2023	Change
Service charges on deposit accounts	$ 233	$ 208	$ 25
Rental income	60	39	21
Net gain on loan sales	514	1,435	(921)
Other income	141	279	(138)
Total non-interest income	$ 948	$ 1,961	$ (1,013)

The decrease in non-interest income during the three months ended March 31, 2024 compared to 2023 was primarily due to lower loan sale activity on SBA and USDA guaranteed loans.

Non-interest Expense

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

	Three Months Ended		
(in thousands)	March 31, 2024	March 31, 2023	Change
Salaries and employee benefits	$ 4,182	$ 3,793	$ 389
Occupancy and equipment	485	452	33
Information technology	521	461	60
Director fees and expenses	5	43	(38)
Marketing and donations	245	227	18
Nasdaq listing and regulatory license expense	80	59	21
Professional fees	408	350	58
Other expenses	474	433	41
Total non-interest expense	$ 6,400	$ 5,818	$ 582

Non-interest operating expenses increased $582,000 between the three month periods of 2024 and 2023. The increase for the three month period was primarily due to an increase in salaries and benefits specifically related to a one-time adjustment in vacation accrual due to a change in the executive vacation accrual policy along with an increase in personnel recruitment. Other expenses that increased include professional fees needed to provide additional services to comply with FDICIA reporting requirements and information technology.

Provision for Income Taxes

The Bank accrues income tax expense based on the anticipated annual tax rates during the financial period covered. The provision for income taxes for Federal and State corporate income tax and effective rates for the three months ended March 31, 2024 were $645,000 (31.6%) and $1,695,000 (29.2%) for the same period in 2023. The increase in the effective tax rate for 2024 was due to the Bank recording a one-time tax adjustment for prior year of $164,000 offset by a net tax credit of $70,000 taken for the investment in affordable housing.

Balance Sheet Activity

At March 31, 2024 and December 31, 2023

Investment Portfolio

Securities classified as available-for-sale for accounting purposes are recorded at their fair value on the balance sheet. Available-for-sale (AFS) investment securities carried at fair value totaled $83,832,000 and amortized cost of $96,973,000 at March 31, 2024 and comprised 7.8% of total assets. At December 31, 2023, investment securities comprised 7.5% of total assets with AFS investments at a fair value of $84,546,000 and amortized cost of $97,034,000. Changes in the fair value of AFS securities (e.g., unrealized holding gains or losses) are reported as “other comprehensive income (loss),” net of tax, and carried as accumulated other comprehensive income or loss, net of tax, within shareholders’ equity until realized, unless a credit loss exists and an allowance for credit loss is recorded. The Bank’s accumulated other comprehensive loss has increased to $(9,213,000) at March 31, 2024, from $(8,750,000) at December 31, 2023. The significant and sustained amount of the Bank’s unrealized losses on its AFS investments has been caused by the drastic increase in interest rates in 2023 and 2024. Except for two securities that are below investment grade with a combined par value of $750,000, the Bank has no specific plan to sell any of its securities, does not anticipate it will be required to sell any securities prior to full recovery, and has the intent and ability to hold all securities until full recovery. As of March 31, 2024 the bank had an allowance for credit loss of $53,000 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.

There were no bonds purchased, $69,000 in bonds called or matured and no bonds sold during the three months ended March 31, 2024. For the three months ended March 31, 2023, there were no bonds purchased, $67,000 in bonds were called or matured and no bonds sold. There were no net gains on the called bonds for the three months ended March 31, 2024 or March 31, 2023.

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At March 31, 2024, investment securities with a fair value of $8,145,000 were pledged to secure public deposits and represented 9.7% of the investment portfolio. At December 31, 2023, investment securities with a fair value of $8,215,000, or 9.7% of the investment portfolio, were pledged. At March 31, 2024 investment securities with a fair value of $54,060,000 were callable within one year.

