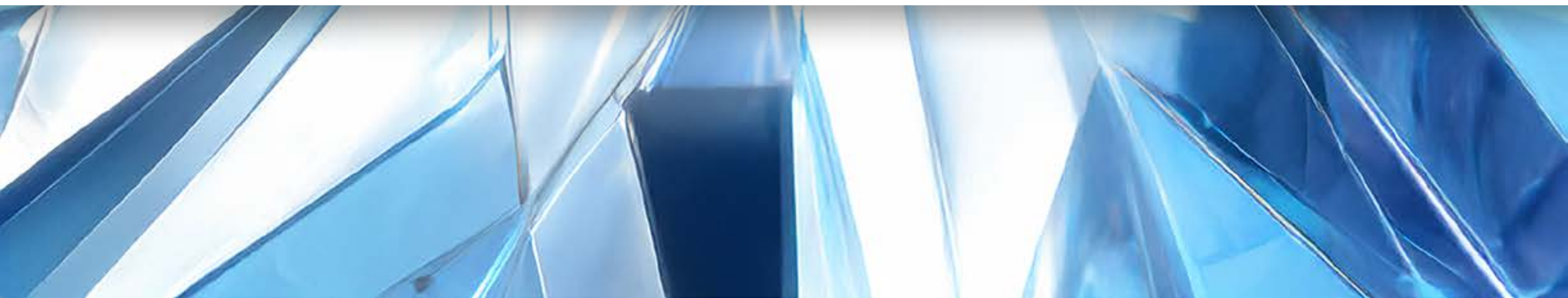
COMMENCEMENT BANK | **2024**

ANNUAL REPORT



Dear Shareholders, Clients, and Friends,

Writing this letter each year allows me the opportunity to step back from the day-to-day and look at the Bank from a different perspective. As I reflect on 2024, there are two things that stand out to me. First, Commencement Bank solidified its reputation as one of the premier community banks in our footprint, and second, we owe our success to our dedicated team of bankers and our loyal client base. Over the years, we have survived through recessions, a pandemic, volatile interest rate environments, buy-outs, bail outs and everything in between. Throughout all of that, our bankers have focused on serving our clients and serving our community. I'm proud that we are still here, and we are growing.

The highlights of our financial performance paint a strong picture of the Bank's stability and strategic positioning. Over the past several years, we have made substantial investments in people and technology, and we are starting to see the long-term benefits of those investments. We closed the year with total assets of $649.8 million, a 10.8% increase from the prior year, with deposits growing $60.8 million, or 11.4%. Net loan growth was also notably strong at 5.6%. Our capital levels remain strong, and our balance sheet is well-positioned for future growth and potential market uncertainties.

Net income for 2024 was $3.0 million, or $0.78 per share. Embedded in this figure is a one-time loss of $745 thousand related to a strategic restructuring of our investment portfolio in December. The Bank sold $13.3 million of securities and reinvested all proceeds into new securities with a yield of nearly double that of the securities sold. The Bank also surrendered several company-owned life insurance policies and reinvested the proceeds into higher yielding policies. The net impact of these two transactions equated to $0.22 per share. If we adjusted for these one-time expenses, our earnings per share would have been $1.00, which is a 30% increase from 2023. These transactions will result in higher future earnings, and, when coupled with the Bank's decrease to its cost of deposits during fourth quarter, will help propel the Bank into a successful 2025.

Commencement Bancorp, Inc. stock reflects our strong financial performance and overall market sentiment, a result of the improved interest rate and inflation outlook. We began the year at $10.00 per share and closed the year at $12.70. This increase earned us a spot as one of the OTCQX 2025 Best 50, which is an annual ranking highlighting the top 50 performing OTCQX companies for the previous calendar year.

Another notable event in 2024 was the opening of our permanent branch in Gig Harbor, Washington in August. The reception by the community has been beyond favorable, exceeding our initial growth expectations. Our success in Gig Harbor reinforces our belief that there is a genuine need for community banks, and because of this, we continue to evaluate new markets for future expansion opportunities. In addition to our new branch, we negotiated a lease for a new headquarters and Tacoma branch, and the buildout of our new space commenced mid-year. We will be opening the doors to our new location in early 2025 and look forward to introducing this new space to our shareholders, clients, and community.

As a community bank, it has always been our mission to give back to our community. Over the last 19 years, we have supported hundreds of nonprofits and causes to uphold our commitment. In 2024 alone, we supported 60 local nonprofits. This past year we took it a step further by organizing our first ever bank-led charity event, Hams for the Holidays. In December, with the help of our staff, community partners and the generosity of our clients, we distributed over 1,000 hams to those in need and fed an additional 1,000 families through donations to our local food banks. This is an event we plan to continue for years to come.

In closing, I would like to thank each of you for your confidence and support as we continue to increase our market share, build and grow relationships, give back to our communities, and stand strong as the last community bank headquartered in Tacoma.

Sincerely,

John E. Manolides

John E. Manolides
Chief Executive Officer

2024 HIGHLIGHTS

SELECT BANKCARD

Commencement Bank partnered with a new merchant services provider, offering premier customer service and competitive pricing.

BEST 50 OTCQX

Honored to be one of only eight banks ranked in the top 50 of traded stocks on the OTC Market's premier platform, OTCQX.

BAUER FINANCIAL 5 STARS

Honored to be rated a Bauer Financial 5 Star, "Superior" institution for all four quarters of 2024.

ncino

Commencement Bank upgraded its technology and digitized loan processing with a cloud-based loan origination software, nCino. nCino will allow for a modernized experience for clients with built-in efficiencies for processing loan applications.

COMMENCEMENT BANK *PLAZA*

Began the renovation of the Commencement Bank Plaza, the future home of the Bank's headquarters.

GIG HARBOR BRANCH

"After operating out of a temporary location, we opened the doors of our beautiful, downtown Gig Harbor branch in August of 2024. The team has exceeded our expectations for growth and has already made Commencement Bank a solidified part of Gig Harbor's waterfront business community. We look forward to continuing the positive momentum and expanding our outreach even further in the coming years."

- Allisha McVay, VP, Market Manager & Relationship Banking Officer

2024 OUTREACH

HAMS FOR THE HOLIDAYS

"In 2024, we made the bold commitment to create the first, bank-organized charity event to benefit our community. On December 19th, with support from our staff, the community, and the generosity of our clients, we hosted the first annual Hams for the Holidays. This event fed over 2,000 families and raised additional funds to support our local food banks during the holiday season."

- John Manolides, Chief Executive Officer

CORPORATE SPONSORS

Commencement Bank supported over 60 non-profits throughout the course of 2024.

2024 LEADERSHIP

"Management is doing things right; leadership is doing the right things."
- Peter Drucker

SENIOR MANAGEMENT

JERALD KENNEDY, SVP
Chief Information Officer

NIGEL L. ENGLISH
President & Chief Operating Officer

JOHN E. MANOLIDES
Chief Executive Officer

PAT LEWIS, SVP
Commercial Loan Team Leader

RICK LARSON, EVP
Chief Credit Officer

CHERIL DANIELS, SVP
Deposit Operations & Digital Services Team Leader

MEGAN STONE, VP
Retail Banking Team Leader

BRANDI PARKER, EVP
Chief Financial Officer

REBECCA WILLIAMSON, SVP
Human Resources Manager

BOARD OF DIRECTORS

H.R. RUSSELL
CHAIRMAN

THOMAS NIXON
VICE CHAIRMAN

JOHN E. MANOLIDES
CHIEF EXECUTIVE OFFICER

NIGEL L. ENGLISH
PRESIDENT &
CHIEF OPERATING OFFICER

CHERYL DURYEA

LAMONT LOO

L. ROSE LINCOLN-HAMILTON

DAVID OWENS, MD

ROB RICE

EDWARD ZITTEL

2024 FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

FORTNER BAYENS, PC
Accountants and Advisors

Independent Auditor's Report

Board of Directors
Commencement Bancorp, Inc. and Subsidiary
Tacoma, Washington

Opinion

We have audited the consolidated financial statements of Commencement Bancorp, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Commencement Bancorp, Inc. and its subsidiary as of December 31, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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Certified Public Accountants • A Professional Corporation

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information on pages 39 through 42 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Fortner Bayens, PC

Denver, Colorado
March 28, 2025

Consolidated Financial Statements

Consolidated Balance Sheets

(Dollars in Thousands)

Commencement Bancorp, Inc. and Subsidiary
December 31, 2024 and 2023

	2024	2023
Assets		
Cash and due from banks	$ 10,564	$ 8,090
Interest-bearing deposits in other financial institutions	47,757	3,775
Federal funds sold	5,779	2,429
Cash and cash equivalents	64,100	14,294
Time deposits in other financial institutions	-	996
Securities available for sale, net of allowance for credit losses of $0 and $0	90,055	101,290
Federal Reserve Bank stock, at cost	1,362	1,349
Federal Home Loan Bank stock, at cost	352	349
Pacific Coast Bankers' Bancshares stock, at cost	190	190
Loans	467,319	443,085
Allowance for credit losses	(5,590)	(5,690)
Net loans	461,729	437,395
Premises and equipment, net	6,872	5,018
Company owned life insurance	14,558	15,557
Accrued interest receivable	1,778	2,066
Intangible assets	1,214	1,214
Other assets	7,482	6,473
Total assets	$ 649,692	$ 586,191
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Demand, noninterest-bearing	$ 166,394	$ 154,950
Savings and non-maturity interest-bearing	341,618	310,358
Time	83,981	65,886
Total deposits	591,993	531,194
Accrued interest payable	499	368
Other liabilities	5,778	4,520
Total liabilities	598,270	536,082
Commitments and contingencies (Note 11)		
Shareholders' Equity		
Preferred stock; authorized 100,000 shares; no shares issued or outstanding at December 31, 2024 and 2023	-	-
Common stock (par value: $1); authorized 50,000,000 shares; 3,814,068 and 3,973,250 shares issued and outstanding at December 31, 2024 and 2023, respectively	3,814	3,973
Additional paid-in capital	41,905	43,151
Retained earnings	17,466	15,241
Accumulated other comprehensive loss	(11,763)	(12,256)
Total shareholders' equity	51,422	50,109
Total liabilities and shareholders' equity	$ 649,692	$ 586,191

