CW BANCORP AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2024 AND 2023

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors
CW Bancorp and Subsidiary
Irvine, California

Report on the Audit of the Consolidated Financial Statements and Internal Control over Financial Reporting

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the consolidated financial statements of CW Bancorp and Subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, changes in stockholders' 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 referred to above present fairly, in all material respects, the financial position of CW Bancorp and 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.

We also have audited CW Bancorp and Subsidiary's internal control over financial reporting as of December 31, 2024, based on the criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, CW Bancorp and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2024, based on criteria established in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Basis for Opinions

We conducted our audit 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 Audits of the Consolidated Financial Statements and Internal Control Over Financial Reporting section of our report. We are required to be independent of CW Bancorp and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Responsibilities of Management for the Consolidated Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control over Financial Reporting.

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 CW Bancorp and Subsidiary's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements and Internal Control Over Financial Reporting

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 about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of consolidated financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness 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 to be 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.

In performing an audit of consolidated financial statements and an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 financial statement audit in order to design audit procedures that are appropriate in the circumstances.

- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- 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 CW Bancorp and Subsidiary'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 financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because of management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICA), our audit of CW Bancorp and Subsidiary's internal control over financial reporting included controls over the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Reports of Condition and Income for A Bank with Domestic Offices Only (Call Report instructions). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Eide Bailly LLP

Laguna Hills, California
March 28, 2025

CW BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2024 AND 2023

ASSETS

	2024	2023
Cash and Due from Banks	$ 502,121,000	$ 385,967,000
Interest-Bearing Deposits in Other Banks	752,000	752,000
TOTAL CASH AND CASH EQUIVALENTS	502,873,000	386,719,000
Time Deposits in Other Banks	495,000	745,000
Securities Available for Sale (Amortized cost of $151,351,000 at 2024 and $123,740,000 at 2023), net of Allowance for Credit Losses of $0 at 2024 and $0 at 2023	136,912,000	110,809,000
Securities Held to Maturity, net of Allowance for Credit Losses of $756,000 at 2024 and $856,000 at 2023	28,581,000	50,610,000
Loans:		
Real Estate	604,833,000	570,935,000
Commercial and Industrial	118,223,000	85,834,000
Consumer	62,129,000	59,072,000
TOTAL LOANS	785,185,000	715,841,000
Premium on Loans Purchased	5,589,000	6,116,000
Net Deferred Loan Costs (Fees)	2,301,000	2,487,000
Allowance for Credit Losses	(11,489,000)	(11,533,000)
NET LOANS	781,586,000	712,911,000
Premises and Equipment	808,000	1,038,000
Restricted Stock, at Cost	6,840,000	6,840,000
Bank Owned Life Insurance ("BOLI")	8,734,000	8,502,000
Deferred Income Taxes	9,460,000	9,838,000
Goodwill	3,061,000	3,061,000
Right of Use ("ROU") Asset	2,734,000	3,368,000
Accrued Interest and Other Assets	8,268,000	7,328,000
TOTAL ASSETS	$ 1,490,352,000	$ 1,301,769,000

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

CW BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

LIABILITIES AND STOCKHOLDERS' EQUITY

	2024	2023
Deposits:		
Noninterest-Bearing Demand	$ 613,877,000	$ 548,149,000
Money Market	115,738,000	88,643,000
Savings and NOW	508,841,000	419,797,000
Time	103,965,000	101,900,000
TOTAL DEPOSITS	1,342,421,000	1,158,489,000
Subordinated Debenture	50,000,000	50,000,000
Operating Lease Liability	3,038,000	3,721,000
Other Liabilities	10,307,000	10,698,000
TOTAL LIABILITIES	1,405,766,000	1,222,908,000
Commitments and Contingencies - Note 10		
Stockholders' Equity:		
Preferred Stock - 100,000,000 Shares Authorized, No Par Value; No Shares Issued and Outstanding	-	-
Common Stock - 100,000,000 Shares Authorized, No Par Value; Issued and Outstanding 2,990,223 and 3,096,360 at 2024 and 2023, respectively	12,464,000	12,939,000
Additional Paid-in Capital	2,219,000	2,117,000
Retained Earnings	80,082,000	72,921,000
Accumulated Other Comprehensive (Loss), Net of Taxes of ($4,259,000) in 2024 and ($3,815,000) in 2023	(10,179,000)	(9,116,000)
TOTAL STOCKHOLDERS' EQUITY	84,586,000	78,861,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,490,352,000	$ 1,301,769,000