Loan Portfolio

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

(in thousands)	March 31, 2024	%	December 31, 2023	%	Net Change	Percent Change
Commercial & agricultural (1)	$ 135,327	14.5%	$ 133,389	14.0%	$ 1,938	1.5%
Real estate - commercial	687,030	73.7%	697,319	73.0%	(10,289)	(1.5)%
Real estate - construction and land	14,422	1.5%	23,773	2.5%	(9,351)	(39.3)%
Real estate - single family	57,722	6.2%	58,808	6.2%	(1,086)	(1.8)%
Real estate - multifamily	38,647	4.1%	40,547	4.3%	(1,900)	(4.7)%
Consumer & lease financing (2)	24	0.0%	11	0.0%	13	118.2%
	933,172	100%	953,847	100%	(20,675)	(2.2)%
LESS:						
Allowance for Credit Losses	(15,487)		(15,221)		(266)	1.7%
Total Loans, Net	$ 917,685		$ 938,626		$ (20,941)	(2.2)%

(1) Includes loans secured by farmland. Also includes all PPP loans, totaling $2,635 as of March 31, 2024 and $3,128 as of December 31, 2023.
(2) Consumer & lease financing includes overdrafts of $22 as of March 31, 2024 and $9 as of December 31, 2023.

Gross loans decreased $20,675,000 (2.2%) to $933,172,000 at March 31, 2024 from December 31, 2023. The decrease was predominantly in the real estate – commercial and real estate – construction and land categories.

At March 31, 2024, the Bank had approximately $90,737,000 in undisbursed loan commitments, of which approximately $50,731,000 were commercial and agricultural and $16,796,000 related to real estate loan types. At December 31, 2023, the Bank had approximately $98,509,000 in undisbursed loan commitments, of which approximately $53,437,000 were commercial and agricultural and $21,787,000 related to real estate loan types.

Nonperforming Assets

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

The following are the nonperforming assets for the respective periods:

(in thousands)	March 31, 2024	December 31, 2023
Nonaccrual loans	$ 41,548	$ 44,158
Accruing loans past due 90 days or more	-	48
Total nonperforming loans	41,548	44,206
Other real estate owned	-	-
Total nonperforming assets	$ 41,548	$ 44,206
Nonperforming loans to total loans	4.45%	4.63%
Nonperforming assets to total assets	3.85%	3.94%
Allowance for credit losses to nonperforming loans	37.27%	34.43%

Nonperforming assets were $41,548,000, or 3.85% of total assets, at March 31, 2024, and consisted of seventeen loans; two loans totaling $6,709,000 are real estate secured commercial loans and fifteen loans totaling $34,839,000 are commercial and agriculture secured loans. There were $44,206,000 in nonperforming assets at December 31, 2023.

There was no other real estate owned (OREO) at March 31, 2024 or December 31, 2023.

Allowance for Credit Losses

The Bank's processes for determining the adequacy of the allowance for credit losses are set forth in a formal credit policy. Loans with similar risk characteristics are evaluated on a collective basis with similar risk characteristics and the allowance for credit losses is calculated using an estimate of the life of loan losses based on actual historical losses adjusted for economic forecasts and current conditions. The allowance for credit losses was $15,487,000 at March 31, 2024 compared to $15,221,000 at December 31, 2023.

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

The Bank's credit policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, enable the Bank to assess such credit risk factors prior to granting new loans, evaluate the sufficiency of the allowance for credit losses and maintain the allowance for credit losses at an appropriate level. The Bank conducts an assessment of the allowance for credit losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors examines and formally approves 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 size and composition of the loan portfolio, delinquent and nonaccrual loans, and current and projected economic conditions, as well as changes in economic factors including unemployment rates, property values, Consumer Price Index, Gross Domestic Product, and treasury yields.

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.