See notes to consolidated financial statements

Consolidated Statements of Income

(Dollars in Thousands, except share information)

Commencement Bancorp, Inc. and Subsidiary
For the Years Ended December 31, 2024 and 2023

	2024	2023
Interest and Dividend Income		
Interest and fees on loans	$ 26,514	$ 23,144
Interest-bearing and time deposits in other financial institutions	811	438
Securities available for sale	2,368	2,703
Dividends on equity securities and other	122	118
Total interest income and dividend	29,815	26,403
Interest Expense		
Deposits	10,185	7,841
Borrowings	134	238
Total interest expense	10,319	8,079
Net interest income	19,496	18,324
Provision for Credit Losses		
Provision (reversal) for credit losses - loans	(500)	-
Provision for credit losses - unfunded commitments	58	52
Toal provision (reversal) for credit losses	(442)	52
Net interest income after provision for credit losses	19,938	18,272
Noninterest Income		
Service charges on deposit accounts	262	133
Loss on sale of investment securities	(944)	-
Other	1,274	1,194
Total noninterest income	592	1,327
Noninterest expense		
Salaries and employee benefits	10,781	9,609
Occupancy	1,235	1,105
Furniture and equipment	254	231
Data processing	438	781
Marketing and development	449	466
Other	3,743	3,727
Total noninterest expense	16,900	15,919
Income Before Income Taxes	3,630	3,680
Income Tax Expense	618	630
Net Income	$ 3,012	$ 3,050
Basic earnings per share	$ 0.78	$ 0.77
Diluted earnings per share	$ 0.77	$ 0.76

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Income (Loss)

(Dollars in Thousands)

Commencement Bancorp, Inc. and Subsidiary
For the Years Ended December 31, 2024 and 2023

	2024	2023
Net Income	$ 3,012	$ 3,050
Other Comprehensive Income (Loss)		
Change in fair value of investment securities available for sale, net of tax of ($67) and $29, respectively	(253)	80
Reclassification adjustment for net loss from sale of investment securities available for sale included in income, net of tax effect of $198 and $0, respectively	746	-
Total other comprehensive income (loss)	493	80
Total Comprehensive Income (Loss)	$ 3,505	$ 3,130

See notes to consolidated financial statements

Consolidated Statements of Shareholders' Equity

(Dollars in Thousands, Except Share Information)

Commencement Bancorp, Inc. and Subsidiary
For the Years Ended December 31, 2024 and 2023

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2022	3,974,029	$ 3,974	$ 42,828	$ 12,191	$ (12,336)	$ 46,657
Net income	-	-	-	3,050	-	3,050
Other comprehensive income	-	-	-	-	80	80
Stock option expense	-	-	170	-	-	170
Restricted stock unit expense	-	-	248	-	-	248
Restricted stock unit vesting, net of shares withheld for recipient tax liabilities	9,848	10	(20)	-	-	(10)
Employee Stock Purchase Plan	7,535	7	68	-	-	75
Directors Equity Plan	4,899	5	45	-	-	50
Stock repurchased	(23,061)	(23)	(188)	-	-	(211)
Balance at December 31, 2023	3,973,250	3,973	43,151	15,241	(12,256)	50,109
Net income	-	-	-	3,012	-	3,012
Other comprehensive income	-	-	-	-	493	493
Stock option expense	-	-	119	-	-	119
Restricted stock unit expense	-	-	277	-	-	277
Restricted stock unit vesting, net of shares withheld for recipient tax liabilities	14,502	15	(56)	-	-	(41)
Employee Stock Purchase Plan	7,266	7	70	-	-	77
Stock options exercised, net of cashless exercise amounts	480	-	-	-	-	-
Directors Equity Plan	4,570	5	44	-	-	49
Dividend	-	-	-	(787)	-	(787)
Stock repurchased	(186,000)	(186)	(1,700)	-	-	(1,886)
Balance at December 31, 2024	3,814,068	$ 3,814	$ 41,905	$ 17,466	$ (11,763)	$ 51,422

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

(Dollars in Thousands)

Commencement Bancorp Inc. and Subsidiary
For the Years Ended December 31, 2024 and 2023

	2024	2023
Cash Flows for Operating Activities		
Net income	$ 3,012	$ 3,050
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	(442)	52
Depreciation and amortization	405	350
Amortization of right-of-use asset	478	517
Stock-based compensation expense	396	418
Net amortization of premium on securities available for sale	268	217
Increase in cash surrender value of life insurance	(660)	(541)
Loss on sale of available for sale investment securities	944	-
Loss on sale of premises and equipment	20	-
Change in fair value of derivatives	5	-
Deferred federal income tax expense (benefit)	39	(192)
Increase (decrease) in accrued interest receivable	288	(531)
Amortization of core deposit intangible	-	14
Increase in accrued interest payable	131	329
Other	(106)	300
Net cash provided by operating activities	4,778	3,983
Cash Flows from Investing Activities		
Net change in time deposits in other financial institutions	996	1,743
Activity in securities available for sale:		
Maturities, prepayments and calls	10,500	8,639
Sales	12,359	-
Purchases	(12,394)	-
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(7,014)	(8,122)
Sale of Federal Home Loan Bank and Federal Reserve Bank stock	6,998	9,471
Increase in loans made to customers, net of principal collections	(23,834)	(12,909)
Purchases of premises and equipment	(1,329)	(257)
Purchases of Company owned life insurance	-	(800)
Surrender of Company owned life insurance	535	-
Net cash used in investing activities	(13,183)	(2,235)
Cash Flows from Financing Activities		
Net increase in deposits	60,799	28,712
Advances on FHLB borrowings	140,605	-
Paydowns on FHLB borrowings	(140,605)	(26,850)
Withholding taxes paid on vested restricted stock units	(41)	(10)
Stock issued	126	125
Common Stock cash dividends paid	(787)	-
Repurchase of common stock	(1,886)	(211)
Net cash provided by financing activities	58,211	1,766
Net change in cash and cash equivalents	49,806	3,514
Cash and cash equivalents at beginning of period	14,294	10,780
Cash and cash equivalents at end of period	$ 64,100	$ 14,294

See notes to consolidated financial statements

Consolidated Statements of Cash Flows Continued

(Dollars in Thousands)

Commencement Bancorp Inc. and Subsidiary
For the Years Ended December 31, 2024 and 2023

	2024	2023
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 10,188	$ 7,750
Income taxes paid	802	905
Supplemental Non-cash Disclosures of Cash Flow Information		
ROU assets obtained in exchange for new operating lease liabilities	$ 1,428	$ -
Transfer of Company owned life insurance to Other assets due to surrender amounts receivable	1,124	-

See notes to consolidated financial statements

Commencement Bancorp Inc. and Subsidiary
For the Years Ended December 31, 2024 and 2023

Note 1 - Nature of Operations, Basis of Presentation, and Summary of Significant Accounting Policies

(a) Nature of Operations
Commencement Bancorp, Inc. was incorporated July 20, 2020, for the purpose of becoming a bank holding company of Commencement Bank. Commencement Bank (the Bank), opened December 11, 2006, and operates five branches in Tacoma, Enumclaw, Auburn, Olympia, and Gig Harbor, Washington. The Bank provides loan and deposit services to customers, who are predominately individuals and small and midsized businesses in western Washington. On July 20, 2020, the shareholders of Commencement Bank exchanged their stock in the Bank for stock of the Bancorp and the Bank became a wholly-owned subsidiary of the Bancorp.

The Company is not a filer with the Securities and Exchange Commission; however, the Company has listed its voting common stock on OTC Markets' OTCQX exchange, which trades under the symbol "CBWA".

(b) Basis of Presentation
The accompanying consolidated financial statements include the consolidated totals of Commencement Bancorp, Inc. and its wholly-owned subsidiary, Commencement Bank. These entities are collectively referred to as "the Company". All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America and practices within the banking industry requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the balance sheet, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the valuation of deferred tax assets, management's evaluation of goodwill impairment and management's estimate of the fair value of financial instruments.

All dollar amounts are stated in thousands in these footnotes, except for per share information.

(c) Significant Accounting Policies

Cash Equivalents and Cash Flows
The Company considers all amounts included in the balance sheet captions *Cash and due from banks*, *Interest-bearing deposits in other financial institutions*, and *Federal funds sold* to be cash equivalents. Cash flows from loans, deposits and short-term borrowings are reported net. At times, cash balances on deposit in other financial institutions exceed FDIC insurance limits; however, the Company has not experienced any losses on its cash and cash equivalents.

Time Deposits in Other Financial Institutions
Time deposits in other financial institutions are carried at cost and fully covered by federal deposit insurance.

Securities Available for Sale
General Accounting Policies
Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and are recorded at amortized cost. Debt securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

The amortized cost of debt securities classified as held to maturity or available for sale is adjusted for amortization of purchase premiums and accretion of purchase discounts. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are determined using the specific identification method.

Commencement Bancorp Inc. and Subsidiary
For the Years Ended December 31, 2024 and 2023

The accrual of interest on debt securities is discontinued at the time any principal or interest payments become significantly delinquent. Additionally, securities are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a security on nonaccrual status, interest accrued to date is reversed and is charged against the current year's interest income. Payments received on a security on nonaccrual status are applied against the balance of the security. A security is returned to accrual status when principal and interest are no longer past due and collectability is no longer doubtful.