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

CW BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
INTEREST INCOME		
Interest and Fees on Loans	$ 40,690,000	$ 40,017,000
Interest on Taxable Investment Securities	3,905,000	3,283,000
Interest on Tax-Exempt Investment Securities	894,000	1,026,000
Other Interest Income	8,701,000	7,859,000
TOTAL INTEREST INCOME	54,190,000	52,185,000
INTEREST EXPENSE		
Interest on Deposits	12,366,000	9,584,000
Subordinated Debenture	1,875,000	1,875,000
Interest on Borrowings	-	9,000
TOTAL INTEREST EXPENSE	14,241,000	11,468,000
NET INTEREST INCOME	39,949,000	40,717,000
Provision for (Benefit from) Credit Losses	-	(1,326,000)
NET INTEREST INCOME AFTER PROVISION FOR (BENEFIT FROM) CREDIT LOSSES	39,949,000	42,043,000
NONINTEREST INCOME		
Service Charges and Fees on Deposits	4,932,000	5,088,000
Earnings on BOLI	232,000	214,000
Net Loss on Sale of Available for Sale Securities	-	(166,000)
Servicing Fees	382,000	481,000
Other	620,000	764,000
	6,166,000	6,381,000
NONINTEREST EXPENSE		
Salaries and Employee Benefits	10,757,000	10,465,000
Furniture and Equipment Expense	441,000	498,000
Occupancy Expense of Premises	901,000	854,000
Data Processing	2,341,000	1,748,000
Professional and Legal	999,000	1,015,000
Marketing	320,000	337,000
FDIC Insurance	764,000	643,000
Other Client Expense	7,428,000	4,950,000
Other	3,847,000	3,577,000
	27,798,000	24,087,000
INCOME BEFORE INCOME TAXES	18,317,000	24,337,000
Income Tax Expense	5,144,000	6,726,000
NET INCOME	$ 13,173,000	$ 17,611,000
Basic Earnings Per Common Share	$ 4.34	$ 5.46
Diluted Earnings Per Common Share	$ 4.30	$ 5.39

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

CW BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Net Income	$ 13,173,000	$ 17,611,000
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized Gain (Loss) on Securities Available for Sale:		
Change in Net Unrealized (Loss) Gain	(1,508,000)	3,971,000
Reclassification of (Loss) Recognized in Net Income	-	(166,000)
	(1,508,000)	3,805,000
Related Income Tax Effect:		
Change in Unrealized (Loss) Gain	(445,000)	1,170,000
Reclassification of (Loss) Recognized in Net Income	-	(48,000)
	(445,000)	1,122,000
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(1,063,000)	2,683,000
TOTAL COMPREHENSIVE INCOME	$ 12,110,000	$ 20,294,000

CW BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	Common Stock		Additional		Accumulated Other	
	Number of Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balance at December 31, 2022	3,314,358	$ 13,986,000	$ 2,305,000	$ 65,128,000	$ (11,799,000)	$ 69,620,000
Cumulative effect of change in accounting principle				(587,000)		(587,000)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	3,314,358	13,986,000	2,305,000	64,541,000	(11,799,000)	69,033,000
Net Income				17,611,000		17,611,000
Stock-Based Compensation			225,000			225,000
Stock Repurchase	(293,898)	(2,601,000)		(6,286,000)		(8,887,000)
Stock Options Exercised	75,900	1,554,000	(413,000)			1,141,000
Dividends on Common Stock				(2,945,000)		(2,945,000)
Other Comprehensive Gain					2,683,000	2,683,000
Balance at December 31, 2023	3,096,360	12,939,000	2,117,000	72,921,000	(9,116,000)	78,861,000
Net Income				13,148,000		13,148,000
Stock-Based Compensation			274,000			274,000
Stock Repurchase	(141,313)	(1,283,000)		(3,203,000)		(4,486,000)
Stock Options Exercised	35,176	808,000	(172,000)			636,000
Dividends on Common Stock				(2,784,000)		(2,784,000)
Other Comprehensive Loss					(1,063,000)	(1,063,000)
Balance at December 31, 2024	2,990,223	$ 12,464,000	$ 2,219,000	$ 80,082,000	$ (10,179,000)	$ 84,586,000