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

SUMMARY OF ACTIVITY IN ALLOWANCE FOR CREDIT LOSSES

(Dollars in thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Balance at beginning of period	$ 15,221	$ 14,839
Charge-offs:		
Total loans charged-off	-	-
Recoveries:		
Commercial & agricultural	281	13
Total recoveries	281	13
Net loans recovered	281	13
(Reversal of) provision for credit losses on loans	(15)	400
Allowance for credit losses - end of period	$ 15,487	$ 15,252
Loans:		
Average loans outstanding during period, net of unearned income	$ 940,751	$ 927,759
Total loans at end of period, net of unearned income	$ 933,172	$ 922,875
Ratios:		
Net loans recovered (charged-off) to average net loans (1)	0.12%	0.01%
Net loans recovered (charged-off) to total loans (1)	0.12%	0.01%
Allowance for credit losses to average net loans	1.65%	1.64%
Allowance for credit losses to total loans	1.66%	1.65%

(1) Annualized

Allocation of Allowance for Credit Losses

	March 31, 2024		December 31, 2023	
(in thousands)	Allowance Allocation	Amount of Category Loans to Total Loans	Allowance Allocation	Amount of Category Loans to Total Loans
Commercial & agricultural	$ 1,670	14.5%	$ 1,395	14.0%
Real estate - commercial	9,822	73.7%	8,812	73.0%
Real estate - construction and land	2,286	1.5%	3,413	2.5%
Real estate - single family	757	6.2%	721	6.2%
Real estate - multifamily	667	4.1%	634	4.3%
Consumer, lease financing & other	285	0.0%	246	0.0%
Total	$ 15,487	100%	$ 15,221	100%

The allowance allocation is highly dependent on the current loan balance, net charge-off rate, and contractual loan terms, adjusted for expected prepayments when appropriate. The specific loan pools evaluated at one period versus another can result in variations in the allocations. Different loan pools have different loss expectations in a rising rate environment and at times of economic uncertainty.

In addition to the allowance for credit losses, the Bank maintains a reserve for undisbursed loan commitments, which is reported in other liabilities on the balance sheets. This allowance was $302,000 at March 31, 2024 and $367,000 at December 31, 2023.

Deposits

At March 31, 2024, the Bank had a deposit mix of 28% in time deposits, 29% in money market and savings accounts, and 43% in demand accounts. At December 31, 2023, the Bank had a deposit mix of 29% in time deposits, 27% in money market and savings accounts, and 43% in demand accounts.

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

Maturity of Time Deposits of $250,000 or More

(in thousands)	March 31, 2024	December 31, 2023
Time deposits of $250,000 or more maturing in:		
Three months or less	$ 17,240	$ 21,161
Over three through six months	25,100	13,992
Over six to twelve months	23,423	28,006
Over twelve months	-	-
Total time deposits of $250,000 or more	$ 65,763	$ 63,159

At March 31, 2024, the Bank had $37,330,000 in wholesale brokered deposits compared to $37,380,000 at December 31, 2023.

The Bank also obtains time deposits through an internet listing service. These deposits are primarily from other financial institutions. There were $1,394,000 and $2,488,000 of internet obtained deposits at March 31, 2024 and December 31, 2023, respectively.

The Bank's strategy is actively focused on increasing its funding from local deposits, lower its dependance on wholesale funding, increase liquidity and increase market share. Strategies employed to increase local deposits include non-profit business accounts that provides annual donation awards for average balances, offering 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.

Approximately 77% of the Bank's deposit balances are insured by the FDIC as of March 31, 2024. The Bank holds a high percentage of insured deposits because it offers local customers with deposits in excess of $250,000 the option to enroll in deposit placement service programs called Certificate of Deposit Accounts Registry Services ("CDARS") and Insured Cash Sweep ("ICS"). Enrolling in these programs allows customer funds to go into certificates of deposit or demand accounts issued by other banks in the CDARS and ICS 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. At March 31, 2024 there was $51,139,000 in CDARS time deposits and $181,631,000 in ICS demand deposits.

The following table sets forth the estimated deposits exceeding the FDIC insurance limit at March 31, 2024 and December 31, 2023.

(in thousands)	March 31, 2024	December 31, 2023
Uninsured deposits	$ 212,417	$ 219,404

Shareholder's Equity

Total shareholders' equity increased $200,000 to $97,878,000 at March 31, 2024 compared to $97,678,000 at December 31, 2023. The increase in shareholders' equity was primarily a result of net income for the first quarter of 2024 offset by an increase of $463,000 in accumulated other comprehensive loss and a $813,000 payout of cash dividends.