Effect of Adoption of New Accounting Standards
Effective January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 implements Accounting Standards Codification ("ASC") Topic 326 ("ASC 326"), replacing the previous "incurred loss" methodology for measuring credit losses with an "expected loss" methodology that encompasses allowances for losses expected to be incurred over the life of the portfolio based on historical experience, current conditions, and reasonable and supportable forecasts. Adoption did not result in the Company recording any credit losses on its investment securities available for sale or any cumulative effect adjustments to retained earnings as of the date of adoption.

For available for sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings. If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available for sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. As of December 31, 2024, there was no allowance for credit loss related to the available for sale portfolio.

Federal Home Loan Bank of Des Moines Stock
The Company, as a member of the Federal Home Loan Bank of Des Moines ("FHLB"), is required to maintain an investment in capital stock of the FHLB. The recorded amount of the FHLB stock equals its fair value because the shares can be redeemed only by the FHLB at the $100 per share par value. The Company views its investment in the FHLB stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: 1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; 2) impact of legislative and regulatory changes on the FHLB and 3) the liquidity position of the FHLB.

Federal Reserve Bank of San Francisco Stock
The Company, as a member of the Federal Reserve Bank of San Francisco (FRB), is required to subscribe to Federal Reserve Stock. Although the par value of the stock is $100 per share, banks pay only $50 per share at the time of purchase, with the understanding that the other half of the subscription amount is subject to call at any time. The recorded amount of the FRB stock equals its fair value because the shares can be redeemed only by the FRB at the par value.

Pacific Coast Bankers' Bancshares Stock
Investment in this stock is recorded at cost of $47.50 per share, as no ready market exists for such stock, quoted

market value for this stock does not exist. The Company has no obligation to hold the stock as a member of Pacific Coast Bankers' Bancshares.

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

Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Payments received on a loan on nonaccrual status are applied against the balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due and collectability is no longer doubtful.

Financial difficulty modification loans are loans containing concessions in terms as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on financial difficulty modification loans is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on financial difficulty modification loans that meet the Company's nonaccrual criteria. A loan may be considered a financial difficulty modification loan regardless of whether it is considered a continuation of an existing loan or a new loan that replaces an existing loan.

Generally, loans are charged off in whole or in part after they become significantly past due. Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

The quality of the Company's loan portfolio is assessed as a function of the levels of past due loans, nonaccrual loans, and internal credit quality ratings which are updated monthly by management. The ratings on the Company's internal credit scale are an important part of the Company's overall credit risk management process. The ratings on the Company's internal credit scale are broadly grouped into the categories "nonclassified" and "classified," with detailed ratings as follows:

<u>Non-Classified</u>

Pass - Loans with minimal to average identified credit risk. These loans have borrowers considered creditworthy who have the ability to repay the debt in the normal course of business. Borrowers have a sound primary and secondary repayment source, with sufficient cash generation to meet ongoing debt service requirements. Loans are typically fully secured with marketable, margined collateral.

Special mention - Loans with potential credit weaknesses which deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects or the Company's credit position at some future date. These loans exhibit characteristics such as declining or stressed financial

condition of the borrower, and declining or narrow collateral coverage.

<u>Classified</u>

Substandard - Loans inadequately protected by the current financial condition and paying capacity of the borrower or the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. These loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. In some instances, though not all, the weakness or weaknesses in these loans will necessitate nonaccrual treatment.

Doubtful - Loans in this category have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the loans, classification as a loss is deferred until more exact status may be determined. All doubtful loans necessitate nonaccrual treatment.

Loss - Loans considered loss are considered uncollectable and of such little value that their continuance as a bankable asset, even with a valuation allowance, is not warranted. This does not mean the loans have no recovery or salvage value, but rather it is not practical or desirable to defer a charge-off even though a partial recovery may be effected in the future. Loans classified as a loss are charged-off in the period they are deemed uncollectible.

Allowance for Credit Losses - Loans
<u>General Accounting Policies</u>
The allowance for credit losses is a valuation account that is deducted from the loans' amortized costs basis to present the net amount expected to be collected on loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Changes in the allowance for credit losses, other than charge offs and recoveries, are recorded as credit loss expense (or reversal).

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as current and future expected economic conditions, the nature and volume of the loan portfolio – including internal credit ratings, the volume and severity of past due loans, credit concentrations, lending policies, management experience, collateral values, loan review systems and other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Loans that do not share similar risk characteristics are evaluated on an individual basis, and collateral-dependent loans are evaluated on an individual basis. Loans evaluated individually are generally not also included in the collective evaluation.

When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, the loans are considered collateral-dependent and are expected losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

For purposes of collective evaluation, the Company classifies its loan portfolio by loan type, with classification types aggregated into broader segments for certain disclosure purposes. Loan classifications and segments are described in Note 3 to the financial statements. For purposes of specific evaluation, the Company evaluates nonaccrual loans and all collateral-dependent loans, as well as any other loan that management determines has sufficiently unique risk characteristics. Although the allowance is determined though collective evaluation by loan type and through specific evaluation, the entire allowance is available for any loan that, in management's judgment, should be charged off.

Effect of Adoption of New Accounting Standards
Effective January 1, 2023, the Company adopted Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* and related guidance. Adoption did not result in the Company recording any cumulative effect adjustments to retained earnings as of the date of adoption.

Allowance for Credit Losses Methodology
The allowance analysis is prepared at least quarterly. For each loan pool type, the Company uses a discounted cash flow method, which projects the cash flows expected to be received over the life of each loan pool based on several inputs that are determined by a combination of historical results and expected forecasts. The inputs and assumptions in the calculation include contractual maturity dates or remaining term to maturity, contractual payments, prepayment speeds, interest rates, probability of default rates, loss given default rates, recovery delay, and an overall discount rate. In total the projected discounted expected losses in combination with any additional qualitative risk characteristic adjustments deemed appropriate by management will determine the collective credit loss amount. This amount is added to any credit loss determined on individually evaluated loans. Adjustments to life-of-loan historical loss rates for the effect of loan risk characteristics are inherently subjective and subject to significant revision as expectations about future conditions change. Certain discounted cash flow inputs and assumptions are also subject to significant revision as conditions change.

For individually evaluated loans for which repayment is expected solely from the collateral, the allowance for credit losses is measured based on the fair value of the collateral. For other individually evaluated loans, the allowance for credit losses may be measured based on the fair value of the collateral or expected future cash flows determined through an analysis of the borrower's current and future expected financial condition and other relevant factors. Individually evaluated loans are assessed at least quarterly, though certain underlying information such as collateral appraisals and tax returns could be updated more infrequently depending on particular circumstances of the loan and type of information.

The Company has elected not to estimate an allowance for credit losses on accrued interest receivable and record losses against current year interest income when loans are placed on nonaccrual.

Premises and Equipment
Premises and equipment are stated at cost, less accumulated depreciation, which is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvement, whichever is less. Asset lives range from three to ten years. Gains or losses on dispositions are reflected in earnings.

The assets are reviewed for impairment when events indicate their carrying value may not be recoverable. If management determines impairment exists, the asset is reduced with an offsetting charge to expense. For leased premises, at lease inception the Company records a lease liability equal to the present value of fixed lease payments not yet paid and also records a corresponding right-of-use asset. Over the lease term, the right-of use asset is amortized and interest on the lease liability is recorded, with amortization and interest charged to rent expense. The lease liability is reduced by the principal component of the fixed lease payments.

The combination of amortization on the right-of-use-asset and interest on the lease liability results in straight-line lease expense over the lease term. Variable lease costs, such as pass-through operating costs of lessors, are expensed as incurred. For leases with terms of under 12 months, no right of use asset or lease liability is recorded and rent expense is recorded when paid. Right-of-use assets and lease liabilities are also not recorded for equipment leases on the basis of immateriality.

The Company carries the right-of-use asset related to its leases as a component of *Premises and Equipment, net* and the lease liability is carried as a component of *Other liabilities.*

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Company Owned Life Insurance
The Company has purchased single premium life insurance policies for certain officers. The value of the policies is recorded at the amount that would be received if the policies were surrendered. Increases or decreases in the cash value of the policies are recognized as income or expense in the period of change. The Company entered into a Split Dollar Life insurance agreement with certain officers and key employees on these policies.

Income Taxes
Deferred tax assets and liabilities result from differences between the financial statement carrying amounts and the tax bases of assets and liabilities, and are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. The deferred tax provision represents the difference between the net deferred tax asset and liability at the beginning and end of the year (excluding deferred tax assets and liabilities related to other comprehensive income). Deferred tax assets are reduced by a valuation allowance, when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

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

Noninterest Income
Noninterest income is substantially comprised of service charges on deposit accounts, ATM and debit card income. Service charges on deposit accounts consist of monthly account fees, stop payment charges, and charges for deposit items returned for non-sufficient funds or paid as an overdraft (net of fees waived or refunded). ATM and debit card income is comprised of ATM charges for non-customer use of Company ATMs and debit card interchange income. In all instances, noninterest income is recognized concurrent with the Company's satisfaction of the underlying performance obligation, which typically occurs at a single point in time as a transaction or statement cycle is completed. Charges for deposit accounts continuously overdrawn are equivalent to interest and included as a component of *Interest and fees on loans*.

Advertising
The Company expenses advertising costs as incurred.

Stock-Based Compensation
The Company has a stock-based compensation plan which is described more fully in Note 13. The cost of stock-based compensation is the grant-date fair value of the instruments issued and is recorded as expense over the vesting period of the award. Forfeitures are accounted at the time they occur.

Comprehensive Income (Loss)
Comprehensive income (loss) consists of net income and other comprehensive income. Other comprehensive income (loss) consists of unrealized holding gains and losses on available for sale securities, net of related tax effects.

Derivatives - Interest Rate Swap Agreements
Interest rate swap agreements are derivative financial instruments. At inception of a derivative contract, the Company designates the derivative as one of three types, including fair value hedge, cash flow hedge, or non-designated derivative, based on the Company's intentions and belief as to the likely effectiveness as a hedge.

Interest rate swap agreements are recognized as assets or liabilities at fair value. For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged items attributable to the hedged risk, are recognized in current earnings as fair value changes. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives not designated are reported currently in earnings, as non-interest income.