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

CW BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
OPERATING ACTIVITIES		
Net Income	$ 13,173,000	$ 17,611,000
Adjustments to Reconcile Net Income to Net Cash		
From Operating Activities:		
Provision for (Benefit from) Credit Losses	25,000	(1,374,000)
Depreciation	284,000	344,000
Net Amortization on Securities	831,000	986,000
Loss on Sale of Available for Sale Securities	-	166,000
Earnings on BOLI	(232,000)	(214,000)
Deferred Tax Expense (Benefit)	822,000	(1,035,000)
Stock-Based Compensation	274,000	225,000
Other, Net	(1,383,000)	967,000
NET CASH FROM OPERATING ACTIVITIES	13,794,000	17,676,000
INVESTING ACTIVITIES		
Net Change in Time Deposits in Other Banks	250,000	-
Purchases of Securities Available for Sale	(39,500,000)	(8,942,000)
Call/Sale/Maturity of Securities Held to Maturity	22,101,000	84,000
Call/Sale/Maturity of Securities Available for Sale	11,090,000	25,457,000
Net (Increase) Decrease in Loans	(68,775,000)	71,930,000
Purchases of Premises and Equipment	(54,000)	(306,000)
Net Change in FRB and FHLB Stock	-	(596,000)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(74,888,000)	87,627,000
FINANCING ACTIVITIES		
Net Increase (Decrease) in Demand Deposits	181,867,000	(172,726,000)
Net Increase in Time Deposits	2,065,000	27,145,000
Stock Repurchases	(4,486,000)	(8,887,000)
Options Exercised	636,000	1,141,000
Dividends Paid	(2,784,000)	(2,945,000)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	177,298,000	(156,272,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	116,204,000	(50,969,000)
Cash and Cash Equivalents at Beginning of Year	386,719,000	437,688,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 502,923,000	$ 386,719,000
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 14,219,000	$ 11,069,000
Taxes Paid	$ 4,470,000	$ 7,784,000

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of CW Bancorp (the "Bancorp") and its wholly owned subsidiary, CommerceWest Bank (the "Bank"), collectively referred to herein as the "Company". All significant intercompany transactions have been eliminated. The Bancorp has no significant business activity other than its investments in the Bank. Accordingly, no separate financial information on the Bancorp is provided.

Nature of Banking Operations

CommerceWest Bank, N.A. was originally a nationally chartered commercial bank, which commenced operations on September 24, 2001. CommerceWest Bank, N.A. was initially incorporated on May 9, 2001. Its organizers began forming the Bank "in organization" in May 2000.

CommerceWest Bank (the "Bank") converted to a California State chartered commercial bank on December 1, 2012. The Bank was incorporated as a California commercial banking business on October 25, 2012. The Bank's Headquarters Office and its Main Office are located in Orange county. The Federal Deposit Insurance Corporation ("FDIC") insures its deposit accounts. The Bank is considered a public business entity.

On January 4, 2022, CommerceWest Bank became a wholly-owned subsidiary of CW Bancorp (the "Company") in an exchange of stock between entities under common control. CommerceWest Bank issued 100 shares of common stock in exchange for the surrender of all outstanding shares of the Bank’s common stock. There was no cash involved in this transaction.

The Company maintains a diversified loan portfolio comprised of commercial, real estate, small business and consumer loans. Loans are made primarily within the market areas of Orange, Los Angeles, Riverside and San Diego counties. These areas have diverse economies with principal industries being services, real estate and light manufacturing. As of December 31, 2024, real estate related loans accounted for approximately 77% of total loans, commercial and industrial loans were approximately 15% of total loans, and consumer loans were approximately 8% of total loans. The loans are expected to be repaid from cash flows of selected assets of the borrowers. The Company's policy requires that collateral be obtained on substantially all loans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 28, 2025, which is the date the consolidated financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term is the determination of the allowance for credit losses.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, due from banks and interest-bearing deposits in other banks with original maturity of 90 days or less.

Cash and Due From Banks

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank of San Francisco ("FRBSF"). As of December 31, 2024, the required percentage is zero. The Company implemented a deposit reclassification program with the approval of the FRBSF. This reclassification of deposits greatly reduced the reserve balances required at FRBSF. The Company was in compliance with all reserve requirements as of December 31, 2024 and 2023.

The Company maintains amounts due from banks which may exceed federally insured limits. The Company has not experienced any losses in such accounts. Balances in transaction accounts at other financial institutions may exceed amounts covered by federal deposit insurance. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents. The Company has not experienced any losses in such accounts.

Time Deposits in Other Banks

Time deposits in other banks mature within one year and are carried at cost.