Liquidity and Capital Resources

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

The Bank can borrow from the Federal Reserve Discount Window by pledging investment securities or loans. The Bank is eligible to pledge the value of its unpledged agency securities at an amount that is dependent on the value of the security. As of March 31, 2024, the value of the unpledged agency securities that are eligible to be pledged to the Federal Reserve were $43,962,000. As of March 31, 2024, no securities were pledged to the Federal Reserve.

The Bank's liquid assets, defined as cash and cash equivalents, deposits with banks, Federal funds sold and the market value of unpledged available-for-sale investment securities, totaled $113,452,000 and constituted 11% of total assets at March 31, 2024 compared to $194,014,000 or 17% of total assets at March 31, 2023.

At March 31, 2024, the Bank had $304,802,000 in borrowing lines of credit from the FHLB, FRB, and correspondent banks with $28,600,000 in outstanding FHLB advances. At December 31, 2023, the borrowing lines of credit available were $332,458,000 with no outstanding FHLB advances.

Cash was primarily provided in the first three months of 2024 by $12,000,000 in loan paydowns, $9,884,000 in proceeds from SBA loan sales and $28,600,000 in FHLB advances. Cash was used in the first three months of 2024 due to a net change in demand, savings and money markets of $41,279,000 and a net change in certificates of deposits of $29,212,000.

Cash was primarily provided in the first three months of 2023 by a $28,498,000 in proceeds from SBA loan sales and $54,909,000 increase in certificates of deposits. Cash was used in the first three months of 2023 to fund $20,553,000 of loan originations net of repayments and $18,000,000 in repayment of long term FHLB advances.

Additional information on the Bank's cash flows can be reviewed in the *Statement of Cash Flows* in Part I, Item 1 of this report.

The following table presents the capital ratios for the Bank and the corresponding regulatory minimum requirements:

	March 31, 2024		December 31, 2023	
(in thousands)	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital Ratio				
Summit State Bank	$ 99,448	10.4%	$ 98,690	9.9%
Minimum requirement with capital conservation buffer	$ 67,140	7.0%	$ 69,760	7.0%
Minimum requirement for "Well-Capitalized" institution	$ 62,344	6.5%	$ 64,778	6.5%
Minimum regulatory requirement	$ 43,161	4.5%	$ 44,846	4.5%
Tier 1 Capital Ratio				
Summit State Bank	$ 99,448	10.4%	$ 98,690	9.9%
Minimum requirement with capital conservation buffer	$ 81,527	8.5%	$ 84,709	8.5%
Minimum requirement for "Well-Capitalized" institution	$ 76,731	8.0%	$ 79,726	8.0%
Minimum regulatory requirement	$ 57,548	6.0%	$ 59,795	6.0%
Total Capital Ratio				
Summit State Bank	$ 117,408	12.2%	$ 117,105	11.8%
Minimum requirement with capital conservation buffer	$ 100,709	10.5%	$ 104,641	10.5%
Minimum requirement for "Well-Capitalized" institution	$ 95,914	10.0%	$ 99,658	10.0%
Minimum regulatory requirement	$ 76,731	8.0%	$ 79,726	8.0%
Tier 1 Leverage Ratio				
Summit State Bank	$ 99,448	9.2%	$ 98,690	8.9%
Minimum requirement for "Well-Capitalized" institution	$ 54,016	5.0%	$ 55,766	5.0%
Minimum regulatory requirement	$ 43,213	4.0%	$ 44,613	4.0%

The Bank's capital is supplemented through the retention of net income less dividends paid. The Bank's common dividend declared on April 29, 2024 was $0.12 per share or $804,000.

Impact of Inflation

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

Item 3 Quantitative and Qualitative Disclosures about Market Risk

Proper management of the rate sensitivity and maturities of assets and liabilities is required to provide an optimum and stable net interest margin. Interest rate sensitivity spread management is an important tool for achieving this objective and for developing ways in which to improve profitability. Management has assessed its market risk at March 31, 2024 and believes that there has been no material change in its liability-sensitive position since December 31, 2023.