Accrued settlements on interest rate swap agreements are recorded in interest income or interest expense, based on the item being hedged. All contracts settle monthly. In addition, the Company or the counterparty might obtain collateral above certain thresholds of the fair value of its derivative based.

The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are designated are highly effective in offsetting changes in fair values or cash flows of the hedged item. The Company is exposed to losses if a counterparty fails to make its payment under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparty will be able to fully satisfy their obligations under the agreements.

Fair Value Measurements
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, excluding transaction costs. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

When measuring fair value, entities should maximize the use of observable inputs and minimize the use of unobservable inputs. The following describes the three levels of inputs that may be used to measure fair value:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- *Level 2 Inputs* - 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 Inputs* - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

(d) Recently Issued or Adopted Accounting Pronouncements

FASB ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, was issued in December 2023. The amendments in this ASU requires a public business entity to disclose, on an annual basis, a tabular rate reconciliation using both percentages and currency amounts, broken out into specified categories with certain reconciling items further broken out by nature and jurisdiction to the extent those items exceed a specified threshold. In addition, all entities are required to disclose income taxes paid, net of refunds received disaggregated by federal, state/local, and foreign and by jurisdiction if the amount is at least 5% of total income tax payments, net of refunds received. The new standard is effective for annual periods beginning after December 15, 2024, with early adoption permitted. An entity may apply the amendments in this ASU prospectively by providing the revised disclosures for the period ending December 31, 2025 and continuing to provide the pre-ASU disclosures for the prior periods, or may apply the amendments retrospectively by providing the revised disclosures for all periods presented. The Company expects this ASU to only impact its disclosure requirements and does not expect the adoption of this ASU to have a material impact on its business operations or Consolidated Statements of Financial Condition.

FASB ASU 2024-03, *Disaggregation of Income Statement Expenses*, was issued in November 2024. This accounting standards update will require public companies to disclose, in the notes to financial statements, specified information about certain costs and expenses at each interim and annual reporting period. The amendments in this ASU are effective for fiscal years beginning after December 15, 2026, with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on its business operations or Consolidated Statements of Financial Condition.

Note 2 – Investment Securities

Debt securities have been classified according to management's intent. The Company did not hold any investment securities classified as trading or held to maturity as of December 31, 2024 or 2023.

The amortized cost of the Company's securities available for sale and their approximate fair value are as follows:

	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2024				
U.S. government agency securities	$ 11,430	$ -	$ (1,008)	$ 10,422
Collateralized mortgage obligations	62,559	4	(10,933)	51,630
Mortgage-backed securities	23,138	-	(3,135)	20,003
Corporates	8,000	-	-	8,000
Total	$ 105,127	$ 4	$ (15,076)	$ 90,055
December 31, 2023				
U.S. government agency securities	$ 12,973	$ 1	$ (1,083)	$ 11,891
Collateralized mortgage obligations	63,906	-	(10,855)	53,051
Mortgage-backed securities	29,551	-	(3,345)	26,206
Municipal securities	2,373	-	(231)	2,142
Corporates	8,000	-	-	8,000
Total	$ 116,803	$ 1	$ (15,514)	$ 101,290

Collateralized mortgage obligations ("CMO") and mortgage-backed securities ("MBS") in the tables above are comprised entirely of securities issued by Ginnie Mae, Fannie Mae, and Freddie Mac. U.S. government agency securities are pass-through loan pools issued by the Small Business Administration. State and municipal securities in the tables above are rated no lower than grade "AA+" by either Standard & Poor or Moody. Corporate securities are comprised entirely of subordinated debentures and other bonds issued by bank and financial holding companies, and are generally unrated.

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The amortized cost and fair value of debt securities available for sale at December 31, 2024, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because obligors may have the right to call or prepay obligations, and for mortgage-backed securities the repayment of the securities occurs on a monthly basis based on the repayment of the loans underlying the securities:

	Amortized Cost	Fair Value
Due in 1 year or less	$ -	$ -
Due after 1 year through 5 years	-	-
Due after 5 years through 10 years	14,335	13,470
Due after 10 years	5,095	4,952
Subtotal	19,430	18,422
CMOs and MBS	85,697	71,633
Total	$ 105,127	$ 90,055

The following tables present the gross unrealized losses and fair value of securities available for sale aggregated by the length of time the individual securities have been in a continuous unrealized loss position at December 31, 2024 and 2023:

	Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2024				
U.S. government agency securities	$ -	$ -	$ 10,366	$ (1,008)
Collateralized mortgage obligations	7,192	(218)	41,922	(10,715)
Mortgage-backed securities	2,339	(131)	17,664	(3,004)
December 31, 2023				
U.S. government agency securities	$ -	$ -	$ 11,817	$ (1,083)
Collateralized mortgage obligations	-	-	53,051	(10,855)
Mortgage-backed securities	-	-	26,206	(3,345)
Municipal securities	-	-	2,142	(231)

At December 31, 2024, unrealized losses are due to differences in market yields as compared to yields available at the time securities were purchased. Management has performed analyses of investment credit quality and cash flows on securities with unrealized losses and does not believe that any securities are impaired due to reasons of credit quality. The Company has the ability and intent to hold investment securities for a period of time sufficient for a recovery of cost, and credit loss analysis has not identified the need to record an allowance for credit losses on securities available for sale.

At December 31, 2024 and 2023 there are no securities on nonaccrual status and no securities for which principal or interest is past due.

The Company sold securities of $13,303 during the year ended December 31, 2024 for a pre-tax realized loss of $944. The Company did not realize gains during the year ended December 31, 2024. There were no sales of securities during the year ended December 31, 2023.

The fair value of pledged securities totaled $6,298 and $6,731 at December 31, 2024 and 2023, respectively.

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Note 3 - Loans Receivable

The Company originates loans in the ordinary course of business and has also acquired loans through mergers and acquisitions. In addition to originating loans, the Company may also purchase loans through pool purchases, participation purchases and syndicated loan purchases. Accrued interest receivable and net deferred loan fees were excluded from disclosures presenting the Company's amortized cost of loans receivable as it was deemed insignificant.

(a) Loan Origination/Risk Management
The Company categorizes the individual loans in the total loan portfolio into three segments: commercial, real estate, and consumer. Within these segments are classes of loans for which management monitors and assesses credit risks.

Loans at December 31 consist of the following portfolio segments and classes:

	2024	2023
Commercial	$ 119,556	$ 108,747
Real estate		
Residential 1-4 family	62,843	52,217
Multi-family	38,913	46,117
Commercial	223,371	221,413
Construction and land	18,894	11,372
Total real estate	344,021	331,119
Consumer	4,164	3,508
Total outstanding loans receivable	467,741	443,374
Less: net deferred loan fees	422	289
Loans	$ 467,319	$ 443,085

The quality of the Company's loan portfolio is impacted by a number of risk factors that are considered by management in the development of the allowance for credit losses. For construction, land and land development loans, major risk factors include demand levels for residential and commercial development, and real estate prices. For mortgage loans secured by residential real estate, major risk factors include unemployment levels and real estate prices. For mortgage loans secured by commercial real estate, major risk factors include demand levels for products and services, rental rates and real estate prices. For commercial non real estate loans, major risk factors include demand for products and services, and general economic activity levels. Fluctuating interest rates and inflation are also pertinent risk factors across all loan segments.

In assessing the risk factors as of December 31, 2024, management considers current conditions to be stressed and future conditions to be uncertain with an economic downturn possible, which are similar assessments to December 31, 2023. Additionally, with the initial adoption of a life-of-loan discounted cash flow methodology in 2023, some portion of the allowance for credit losses shifted from commercial loans to real estate loans in 2023.

(b) Credit Quality
As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators, including trends in risk grade of the loan. The Company utilizes a risk grading matrix to assign a risk grade to each loan on a scale of 1 to 10. Grades 1 to 5 are considered "Pass". Grade 6 is "Watch" but is categorized as "Pass" for reporting purposes. Grade 7 is "Special Mention"; grade 8 is "Substandard"; grade 9 is "Doubtful" and grade 10 is "Loss".

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The following tables present the outstanding balance of loans receivable by risk grade and origination year, at the dates indicated. The difference between outstanding balance and amortized cost basis is deemed not material.

	December 31, 2024						
	Term Loans Amortized Cost Basis by Origination Year						
	2024	2023	2022	2021	Prior	Revolving Loans	Total
Commercial							
Pass	$ 25,273	$ 17,647	$ 15,500	$ 2,006	$ 19,880	$ 37,877	$ 118,183
Substandard	-	-	139	413	21	800	1,373
Subtotal	25,273	17,647	15,639	2,419	19,901	38,677	119,556
Residential 1-4 Family							
Pass	9,839	5,872	12,814	5,927	6,866	21,525	62,843
Subtotal	9,839	5,872	12,814	5,927	6,866	21,525	62,843
Multifamily							
Pass	1,554	490	8,429	12,946	15,494	-	38,913
Subtotal	1,554	490	8,429	12,946	15,494	-	38,913
Commercial Real Estate							
Pass	14,226	18,363	71,226	26,800	86,037	-	216,652
Substandard	777	-	5,220	-	722	-	6,719
Subtotal	15,003	18,363	76,446	26,800	86,759	-	223,371
Construction and Land							
Pass	14,229	3,000	1,222	272	171	-	18,894
Subtotal	14,229	3,000	1,222	272	171	-	18,894
Consumer							
Pass	536	592	380	95	310	2,251	4,164
Subtotal	536	592	380	95	310	2,251	4,164
Loans Receivable							
Pass	65,657	45,964	109,571	48,046	128,758	61,653	459,649
Substandard	777	-	5,359	413	743	800	8,092
Total	$ 66,434	$ 45,964	$ 114,930	$ 48,459	$ 129,501	$ 62,453	$ 467,741