Debt Securities

Debt securities are classified in three categories and accounted for as follows: debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are measured at amortized cost; debt securities bought and held principally for the purpose of selling in the near term are classified as trading securities and are measured at fair value, with unrealized gains and losses included in earnings; debt securities not classified as either held-to-maturity or trading securities are deemed as available-for-sale and are measured at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity. Gains or losses on sales of debt securities are determined on the specific identification method. Premiums and discounts are amortized or accreted using the interest method over the expected lives of the related securities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Debt Securities, Continued

Effective January 1, 2023, upon the adoption of ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): "Measurement of Credit Losses on Financial Instruments" ("CECL"), the Company accounts for credit losses on available for sale securities in accordance with FASB ASC Subtopic 326-30, Financial Instruments – Credit Losses - Available for Sale Debt Securities, ("FASB ASC Subtopic 326-30"). Debt securities are measured at fair value and subject to impairment testing. When a debt security is considered impaired, the Company must determine if the decline in fair value has resulted from a credit-related loss or other factors and then, (1) recognize an allowance for credit loss by a charge to earnings for the credit-related component (if any) of the decline in fair value, and (2) recognize in other comprehensive income (loss) any non-credit related components of the fair value change. If the amount of the amortized cost basis expected to be recovered increases in a future period, the valuation reserve would be reduced, but not more than the amount of the current existing reserve for that security.

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

Changes in the allowance for credit losses are recorded as provision for credit losses. Losses are charged against the allowance when management believes the collectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities of $989,000 and $816,000 at December 31, 2024 and 2023, respectively, is included in accrued interest and other assets on the consolidated statements of financial condition and is excluded from the estimate of credit losses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Debt Securities, Continued

Under CECL, the Company accounts for credit losses on held to maturity debt securities using the CECL methodology. The allowance for credit losses (ACL) is a valuation account, measured as the difference between the Bank's amortized cost basis and the net amount expected to be collected on the held to maturity debt securities (i.e., lifetime credit losses). The Company holds various debt securities that are guaranteed by the U.S. Government, that are highly rated by major rating agencies and have a long history of no credit losses. For municipal and subordinated debt securities, the estimate of expected credit losses considers historical credit loss data that is adjusted for current conditions and reasonable and supportable forecasts. Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type.

Accrued interest receivable on held-to-maturity debt securities of $209,000 and $347,000 at December 31, 2024 and 2023, respectively, is included in accrued interest and other assets on the consolidated statements of financial condition and is excluded from the estimate of credit losses.

Loans

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 unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Premiums and discounts on loans purchased are grouped by type and certain common risk characteristics and amortized or accreted as an adjustment of yield over the weighted-average remaining contractual lives of each group of loans, adjusted for prepayments when applicable, using methodologies which approximate the interest method.

Interest on loans is recognized over the terms of the loans and is calculated using the simple-interest method on principal amounts outstanding. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received and the loan's principal balance is deemed collectible.

The Company determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date. 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 the process of collection. All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. The accrual on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Allowance for Credit Losses - Loans

The Company accounts for credit losses on loans in accordance with Topic 326, which requires the Company to record an estimate of expected lifetime credit losses for loans at the time of origination.

The allowance for credit losses ("ACL") is maintained at a level deemed appropriate by management to provide for expected credit losses in the portfolio as of the date of the consolidated balance sheet. Estimating expected credit losses requires management to use relevant forward-looking information, including the use of reasonable and supportable forecasts. The measurement of the ACL is performed by collectively evaluating loans with similar risk characteristics. The Company has elected to utilize a discounted cash flow ("DCF") approach for all segments.

The Company's discounted cash flow methodology incorporates a probability of default and loss given default model, as well as expectations of future economic conditions, using reasonable and supportable forecasts. The use of reasonable and supportable forecasts requires significant judgment, such as selecting forecast scenarios and related scenario-weighting, as well as determining the appropriate length of the forecast horizon management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. The Company uses Federal Open Market Committee to obtain various forecasts for National Unemployment Rate and National Gross Domestic Product. The Company has elected to forecast the first four quarters of the credit loss estimate and revert to a long-run average of each considered economic factor as permitted in ASC 326-20-30-9. Based on the final values in the forecast and the uncertainty of a post-pandemic recovery, the Company has elected to revert over four quarters. The economic factors that are considered as part of the ACL were selected after a rigorous regression analysis and model selection process.

The Company uses both internal and external qualitative factors within the CECL model: lending policies, procedures, and strategies; changes in nature and volume of the portfolio; credit & lending personnel experience; changes in volume and trends in classified loans, delinquencies, and nonaccrual; concentration risk; collateral values; regulatory and business environment; loan review results; and economic conditions. The Company determined weighting of the qualitative factors based on management's ability to directly control or influence the level of risk exposure. The factors related to economic conditions, collateral values, and regulatory and business environment were assigned higher allocation, and the remaining factors were internal and manageable, and therefore received lower allocation.

Portfolio segments identified by the Company include real estate, commercial and consumer loans. Relevant risk characteristics for those portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance.