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

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

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

Based on results of the quarterly model, the Bank is 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 an 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 expect a decrease in the net interest margin if 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.

When preparing the model, the Bank makes 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, current projections, comparisons with other banks, and annually tests to verify the validity of its assumptions by reviewing actual results with projected expectations. As the impact of changing interest rates depends on assumptions, actual experience can materially differ from projections. The purpose of the model is to forecast the likely impact of changing interest rates so management can monitor potential exposures to interest rate risk and make adjustments to the balance sheet if needed.

The computer simulation model projects at March 31, 2024 the following changes over a one-year period in net interest income:

Interest Rate Risk Simulation Model

(in thousands)

Interest Rate Shock	-4%	-3%	-2%	-1%	1%	2%	3%	4%
Net interest income change	$ 7,025	$ 5,460	$ 3,492	$ 1,728	$ (1,906)	$ (4,016)	$ (5,981)	$ (7,950)
Net interest percent change	22.4%	17.4%	11.1%	5.5%	-6.1%	-12.8%	-19.0%	-25.3%

The Bank's investment portfolio has an average maturity of 8.7 years and would be susceptible to a material decline in market value if interest rates were to materially rise. Management monitors this exposure in relation to the Bank's capital ratios and the interaction of the projected changes in other interest sensitive assets and liabilities to reach a desired balance between current earnings and market risk.

Item 4 Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Bank's management, including its Chief Executive Officer and Chief Financial Officer, the Bank conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as defined by Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act (the "Act") of 1934 as of March 31, 2024. The term disclosure controls and procedures means controls and other procedures that are designed to ensure that the information the Bank is required to disclose in its reports that are filed or submitted under the Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information the Bank is required to disclose in the reports that is filed or submitted under the Act is accumulated and communicated to management, including the principal executive and principal financial officers, or persons performing similar functions as applicable, to allow for timely decisions regarding required disclosures.

Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Bank's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

During the quarter ended March 31, 2024, there were no significant changes that materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting. The term internal control over financial reporting, as defined by Rule 15d-15(f) of the Act, is a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's Board of Directors, management and other personnel, 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.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

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

Item 1A Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the risk factors that appeared under Item 1A, "Risk Factors" in the Bank's 2023 Annual Report on Form 10-K (the "2023 Form 10-K"). A risk factor appearing on page 17 of the 2023 Form 10-K discusses risks related to regulatory applications filed by Big Poppy Holdings ("Big Poppy"), a competing bank holding company, in which Big Poppy sought regulatory approval to acquire up to 24.9% of the Bank's common stock. On March 28, 2024, Big Poppy withdrew its application seeking the prior approval of the Board of Governors of the Federal Reserve System to acquire such up to 24.9% of the Bank's common stock. There are no other material changes from the risk factors included within the Bank's 2023 Annual Report.

Item 1B 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 Information 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 polices. 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 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 is investigating this incident to determine whether the external actor illegally accessed and/or acquired nonpublic data within one employee's email account. While the Bank has not 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.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

Not applicable.

Item 5 Other Information

None.

Item 6 Exhibit Index

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

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

SIGNATURES

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

Summit State Bank
(registrant)

May 15, 2024	*/s/ Brian J. Reed*
Date	Brian J. Reed President and Chief Executive Officer (Principal Executive Officer)

May 15, 2024	*/s/ Camille D. Kazarian*
Date	Camille D. Kazarian Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.01

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

I, Brian J. Reed, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended March 31, 2024;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

May 15, 2024 *\/s/ Brian J. Reed*

Date

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

Exhibit 31.02

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

I, Camille D. Kazarian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended March 31, 2024;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 15, 2024 *~~/s/~~ /s/ Camille D. Kazarian*

Date

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

EXHIBIT 32.01

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

In connection with the quarterly report on Form 10-Q of Summit State Bank (the Registrant) for the quarter ended March 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-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

May 15, 2024 — */s/ Brian J. Reed*
Date
Brian J. Reed
President and Chief Executive Officer
(Principal Executive Officer)

May 15, 2024 — */s/ Camille D. Kazarian*
Date
Camille D. Kazarian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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