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	December 31, 2023					
	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans	Total
Commercial Real Estate						
Pass	$ 22,113	$ 73,877	$ 28,709	$ 95,902	$ -	$ 220,601
Substandard	-	-	-	812	-	812
Subtotal	22,113	73,877	28,709	96,714	-	221,413
All Other Real Estate						
Pass	12,371	34,621	20,016	28,758	13,913	109,679
Substandard	27	-	-	-	-	27
Subtotal	12,398	34,621	20,016	28,758	13,913	109,706
Commercial						
Pass	22,253	21,874	4,582	26,301	32,674	107,684
Substandard	-	-	19	549	495	1,063
Subtotal	22,253	21,874	4,601	26,850	33,169	108,747
Consumer						
Pass	577	783	103	584	1,461	3,508
Subtotal	577	783	103	584	1,461	3,508
Loans Receivable						
Pass	57,314	131,155	53,410	151,545	48,048	441,472
Substandard	27	-	19	1,361	495	1,902
Total	$ 57,341	$ 131,155	$ 53,429	$ 152,906	$ 48,543	$ 443,374

The following table presents the gross charge-offs by loan segment and year of origination, for the periods indicated:

	December 31, 2024						
	2024	2023	2022	2021	Prior	Revolving Loans	Total
Real estate	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	6	-	6
Consumer	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ 6	$ -	$ 6

	December 31, 2023					
	2023	2022	2021	Prior	Revolving Loans	Total
Real estate	$ -	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	249	-	249
Consumer	-	1	-	-	-	1
Total	$ -	$ 1	$ -	$ 249	$ -	$ 250

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(c) Nonaccrual Loans
There were no nonaccrual loans at December 31, 2024.

Nonaccrual loans and related allocations of the allowance for loan credit losses at December 31, 2023 were as follows:

	December 31, 2023				
	Nonaccrual Loans With No Valuation Allowance	Nonaccrual Loans With A Valuation Allowance	Total Nonaccrual Loans	Valuation Allowance On Nonaccrual Loans	Net Carrying Amount of Nonaccrual Loans
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial	475	-	475	-	475
Consumer	-	-	-	-	-
Total Nonaccrual	$ 475	$ -	$ 475	$ -	$ 475

Interest income on nonaccrual loans was immaterial in 2024 and 2023.

(d) Past Due Loans
The following tables present the outstanding balance of loans by past due and performance status for the periods indicated:

	December 31, 2024				
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
Real estate	$ 664	$ -	$ 664	$ 343,357	$ 344,021
Commercial	357	-	357	119,199	119,556
Consumer	24	-	24	4,140	4,164
Total	$ 1,045	$ -	$ 1,045	$ 466,696	$ 467,741

	December 31, 2023				
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
Real estate	$ 70	$ 50	$ 120	$ 330,999	$ 331,119
Commercial	282	505	787	107,960	108,747
Consumer	39	-	39	3,469	3,508
Total	$ 391	$ 555	$ 946	$ 442,428	$ 443,374

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(e) Loan Modifications
The Company may modify loans to borrowers in financial distress by providing modifications of loans which may include interest rate reductions, principal or interest forgiveness, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral.

At December 31, 2024, the Company has no loans modified in 2024 where the modification was deemed a financial difficulty modification. At December 31, 2023, the Company has no loans modified in 2023 where the modification was deemed a financial difficulty modification.

(f) Related Party Loans
In the ordinary course of business, the Company may grant loans to its executive officers, significant shareholders, directors, and parties affiliated with those persons (collectively, “related parties”). At December 31, 2024 and 2023, loan commitments to related parties totaled $7,191 and $4,460, respectively, and loans outstanding to related parties totaled $1,630 and $1,341, respectively.

Note 4 – Allowance for Credit Losses

The following table details the activity in the allowance for credit losses by segment for the years ended December 31, 2024 and 2023:

	Real Estate	Commercial	Consumer	Total
Balance at December 31, 2022	$ 1,779	$ 3,180	$ 19	$ 4,978
Provision (reversal) for credit losses	2,422	(2,437)	15	-
Charge-offs	-	(249)	(1)	(250)
Recoveries	-	962	-	962
Net (charge-offs) recoveries	-	713	(1)	712
Balance at December 31, 2023	4,201	1,456	33	5,690
Provision (reversal) for credit losses	(75)	(420)	(5)	(500)
Charge-offs	-	(6)	-	(6)
Recoveries	-	406	-	406
Net (charge-offs) recoveries	-	400	-	400
Balance at December 31, 2024	$ 4,126	$ 1,436	$ 28	$ 5,590

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Components of the allowance for credit losses, and the related carrying amount of loans for which the allowance is determined, are as follows:

	December 31, 2024			
	Real Estate	Commercial	Consumer	Total
Allocation of Allowance To:				
Loans evaluated individually	$ -	$ -	$ -	$ -
Loans evaluated collectively	4,126	1,436	28	5,590
Total	$ 4,126	$ 1,436	$ 28	$ 5,590
Carrying Amount In:				
Loans evaluated individually	$ 6,720	$ 1,373	$ -	$ 8,093
Loans evaluated collectively	337,301	118,183	4,164	459,648
Total	$ 344,021	$ 119,556	$ 4,164	$ 467,741

	December 31, 2023			
	Real Estate	Commercial	Consumer	Total
Allocation of Allowance To:				
Loans evaluated individually	$ -	$ -	$ -	$ -
Loans evaluated collectively	4,201	1,456	33	5,690
Total	$ 4,201	$ 1,456	$ 33	$ 5,690
Carrying Amount In:				
Loans evaluated individually	$ 840	$ 1,041	$ -	$ 1,881
Loans evaluated collectively	330,279	107,706	3,508	441,493
Total	$ 331,119	$ 108,747	$ 3,508	$ 443,374

Activity of the Company's allowance for unfunded commitments is included in Note 11- Commitments and Contingencies.

Note 5 - Premises and Equipment

Components of premises and equipment at December 31 are as follows:

	2024	2023
Land	$ 212	$ 212
Building	3,318	3,370
Leasehold improvements	1,885	1,349
Furniture and equipment	1,322	1,884
Software	70	117
Lease right-of-use assets	5,054	3,626
Fixed assets in-process	540	-
Total	12,401	10,558
Less: Accumulated depreciation and amortization	5,529	5,540
Premises and equipment, net	$ 6,872	$ 5,018

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Note 6 – Goodwill and Other Intangible Assets

(a) Goodwill
Goodwill resulted from the Bank's merger with Thurston First Bank in 2016 and represents the excess of purchase price over the fair value of acquired tangible assets and liabilities and identified assets. Goodwill is assessed at least annually for impairment, or more frequently if deemed necessary, and any impairment losses are recognized in earnings in the period identified. At December 31, 2024 and 2023, goodwill included in *Intangible assets* was $1,214. No impairment loss was recognized during the year ended December 31, 2024 or 2023.

(b) Core deposit intangible
The core deposit intangible resulted from the Bank's merger with Thurston First Bank in 2016 and represented the excess of the fair value of deposits acquired over their book value at the time of merger. The core deposit intangible was amortized to expenses over a seven-year period using an accelerated method. In addition, the core deposit intangible was assessed at least annually for impairment, and any impairment losses are recognized in earnings in the period identified. The core deposit intangible was fully amortized as of December 31, 2023.

Note 7 - Deposits

The composition of deposits at December 31 is as follows:

	2024	2023
Demand deposits, non-interest-bearing	$ 166,394	$ 154,950
NOW and money market accounts	334,585	302,080
Savings deposits	7,033	8,278
Time certificates equal to or over $250,000	48,219	28,974
Other time certificates	35,762	36,912
Total deposits	$ 591,993	$ 531,194

Scheduled maturities of time certificates of deposit for future years ending December 31 are as follows:

2025	$ 82,218
2026	1,036
2027	649
2028	52
2029	26
Total	$ 83,981

Certain related parties of the Company, principally directors and their affiliates, were deposit customers of the Company in the ordinary course of business during year ended December 31, 2024 and 2023. Deposits from related parties at December 31, 2024 and 2023 totaled $40,056 and $30,716, respectively.

Note 8 - Borrowings

The Company has agreements providing long-term and short-term borrowings with the FHLB of Des Moines with total available credit on the lines of $155,472 at December 31, 2024. The Company had no borrowings outstanding on these lines at either December 31, 2024 or 2023. The Company has a blanket pledge of $252,873 in loans as collateral for the FHLB borrowings at December 31, 2024.

In addition, the Company has pledged $60,956 of loans as collateral for borrowings with the Federal Reserve Bank. Available borrowings through this facility are approximately $43,941 at December 31, 2024.

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The Company has agreements with commercial banks for lines of credit totaling $34,000 and $25,000 at December 31, 2024 and 2023, respectively, none of which was used at either December 31, 2024 or 2023. The federal funds lines are uncommitted, and funding requests made by the Company are subject to the lending institution's approval and funding availability at the time of request. Federal funds bear interest at variable daily rates established by the correspondent.

Note 9 - Employee Benefits

(a) 401(k) Plan
The Company has a 401(k) profit sharing plan covering substantially all employees. Contributions to the 401(k) profit sharing plan consist of matching contributions, which match 100% of the employees' contributions up to 3% and then match 50% of the following 2%. The Company may also make profit sharing contributions which are at the discretion of its board of directors. There were $235 and $206 in contributions by the Company to this plan for the years ended December 31, 2024 and 2023, respectively.

(b) Supplemental Executive Retirement Plan
The Company has also established a non-qualified Supplemental Executive Retirement Plan ("SERP") to provide its certain executive officers with supplemental retirement benefits. The periodic pension expense for the supplemental plan amounted to $163 and $315 for the years ended December 31, 2024 and 2023. The present value of the projected benefit obligation and the vested benefit obligation was $1,984 and $1,921 at December 31, 2024 and 2023, respectively, all of which is unfunded. A discount rate of 4.8% was used in determining the actuarial projected benefit at both December 31, 2024 and 2023. The Company made cash payments of $100 related to the plans in both 2024 and 2023.