The Company assesses expected credit losses for individual instruments that have different risk characteristics than those that are evaluated on a collective (pooled) basis, in accordance with Topic 326. An individual analysis will provide a specific reserve for instruments involved with fair market value of collateral or present value of future cash flow. In such a manner, the Company performs individual analysis on loans that are 90 or more days past due, on non- accrual status or modified loans. Collateral-dependent individually evaluated loans are carried at fair value when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the original loan agreement and the loan has been written down to the fair value of its underlying collateral, net of expected disposition costs where applicable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Allowance for Credit Losses – Loans, Continued

Credit losses are not estimated for accrued interest receivable on loans as interest that is deemed uncollectible is written off through interest income. Accrued interest receivable on loans of $2,728,000 and $2,376,000 at December 31, 2024 and 2023, respectively, is included in accrued interest and other assets on the consolidated statements of financial condition and is excluded from the estimate of credit losses

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless the obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through provision for credit losses. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Factors considered when making these estimates include historical losses, economic conditions and reasonable and supportable forecasts. The allowance for credit losses for off-balance sheet commitments was $205,000 at December 31, 2024 and 2023 and is included in other liabilities in the consolidated statements of financial condition.

Other Real Estate Owned

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value at the date of foreclosure, establishing a new cost basis by a charge to the allowance for credit losses, if necessary. Other real estate owned is carried at the lower of the Company's carrying value of the property or its fair value, less estimated carrying costs and costs of disposition. Fair value is based on current appraisals less estimated selling costs. Any subsequent write-downs are charged against operating expenses and recognized as a credit loss expense.

Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives. Furniture and equipment are depreciated over 3 to 10 years. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Leases

The Company determines if an arrangement contains a lease at contract inception and recognize right-of-use ("ROU") assets and operating lease liabilities based on the present value of lease payments over the lease term. While operating leases may include options to extend the term, the Company does not take into account the options in calculating the ROU asset and lease liability unless it is reasonably certain such options will be reasonably exercised. The present value of lease payments is determined based on the Company's incremental borrowing rate and other information available at lease commencement. Leases with an initial term of 12 months or less are not recorded in the statements of financial condition. Lease expense is recognized on a straight-line basis over the lease term. The Company has elected to account for lease agreements with lease and non-lease components as a single lease component.

Federal Home Loan Bank ("FHLB") Stock and Other Bank Stock

The Company is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. In addition, the Company is a member of its regional Federal Reserve Bank ("FRB"). FHLB and FRB stock are carried at cost, classified as restricted securities, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

The Company's investment in FHLB stock was approximately $5,311,000 at December 31, 2024 and 2023. The Company's investment in FRB stock was approximately $1,529,000 at December 31, 2024 and 2023.

Pursuant to the adoption of ASU 2016-01 on January 1, 2018, the Company elected the measurement alternative for measuring equity securities without readily determinable fair values at cost less impairment, plus or minus observable price changes in orderly transactions. The carrying amount, in other assets, of equity securities without readily determinable fair values was $144,000 as of December 31, 2024 and 2023. Adjustments to the carrying value of stock during 2024 and 2023 were based on observable activity in the stock. All other bankers bank stock without observable activity is recorded at cost.

Bank Owned Life Insurance

The Company accounts for its investment in life insurance policies at the amount that could be realized under the insurance contract.

Goodwill

Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill represents the future economic benefits arising from other assets acquired that are not individually identified and separately recognized. Goodwill is determined to have an indefinite useful life and is not amortized but tested for impairment at least annually. As of December 31, 2024, management believes that no impairment of goodwill exists.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income Taxes

Deferred income taxes are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods.

The Company has adopted guidance issued by the Financial Accounting Standards Board ("FASB") that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Transfers of Financial Assets

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

Earnings Per Share

The Company has presented earnings per share ("EPS"). Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. The weighted-average number of shares used to calculate the 2024 and 2023 basic EPS amounts was 3,027,275 and 3,225,135 shares, respectively. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised, converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The weighted-average number of shares used to calculate the 2024 and 2023 dilutive EPS amounts was 3,061,203 and 3,269,037 shares, respectively. The number of anti-dilutive option shares excluded from the EPS calculation were 33,928 and 43,902 in 2024 and 2023, respectively.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of equity section of the statements of financial condition, such items, along with net income, are components of comprehensive income. Gains and losses on available-for-sale securities are reclassified to net income as the gains or losses are realized upon sale of the securities. The amount reclassified out of other accumulated comprehensive income relating to realized (losses) gains on securities available for sale was zero for 2024 and ($166,000) for 2023, with the related tax effect of zero for 2024 and $48,000 for 2023.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Stock-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period. See Note 12 for additional information on the Company's stock option plan.

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period, on a straight-line basis. The Company has elected to account for forfeitures of stock-based awards as they occur. Excess tax benefits and tax deficiencies relating to stock-based compensation are recorded as income tax expense or benefit in the income statement when incurred.