(c) Director's Equity Program
The Company offers Directors the option to receive their director's compensation in Company stock rather than cash. It is an election that is made annually for the following calendar year. No bargain purchase provisions are included in the program. Participation in the program defers monthly compensation payments for quarterly stock distributions prior to calendar quarter end. The shares are issued from authorized, unissued shares at the current market value. Current market value is determined as the Company's closing OTCQX market price on the day following the normally scheduled Board meeting in the last month of a calendar quarter. Any unused available cash is rolled into the balance available the following quarter. For the year ended December 31, 2024, director deferrals totaling $49 resulted in issuance of 4,570 shares. For the year ended December 31, 2023, director deferrals totaling $50 resulted in issuance of 4,899 shares.

(d) Employee Stock Purchase Plan (ESPP)
The Company initiated an ESPP in the second half of 2020. Employees are offered the opportunity to defer from their paycheck an even percentage between 1% and 10%. Elections are made for four quarterly Offering Periods per year, beginning on March 16, June 16, September 16 and December 16, each period ending on the 15th of the month prior to the beginning of the next Offering Period. Changes to voluntary elections may be made at any time to either their rate of deferral or participation altogether. Cancellation of participation or termination of employment prior to the end of an Offering period results in all cash withholdings not used for the prior purchase of shares to be returned in full to the participant. The pricing of shares purchased is determined as the lesser of the closing share price the first day of the Offering Period and the closing price on the last day of the Offering Period. This closing price is then discounted by 15% to determine the purchase price for shares issued that quarter. The shares are issued from authorized, unissued share balances available. For the year ended December 31, 2024, employee deferrals totaling $63 resulted in the issuance of 7,266 shares. For the year ended December 31, 2023, employee deferrals totaling $64 resulted in the issuance of 7,535 shares.

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Note 10 - Income Taxes

Allocation of income taxes between current and deferred portions is as follows:

	2024	2023
Income Taxes		
Current expense	$ 579	$ 822
Deferred expense (benefit)	39	(192)
Total income taxes	$ 618	$ 630

Income tax expense relates solely to federal income taxes as the state of Washington does not collect state income taxes. The reasons for the differences between the statutory federal income tax rate and the effective tax rate are summarized as follows:

	2024	2023
Statutory federal tax rate	21.0%	21.0%
Increase (decrease) resulting from:		
Tax exempt income	(6.0)	(3.7)
Company owned life insurance redemption	1.9	-
Other	0.1	(0.2)
Effective rate	17.0%	17.1%

Tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities are included as a part of *Other assets*, and are as follows at December 31:

	2024	2023
Deferred Tax Assets		
Allowance for credit losses	$ 1,174	$ 1,195
Discount of acquired loans	30	33
SERP liabilities	417	403
Unrealized loss on securities available for sale	3,127	3,258
Premises and equipment	-	26
Other	60	48
Total deferred tax assets	4,808	4,963
Deferred Tax Liabilities		
Deferred loan costs	240	289
Premises and equipment	64	-
Total deferred tax liabilities	304	289
Net deferred tax assets	$ 4,504	$ 4,674

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Note 11 - Commitments and Contingencies

(a) Commitments to Extend Credit and related Allowance for Credit Losses on Unfunded Commitments
The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the accompanying balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. A summary of the Company's commitments at December 31 is as follows:

	2024	2023
Commitments to extend credit	$ 105,636	$ 99,988
Standby letters of credit	1,406	1,445

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

At December 31, 2024 and 2023, the Company has an allowance for credit losses on unfunded commitments of $287 and $229, respectively, carried as a component of *Other liabilities*. The provision is recorded to provision for credit losses on unfunded commitments and totals $58 and $52 for the years ended December 31, 2024 and 2023, respectively.

(b) Legal Matters
Because of the nature of its activities, the Company is subject to various pending and threatened legal actions which may arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the financial position of the Company. Management has not been informed of any such claims at December 31, 2024.

(c) Leases
The Company maintains various building and land noncancelable operating lease agreements related to its branch locations. The majority of the leases contain renewal options and provisions for increases in rental rates based on an agreed upon index or predetermined escalation clause. The Company's operating lease right of use asset is included in *Premises and equipment, net*. The related operating lease right of use liability was $2,245 and $1,278 at December 31, 2024 and 2023, respectively, and is included as a component of *Other liabilities.* The Company does not have any leases designated as finance leases.

Total rent expense under these leases during the years ended December 31, 2024 and 2023 was $784 and $678, respectively, which includes operating lease costs and variable lease costs.

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The following table presents the lease payment obligations as of December 31, 2024 as outlined in the Company's lease agreements for each of the next five years and thereafter:

2025	$ 251
2026	192
2027	197
2028	202
2029	207
Thereafter	2,073
Total lease payments	3,122
Imputed Interest	877
Right of Use Liability	$ 2,245

The Company's lease for the Tacoma headquarters building expires in February 2025, and a new lease has been signed that will commence on March 1, 2025. The lease is for 12 years, and the approximate annual rental commitment will be $350,000. Since the Company does not have access to these facilities at this time, these figures are not included in the right-of-use asset or lease liability on the balance sheet as of December 31, 2024. Additionally, they are not included in the future rental commitments table above.

Note 12 - Significant Concentrations of Credit Risk

Most of the Company's business activity is with customers located in the state of Washington. Loans are generally limited, by federal and state banking regulations, to 20 percent of the Company's shareholders' equity, excluding accumulated other comprehensive income plus allowance for credit losses.

Note 13 – Equity

(a) Preferred Stock
The Company's Board of Directors has the continual authority to create one or more series of preferred stock from the 100,000 authorized shares, including designations, powers, preferences, rights, qualifications, limitations and restrictions. This includes voting rights, dividend and conversion rates, redemption prices and liquidation preferences. No preferred stock was issued or outstanding in 2024 and 2023.

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(b) Earnings Per Share
The calculation of earnings per share and earnings per share assuming full dilution from all stock options is as follows:

	Year Ended December 31,	
	2024	**2023**
	(Dollars in thousands, except shares)	
Net income available to common stockholders	$ 3,012	$ 3,050
Basic EPS		
Weighted average common shares outstanding	3,864,333	3,969,884
Diluted EPS		
Basic weighted average common shares outstanding	3,864,333	3,969,884
Dilutive effect of all stock options and restricted stock units	29,507	58,140
Total diluted weighted average common shares outstanding	3,893,840	4,028,024
Basic EPS	$ 0.78	$ 0.77
Diluted EPS	$ 0.77	$ 0.76

(c) Dividends
The timing and amount of cash dividends paid on the Company's common stock depends on the Company's earnings, capital requirements, financial condition and other relevant factors. Dividends on common stock from the Company depend substantially upon receipt of dividends from the Bank, which is the Company's predominant source of income.

During the year ended December 31, 2024, the Company paid cash dividends of $0.20 per share totaling $787. No dividends were paid during the year ended December 31, 2023.

(d) Stock Repurchase Program
The Company has implemented various stock repurchase programs. The number, timing, and price of shares repurchased under the plans will depend on the business and market conditions and other factors, including opportunities to deploy the Company's capital. The stock repurchase program does not obligate the Company to repurchase any shares of its common stock. In addition to the stock repurchase under the stock repurchase plan, the Company repurchases shares to pay withholding taxes on the vesting of restricted stock units. The shares repurchased are not material.

In June 2022, the Company entered into a common stock repurchase plan ("2022 Share Repurchase Plan") with an independent broker. The Company's Board of Directors authorized the repurchase of up to 5% of the Company's outstanding common shares, or 199,895 shares. During the year ended December 31, 2023, the total shares repurchased under the 2022 Share Repurchase Plan was 23,061 with an average price of $9.16.

In November 2023, the Company entered into a common stock repurchase plan ("Purchase Plan") with an independent broker. The Company's Board of Directors authorized the repurchase of up to 5% of the Company's outstanding common shares, or 198,293 shares. The plan expires at the earlier of November 2024 or the repurchase of 198,293 shares. During the year ended December 31, 2024, the total shares repurchased under the Purchase Plan was 186,000 with an average price of $10.14.

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Note 14 - Stock Compensation Plans

Under the Company's 2022 Equity Incentive Plan ("2022 Plan"), the Company may grant both incentive and nonqualified awards for up to 650,000 shares of its common stock to certain key employees or directors. The 2022 Plan permits the grant of options, restricted stock, restricted stock units, stock appreciation rights, or other equity-based awards and performance bonuses. There are 289,116 shares available for future issuance under the 2022 Plan as of December 31, 2024.

At December 31, 2024, stock-based compensation expense related to unvested stock options granted and unvested restricted stock units is expected to be recognized as follows:

2025	$ 413
2026	277
2027	89
2028	26
2029	4
Total	$ 809

(a) Employee Stock Options
The exercise price of each option equals the fair market value of the Company's stock on the date of grant, and an option's maximum term is ten years. Options vest ratably over five years.

The fair value of each option grant is estimated on the date of grant, based on the Black-Scholes option pricing model and using the following weighted-average assumptions at December 31:

	2024	**2023**
Dividend Yield	0.00%	0.00%
Expected Life	6.5 years	6.5 years
Risk-free interest rate	4.34%	3.54%
Expected volatility	26.42%	25.89%

At the time of the stock grant there were no plans to issue a cash dividend in the near term; therefore, management assumed no dividend yield. The Company elected to apply the simplified method prescribed by guidance to calculate the expected life of the options. The Company utilized a five-year, risk-free yield rate for the interest rate utilized. The Company used historical data to determine expected volatility.

The Black-Scholes model used by the Company to calculate option values and other currently accepted option valuation models was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models require highly subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

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A summary of the status of the Company's stock option plans and as of December 31, 2024, along with activities during the year are presented below:

	Shares	Weighted Exercise Price, Per Share	Weighted-Average Grant Date Fair Value, Per Share	Weighted-Average Contractual Life (Years)
Outstanding at beginning of year	260,255	$ 13.63	$ 3.55	6.51
Options granted	35,000	9.95	3.70	
Options exercised	(2,400)	9.00	2.78	
Options forfeited	(52,800)	13.92	3.57	
Outstanding at end of year	240,055	$ 13.07	$ 3.58	6.16
Vested and exercisable at end of year	**140,455**	**$ 13.86**	**$ 3.64**	**5.05**

At December 31, 2024, total outstanding options had an aggregate intrinsic value of $171 and vested options had an aggregate intrinsic value of $52. Aggregate intrinsic value is based on the difference of the exercise price of the underlying shares and the Company's end of year OTCQX closing price.

A summary of the status of the Company's stock option plans as of December 31, 2023, along with activities during the year are presented below:

	Shares	Weighted Exercise Price, Per Share	Weighted-Average Grant Date Fair Value, Per Share	Weighted-Average Contractual Life (Years)
Outstanding at beginning of year	268,255	$ 13.73	$ 3.42	7.10
Options granted	40,000	11.95	4.16	
Options exercised	-	-	-	
Options forfeited	(48,000)	12.79	3.33	
Outstanding at end of year	260,255	$ 13.63	$ 3.55	6.51
Vested and exercisable at end of year	**145,055**	**$ 14.12**	**$ 3.76**	**5.43**

For the years ended December 31, 2024 and 2023, the Company recognized stock option compensation expense of $119 and $170, respectively.

(b) Employee Restricted Stock Units
Company can award restricted stock units ("units") to certain employees under the 2022 Plan. Compensation expense is recognized over the vesting period of the units based on the fair value of the stock at issue date. The fair value of the units was determined by using the over-the-counter market "OTCQX", where the Company is listed. The units generally vest ratably over three years.

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The following is a schedule of the Company's unit activity for the periods indicated:

	Units	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2022	38,380	$ 13.32
Granted	35,500	11.60
Vested, gross of withholding	(10,780)	13.66
Canceled	(5,800)	12.55
Nonvested at December 31, 2023	57,300	$ 12.27
Granted	39,000	10.07
Vested, gross of withholding	(18,629)	12.15
Canceled	(8,001)	11.30
Nonvested at December 31, 2024	69,670	$ 11.18

For the years ended December 31, 2024 and 2023, the Company recognized restricted stock unit compensation expense of $277 and $248, respectively.

Note 15 – Derivative Financial Instruments

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual swap agreements.

The Company entered into a fair value hedge during the year ended December 31, 2024. The following table presents the notional amounts and estimate fair value of the derivatives at the date indicated:

	December 31, 2024	
	Notional Amount	Fair Value
Included in Other Assets:		
Derivatives designated as hedging instruments:		
Interest rate swaps related to available for sale securities- MBS	$ 40,000	$ 177

The following table presents the further information on the derivatives at the date indicated:

	December 31, 2024	
	Carrying Amount of Hedged Asset	Cumulative Amount of Fair Value Hedging Adjustment included in the Carrying Amount of the Hedged Asset
Interest rate swaps related to available for sale securities- MBS	$ 73,102	$ (182)

The Company recorded $11 of interest income related to the gain on fair value hedge relationship during the year ended December 31, 2024 in *Interest and Dividend Income on Securities Available for Sale*.

The hedge was determined to be effective during all periods presented. The Company expects the hedges to remain effective during the remaining term of the swap.

Note 16 - Regulatory Matters

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines, and additionally for banks prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios of common equity tier 1 capital, tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier 1 capital to quarterly average assets (as defined). The Basel III capital rules require the Bank to maintain a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% common equity tier 1 capital ratio, effectively resulting in a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7%). The Bank is also required to maintain a tier 1 capital to risk-weighted assets ratio of 6.0% (8.5% including the capital conservation buffer), a total capital to risk-weighted assets ratio of 8.0% (10.5% including the capital conservation buffer), and a tier 1 capital to quarterly average assets ratio of 4.0%.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with capital ratios above the base minimums but below the effective minimums (which include the buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The Bank's regulatory capital is comprised of the following: 1) Common equity tier 1 capital – consisting of common stock, related paid-in-capital and retained earnings; 2) Additional tier 1 capital – there are no components of tier 1 capital beyond common equity tier 1 capital; 3) Tier 2 capital - consisting of a permissible portion of the allowance for credit losses; and 4) total capital - the aggregate of all tier 1 and tier 2 capital. In connection with the adoption of the Basel III Capital Rules, the Company elected to opt-out of the requirement to include most components of accumulated other comprehensive income in common equity tier 1 capital.

Capital amounts and ratios for the dates indicated are as follows:

	Actual		Adequately Capitalized		Well-Capitalized <1>	
December 31, 2024						
Total capital	$ 67,551	13.70%	$ 51,790	10.50%	$ 49,324	10.00%
Tier 1 capital	61,674	12.50	41,925	8.50	39,459	8.00
Common equity Tier 1 capital	61,674	12.50	34,527	7.00	32,061	6.50
Leverage Ratio	61,674	9.49	26,001	4.00	32,502	5.00
December 31, 2023						
Total capital	$ 66,729	14.52%	$ 48,267	10.50%	$ 45,969	10.00%
Tier 1 capital	60,981	13.27	39,074	8.50	36,775	8.00
Common equity Tier 1 capital	60,981	13.27	32,178	7.00	29,880	6.50
Leverage Ratio	60,981	10.17	23,982	4.00	29,978	5.00

<1> Well-capitalized under prompt corrective action regulations

Regulatory authorities can initiate certain mandatory actions if the Bank fails to meet the minimum capital requirements, which could have a direct and material effect on the Company's financial statements. Management believes, as of December 31, 2024 and 2023, that the Bank meets all capital adequacy requirements to which it is subject and that the Bank exceeds the minimum levels necessary to be considered "well-capitalized".

Note 17 - Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. There are three levels of inputs that may be used to measure fair values: Level 1, Level 2, and Level 3.

(a) Recurring and Nonrecurring Basis
The following is a description of the Company's valuation methodologies to measure the fair value of certain assets on a recurring and nonrecurring basis:

Securities Available for Sale – The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2). During 2024 and 2023, the Company held $8,000 in corporate securities included in level 3 assets. The amortized cost is estimated to be fair value for these securities.

Collateral-Dependent Loans – The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect an allowance for credit losses determined using the fair value of the collateral. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent loans are obtained from real estate brokers or other third-party consultants (Level 3).

Other Real Estate Owned – The Company does not record other real estate owned at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these properties to reflect the current appraised value (less an estimate of cost to sell). In some cases, the properties for which appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for other real estate owned are obtained from independent appraisers (Level 3).

Derivative Financial Instruments – The Company obtains broker or dealer quotes to value its interest rate derivative contracts, which use valuation models using observable market data as of the measurement date (Level 1).

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Recurring Basis:
The following table summarizes the balances of assets measured at fair value on a recurring basis at the dates indicated:

	As of December 31, 2024			
	Total	Level 1	Level 2	Level 3
Assets				
Securities available for sale				
U.S. government agency securities	$ 10,422	$ -	$ 10,422	$ -
Collateralized mortgage obligations	51,630	-	51,630	-
Mortgage-backed securities	20,003	-	20,003	-
Corporates	8,000	-	-	8,000
Total securities available for sale	90,055	-	82,055	8,000
Derivative asset - interest rate swap	177	177	-	-

	As of December 31, 2023			
	Total	Level 1	Level 2	Level 3
Assets				
Securities available for sale				
U.S. government agency securities	$ 11,891	$ -	$ 11,891	$ -
Collateralized mortgage obligations	53,051	-	53,051	-
Mortgage-backed securities	26,206	-	26,206	-
Municipal securities	2,142	-	2,142	-
Corporates	8,000	-	-	8,000
Total securities available for sale	101,290	-	93,290	8,000

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

Nonrecurring Basis:
The Company may be required to measure certain financial assets and liabilities at fair value on a nonrecurring basis. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets.

The Company held no collateral –dependent loans with valuation allowances or other real estate owned at December 31, 2024 and 2023.

(b) Fair Value of Financial Instruments
Broadly traded markets do not exist for most of the Company's financial instruments; therefore, the fair value calculations attempt to incorporate the effect of current market conditions at a specific time. These determinations are subjective in nature, involve uncertainties and matters of significant judgment and do not include tax ramifications; therefore, the results cannot be determined with precision, substantiated by comparison to independent markets and may not be realized in an actual sale or immediate settlement of the instruments. There may be inherent weaknesses in any calculation technique and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results. For all these reasons, the aggregation of the fair value calculations presented herein do not represent, and should not be construed to represent, the underlying value of the Company.