See Note 12 for additional information on the Company's stock option plan.

Revenue Recognition – Noninterest Income

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income.

At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligation and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The following is a discussion of key revenues within the scope of Topic 606.

Service Charges and Fees on Deposit Accounts

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenue Recognition – Noninterest Income, Continued

Interchange Fees
Interchange fees represents fees earned when a debit card issued by the Company is used. The Company earns interchange fees from debit cardholder transactions through a payment network. Interchange fees from cardholder transactions represent a percentage of the transaction value. The fees are recognized daily as the cost of the transaction is charged to the card and the performance obligation is satisfied. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

Advertising Costs

The Company's expenses in advertising were zero at December 31, 2024 and 2023.

Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction. The estimated fair value amounts have been measured as of the year-end and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to this date. As such, the estimated fair value of these financial instruments subsequent to the reporting date may be different than the amounts reported at year-end.

The information in Note 16 should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimate, comparisons between the Company's disclosures and those of other banks may not be meaningful.

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

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

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

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

See Note 15 for more information and disclosures relating to the Company's fair value measurements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Operating Segments

The Company's reportable segments are determined by the Chief Executive Officer, who is the designated chief operating decision maker (CODM), based upon information provided about the Company's products and services offered, primarily banking operations. The CODM uses revenue streams to evaluate product pricing and significant expenses to assess performance and evaluate return on assets. The CODM uses consolidated net income to benchmark the Company against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results are used in assessing performance and in establishing compensation. Loans, investments and deposits provide the revenues in the banking operation. Interest expense, provisions for credit losses and payroll provide the significant expenses in the banking operation. All operations are domestic. Segment performance is evaluated using consolidated net income. Information reported internally for performance assessment by the CODM is included within the statements of income.

While the CODM monitors the revenue streams of the various products and service, operations are managed, and financial performance is evaluated on a Company-wide basis. Discrete financial information is not available other than on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment. Please refer to the Consolidated Statements of Income for the results of this one reportable segment.

Adoption of New Accounting Standards

Effective January 1, 2023, the Company adopted Topic 326, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intent to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet (OBS) credit exposures. The Company recorded a net decrease to retained earnings of $587,000 for the cumulative effect of adopting ASC 326. The transition adjustment was related to implementation of the guidance for the Company's held-to-maturity debt securities portfolio with an increase of $832,000 to the ACL and the offset of $245,000 to deferred taxes.

On January 1, 2023, the Company adopted ASU 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings ("TDRs") and Vintage Disclosures". ASU 2022-02 eliminates the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors and provides amendments to ASU 2016-13, "Financial Instruments – Credit Losses on Financial Instruments" by enhancing existing disclosure requirements and introduces new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. ASU 2022-02 also requires that entities disclose current-period gross write-offs by year of origination for financing receivables within the scope of Subtopic 326-20.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Adoption of New Accounting Standards, Continued

Effective January 1, 2024, the Company adopted Accounting Standards Update (ASU) 2023-07 Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The ASU requires that public entities (including those with a single reportable segment) make all existing segment disclosures required by Topic 280 Segment Reporting on both an annual and interim basis. Significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss (measure) and other segment items must also be disclosed. The CODM's title and position is also required to be disclosed as well as how the CODM uses each reported measure to assess segment performance and in deciding how to allocate resources. The ASU does not change how a public entity determines its reportable segments.

Recently Issued Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which provides for improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. This ASU is effective for the Company beginning on January 1, 2026. The adoption of ASU 2023-09 is not expected to have a significant impact on the Company's consolidated financial statements.

NOTE 2 - DEBT SECURITIES

The following tables summarize the amortized cost, fair value and allowance for credit losses of securities available-for-sale and securities held-to-maturity, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses at December 31:

December 31, 2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available-for-Sale:					
Small Business Administration Loan-Backed Securities	$ 37,000	$ -	$ (0)	$ -	$ 37,000
U.S. Government Agency	3,986,000	1,000	(309,000)	-	3,678,000
U.S. Treasury Securities	11,095,000	4,000	(467,000)	-	10,632,000
MBS - Agency	79,049,000	154,000	(7,785,000)	-	71,418,000
MBS - Non Agency	5,681,000	-	(217,000)	-	5,464,000
State and Municipal Bonds	51,503,000	-	$ (5,820,000)	-	45,683,000
	$ 151,351,000	$ 159,000	$ (14,598,000)	$ -	$ 136,912,000
Held-to-Maturity:					
U.S. Treasury Securities	$ 5,880,000	$ -	$ (599,000)	$ -	$ 5,281,000
U.S. Government Agency	-	-	-	-	-
MBS - Agency	1,430,000	-	(371,000)	-	1,059,000
Subordinated Debt	19,785,000	-	(2,608,000)	(756,000)	16,421,000
State and Municipal Bonds	2,242,000	-	(410,000)	-	1,832,000
	$ 29,337,000	$ -	$ (3,988,000)	$ (756,000)	$ 24,593,000

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available-for-Sale:					
Small Business Administration Loan-Backed Securities	$ 82,000	$ 1,000	$ -	$ -	$ 83,000
U.S. Government Agency	3,984,000	52,000	(311,000)	-	3,725,000
FFELP - Agency	3,767,000	3,000	(22,000)	-	3,748,000
MBS - Agency	44,036,000	214,000	(4,760,000)	-	39,490,000
MBS - Non Agency	19,508,000	-	(2,779,000)	-	16,729,000
State and Municipal Bonds	52,363,000	-	$ (5,329,000)	-	47,034,000
	$ 123,740,000	$ 270,000	$ (13,201,000)	$ -	$ 110,809,000
Held-to-Maturity:					
U.S. Treasury Securities	$ 25,345,000	$ -	$ (791,000)	$ -	$ 24,554,000
U.S. Government Agency	2,545,000	-	(30,000)	-	2,515,000
MBS - Agency	1,517,000	-	(335,000)	-	1,182,000
Subordinated Debt	19,817,000	-	(4,133,000)	(856,000)	14,828,000
State and Municipal Bonds	2,242,000	-	(372,000)	-	1,870,000
	$ 51,466,000	$ -	$ (5,661,000)	$ (856,000)	$ 44,949,000

NOTE 2 - DEBT SECURITIES, Continued

The amortized cost and fair value of debt securities as of December 31, 2024 by contractual maturity are shown below. Actual maturities of mortgage-backed securities may differ from contractual maturities since the mortgages underlying the securities may be called or prepaid without penalty. Therefore, maturity dates for these debt securities are separately stated in the table.

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in Less Than One Year	$ 2,002,000	$ 1,995,000	$ -	$ -
Due From One to Five Years	-	-	35,000	35,000
Due From Five Years Through Ten Years	22,731,000	19,165,000	9,925,000	9,149,000
Due After Ten Years	3,175,000	2,373,000	56,660,000	50,845,000
Mortgage-Backed Securities	1,429,000	1,060,000	84,731,000	76,883,000
	$ 29,337,000	$ 24,593,000	$ 151,351,000	$ 136,912,000

The following tables summarize debt securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, aggregated by major security type and length of time in a continuous unrealized loss position:

December 31, 2024	Less than Twelve Months		Over Twelve Months		Total	
Available-for-Sale:	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Small Business Administration Loan-Backed Securities	$ (0)	$ -	$ -	$ 1,000	$ (0)	$ 1,000
U.S. Government Agency	-	-	(309,000)	1,688,000	(309,000)	1,688,000
U.S. Treasury Securities	(467,000)	9,483,000	-	-	(467,000)	9,483,000
MBS - Agency	(543,000)	18,225,000	(7,242,000)	38,575,000	(7,785,000)	56,800,000
MBS - Non Agency	-	-	(217,000)	5,465,000	(217,000)	5,465,000
State and Municipal Bonds	-	-	(5,820,000)	45,683,000	(5,820,000)	45,683,000
	$ (1,010,000)	$ 27,708,000	$(13,588,000)	$ 91,412,000	$ (14,598,000)	$ 119,120,000

December 31, 2023	Less than Twelve Months		Over Twelve Months		Total	
Available-for-Sale:	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Small Business Administration Loan-Backed Securities	$ -	$ -	$ -	$ 26,000	$ -	$ 26,000
U.S. Government Agency	-	-	(311,000)	1,685,000	(311,000)	1,685,000
FFELP - Agency	(9,000)	599,000	(14,000)	1,214,000	(23,000)	1,813,000
MBS - Agency	(27,000)	2,209,000	(4,732,000)	30,424,000	(4,759,000)	32,633,000
MBS - Non Agency	-	-	(2,779,000)	16,729,000	(2,779,000)	16,729,000
State and Municipal Bonds	(27,000)	1,476,000	(5,302,000)	45,558,000	(5,329,000)	47,034,000
	$ (63,000)	$ 4,284,000	$(13,138,000)	$ 95,636,000	$ (13,201,000)	$ 99,920,000

The debt securities that were in an unrealized loss position at December 31, 2024 and 2023 were evaluated to determine whether the decline in fair value below the amortized cost basis resulted from a credit loss or other factors as discussed in Note 1 - Summary of Significant Accounting Policies – Debt Securities.