Commencement Bancorp Inc. and Subsidiary
For the Years Ended December 31, 2024 and 2023

The estimated fair values of the Company's financial instruments for the periods indicated are as follows:

	As of December 31, 2024				
			Fair Value Measurements Using:		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	$ 10,564	$ 10,564	$ 10,564	$ -	$ -
Interest-bearing deposits in other financial institutions	47,757	47,757	47,757	-	-
Federal funds sold	5,779	5,779	5,779	-	-
Securities available for sale	90,055	90,055	-	82,055	8,000
Federal Reserve Bank stock	1,362	1,362	1,362	-	-
Federal Home Loan Bank stock	352	352	352	-	-
Pacific Coast Bankers' Bancshares stock	190	190	-	-	190
Loans, net	461,729	438,529	-	-	438,529
Cash surrender value of life insurance	14,558	14,558	14,558	-	-
Accrued interest receivable	1,778	1,778	2	241	1,535
Derivatives assets - interest rate swap	177	177	177	-	-
Financial Liabilities:					
Non-maturity deposits	508,012	508,012	-	508,012	-
Certificate of deposit	83,981	84,160	-	-	84,160
Accrued interests payable	499	499	-	139	360

	As of December 31, 2023				
			Fair Value Measurements Using:		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	$ 8,090	$ 8,090	$ 8,090	$ -	$ -
Interest-bearing deposits in other financial institutions	3,775	3,775	3,775	-	-
Time deposits in other financial institutions	996	996	996	-	-
Federal funds sold	2,429	2,429	2,429	-	-
Securities available for sale	101,290	101,290	-	93,290	8,000
Federal Reserve Bank stock	1,349	1,349	1,349	-	-
Federal Home Loan Bank stock	349	349	349	-	-
Pacific Coast Bankers' Bancshares stock	190	190	-	-	190
Loans, net	437,395	412,359	-	-	412,359
Cash surrender value of life insurance	15,557	15,557	15,557	-	-
Accrued interest receivable	2,066	2,066	3	291	1,772
Financial Liabilities:					
Non-maturity deposits	465,308	465,308	-	465,308	-
Certificate of deposit	65,886	65,430	-	-	65,430
Accrued interests payable	368	368	-	196	172

Commencement Bancorp Inc. and Subsidiary
For the Years Ended December 31, 2024 and 2023

Note 18 - Subsequent Events

Management evaluates events occurring subsequent to the balance sheet date, through the date the financial statements are available to be issued, to determine whether the events require recognition or disclosure in the financial statements. If a subsequent event evidences conditions existing at the balance sheet date, the effects are recognized in the financial statements (recognized subsequent event). If a subsequent event evidences conditions arising after the balance sheet date, the effects are not recognized in the financial statements but rather disclosed in the notes to the financial statements (non-recognized subsequent events). The effects of subsequent events are only recognized if material, or disclosed if the financial statements would otherwise be misleading.

With respect to the December 31, 2024 financial statements, management has considered subsequent events through March 28, 2025, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Commencement Bancorp, Inc. and Subsidiary

CONSOLIDATING BALANCE SHEET

December 31, 2024

	Commencement Bank	Commencement Bancorp, Inc.	Elimination	Consolidated
Assets				
Cash and due from banks	$ 10,564	$ 149	$ (149)	$ 10,564
Interest bearing deposits in other financial institutions	47,757	-	-	47,757
Federal funds sold	5,779	-	-	5,779
Cash and cash equivalents	64,100	149	(149)	64,100
Investment in subsidiary	-	51,125	(51,125)	-
Securities available for sale	90,055	-	-	90,055
Federal Reserve Bank stock, at cost	1,362	-	-	1,362
Federal Home Loan Bank stock, at cost	352	-	-	352
Pacific Coast Bankers' Bancshares stock, at cost	190	-	-	190
Loans	467,319	-	-	467,319
Less allowance for credit losses	(5,590)	-	-	(5,590)
Net loans	461,729	-	-	461,729
Premises and equipment, net	6,872	-	-	6,872
Company owned life insurance	14,558	-	-	14,558
Accrued interest receivable	1,778	-	-	1,778
Intangible assets	1,214	-	-	1,214
Other assets	7,331	155	(4)	7,482
Total Assets	$ 649,541	$ 51,429	$ (51,278)	$ 649,692
Liabilities and Shareholders' Equity				
Liabilities				
Deposits				
Demand, noninterest-bearing	$ 166,543	$ -	$ (149)	$ 166,394
Savings and interest-bearing demand	341,618	-	-	341,618
Time	83,981	-	-	83,981
Total deposits	592,142	-	(149)	591,993
Accrued interest payable	499	-	-	499
Other liabilities	5,775	7	(4)	5,778
Total liabilities	598,416	7	(153)	598,270
Shareholders' equity				
Common stock	4,201	3,814	(4,201)	3,814
Additional paid-in capital	41,330	41,905	(41,330)	41,905
Retained earnings	17,357	17,466	(17,357)	17,466
Accumulated other comprehensive loss	(11,763)	(11,763)	11,763	(11,763)
Total shareholders' equity	51,125	51,422	(51,125)	51,422
Total liabilities and shareholders' equity	$ 649,541	$ 51,429	$ (51,278)	$ 649,692

Commencement Bancorp, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF INCOME

Year ended December 31, 2024

	Commencement Bank	Commencement Bancorp, Inc.	Elimination	Consolidated
Interest and Dividend Income				
Interest and fees on loans	$ 26,514	$ -	$ -	$ 26,514
Interest-bearing and time deposits in other financial institutions	811	-	-	811
Securities available for sale	2,368	-	-	2,368
Dividends on equity securities and other	122	-	-	122
Total interest income and dividend	29,815	-	-	29,815
Interest Expense				
Deposits	10,185	-	-	10,185
Borrowings	134	-	-	134
Total interest expense	10,319	-	-	10,319
Net interest income	19,496	-	-	19,496
Provision for Credit Losses				
Provision (reversal) for credit losses - loans	(500)	-	-	(500)
Provision for credit losses - unfunded commitments	58	-	-	58
Toal provision (reversal) for credit losses	(442)	-	-	(442)
Net interest income after provision for credit losses	19,938	-	-	19,938
Noninterest income				
Service charges on deposit accounts	262	-	-	262
Dividend from subsidiary	-	2,765	(2,765)	-
Loss on sale of investment securities	(944)	-	-	(944)
Other	1,232	42	-	1,274
Total noninterest income	550	2,807	(2,765)	592
Noninterest expenses				
Salaries and employee benefits	10,781	-	-	10,781
Occupancy	1,235	-	-	1,235
Furniture and equipment	254	-	-	254
Data processing	438	-	-	438
Marketing and development	449	-	-	449
Other	3,715	28	-	3,743
Total noninterest expenses	16,872	28	-	16,900
Income before income taxes and earnings of subsidiary	3,616	2,779	(2,765)	3,630
Undistributed net income of subsidiary	-	233	(233)	-
Income tax expense (benefit)	618	-	-	618
Net Income	$ 2,998	$ 3,012	$ (2,998)	$ 3,012

Commencement Bancorp, Inc. and Subsidiary

CONSOLIDATING BALANCE SHEET

December 31, 2023

	Commencement Bank	Commencement Bancorp, Inc.	Elimination	Consolidated
Assets				
Cash and due from banks	$ 8,090	$ 71	$ (71)	$ 8,090
Interest bearing deposits in other financial institutions	3,775	-	-	3,775
Federal funds sold	2,429	-	-	2,429
Cash and cash equivalents	14,294	71	(71)	14,294
Investment in subsidiary	-	49,939	(49,939)	-
Time deposits in other financial institutions	996	-	-	996
Securities available for sale	101,290	-	-	101,290
Federal Reserve Bank stock, at cost	1,349	-	-	1,349
Federal Home Loan Bank stock, at cost	349	-	-	349
Pacific Coast Bankers' Bancshares stock, at cost	190	-	-	190
Loans	443,085	-	-	443,085
Less allowance for credit losses	(5,690)	-	-	(5,690)
Net loans	437,395	-	-	437,395
Premises and equipment, net	5,018	-	-	5,018
Company owned life insurance	15,557	-	-	15,557
Accrued interest receivable	2,066	-	-	2,066
Intangible assets	1,214	-	-	1,214
Other assets	6,374	99	-	6,473
Total Assets	$ 586,092	$ 50,109	$ (50,010)	$ 586,191
Liabilities and Shareholders' Equity				
Liabilities				
Deposits				
Demand, noninterest-bearing	$ 155,021	$ -	$ (71)	$ 154,950
Savings and interest-bearing demand	310,358	-	-	310,358
Time	65,886	-	-	65,886
Total deposits	531,265	-	(71)	531,194
Accrued interest payable	368	-	-	368
Other liabilities	4,520	-	-	4,520
Total liabilities	536,153	-	(71)	536,082
Shareholders' equity				
Common stock	4,201	3,973	(4,201)	3,973
Additional paid-in capital	40,871	43,151	(40,871)	43,151
Retained earnings	17,123	15,241	(17,123)	15,241
Accumulated other comprehensive loss	(12,256)	(12,256)	12,256	(12,256)
Total shareholders' equity	49,939	50,109	(49,939)	50,109
Total liabilities and shareholders' equity	$ 586,092	$ 50,109	$ (50,010)	$ 586,191

Commencement Bancorp, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF INCOME

Year ended December 31, 2023

	Commencement Bank	Commencement Bancorp, Inc.	Elimination	Consolidated
Interest and Dividend Income				
Interest and fees on loans	$ 23,144	$ -	$ -	$ 23,144
Interest-bearing and time deposits in other financial institutions	438	-	-	438
Securities available for sale	2,703	-	-	2,703
Dividends on equity securities	118	-	-	118
Total interest income and dividend	26,403	-	-	26,403
Interest Expense				
Deposits	7,841	-	-	7,841
Borrowings	238	-	-	238
Total interest expense	8,079	-	-	8,079
Net interest income	18,324	-	-	18,324
Provision for Credit Losses				
Provision (reversal) for credit losses - loans	-	-	-	-
Provision for credit losses - unfunded commitments	52	-	-	52
Toal provision (reversal) for credit losses	52	-	-	52
Net interest income after provision for credit losses	18,272	-	-	18,272
Noninterest income				
Service charges on deposit accounts	133	-	-	133
Dividend from subsidiary	-	200	(200)	-
Other	1,194	-	-	1,194
Total noninterest income	1,327	200	(200)	1,327
Noninterest expenses				
Salaries and employee benefits	9,609	-	-	9,609
Occupancy	1,105	-	-	1,105
Furniture and equipment	231	-	-	231
Data processing	781	-	-	781
Marketing and development	466	-	-	466
Other	3,689	38	-	3,727
Total noninterest expenses	15,881	38	-	15,919
Income before income taxes and earnings of subsidiary	3,718	162	(200)	3,680
Undistributed net income of subsidiary	-	2,888	(2,888)	-
Income tax expense (benefit)	630	-	-	630
Net Income	$ 3,088	$ 3,050	$ (3,088)	$ 3,050

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