NOTE 2 - DEBT SECURITIES, Continued

At December 31, 2024 and 2023, there was no reserve for credit losses on the available for sale debt securities. Unrealized losses in the debt securities available for sale portfolio have not been recognized into income because the securities are either of high credit quality, management does not intend to sell, it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, or the decline in fair value is largely due to changes in discount rates and assumptions regarding future interest rates. The fair value is expected to recover as the bonds approach maturity. At December 31, 2024, the Company had 104 available for sale debt securities where total estimated fair value had declined from the amortized cost. At December 31, 2023, the Company had 96 available for sale debt securities where total estimated fair value had declined from the amortized cost.

The following is a roll forward of the Company's allowance for credit losses related to the held to maturity debt securities for the years ended December 31:

	2024	2023
Beginning balance, January 1,	$ 856,000	$ -
Impact of CECL adoption	-	832,000
Provision for credit losses	(100,000)	24,000
Ending Balance, December 31,	$ 756,000	$ 856,000

The Company had an allowance of credit losses on held to maturity debt securities related to the subordinated debt portfolio at December 31, 2024 and 2023 of $756,000 and $856,000 respectively. The ACL for held-to-maturity debt securities is determined on a collective basis, based on shared risk characteristics, and is determined at the individual security level when the Company deems a security to no longer possess shared risk characteristics. Under ASC 326-20, for debt securities where the Company has reason to believe the credit loss exposure is remote, such as those guaranteed by the U.S. government or government sponsored enterprises, a zero-loss expectation is applied, and a company is not required to estimate and recognize an ACL. On a quarterly basis, the Company engages with an independent third party to perform an analysis of expected credit losses for its municipal and subordinated debt securities held-to-maturity in order to supplement its own internal review.

The Company monitors the credit quality of these securities by evaluating various quantitative attributes. The credit quality indicators the Company monitors include but are not limited to credit ratings of individual securities, the credit rating of United States government-sponsored enterprises that guarantee the securities as well as the financial performance of the subordinated debt issuers.

The Company expects to recover the amortized cost basis of its securities and has no present intent to sell and will not be required to sell securities that have declined below their cost before their anticipated recovery based on the Company's current financial condition.

During 2024, there were no sales of securities. During 2023, the Company received proceeds of approximately $19,964,000 from the sale of available for sale debt securities resulting in gross gains of $172,000 and losses of $338,000.

At December 31, 2024, debt securities of approximately $58,916,000 were pledged to the FHLB for access to the Company's FHLB borrowing line of credit and approximately $46,401,000 were pledged to the FRB for access to the FRB Discount Window.

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES

A summary of the changes in the allowance for credit losses follows as of December 31:

	2024	2023
Allowance at Beginning of Year	$ 11,533,000	$10,892,000
Provision for (Benefit From) Credit Losses	125,000	(1,350,000)
Recoveries on Loans Previously Charged Off	58,000	3,023,000
	11,716,000	12,565,000
Less Loans Charged Off	(227,000)	(1,032,000)
Ending Balance	$ 11,489,000	$ 11,533,000

The following table presents the activity in the allowance for credit losses for the year ended December 31, 2024 by portfolio segment:

December 31, 2024	Real Estate	Commercial & Industrial	Consumer	Total
Allowance for Credit Losses:				
Beginning of Year	$ 8,030,000	$ 1,979,000	$ 1,524,000	$ 11,533,000
Provisions for (Reversal of) Credit Losses	179,000	(361,000)	307,000	125,000
Recoveries	-	58,000	-	58,000
Charge-offs	-	-	(227,000)	(227,000)
End of Year	$ 8,209,000	$ 1,676,000	$ 1,604,000	$ 11,489,000

The following table presents the activity in the allowance for credit losses for the year ended December 31, 2023 by portfolio segment:

December 31, 2023	Real Estate	Commercial & Industrial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	$ 8,507,000	$ 1,613,000	$ 772,000	$ 10,892,000
Provisions for (Reversal of) Credit Losses	(3,477,000)	1,370,000	757,000	(1,350,000)
Recoveries	3,000,000	5,000	18,000	3,023,000
Charge-offs	-	(1,009,000)	(23,000)	(1,032,000)
End of Year	$ 8,030,000	1,979,000	$ 1,524,000	$ 11,533,000

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES, Continued

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as real estate, commercial and consumer loans. This analysis is performed on an ongoing basis as new information is obtained.

The Company uses the following definitions for risk ratings:

Pass - Loans classified as pass include loans not meeting the risk ratings defined below.

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have inherent loss that must be adequately provided for in the allowance. A loan is considered doubtful, when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement.

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES, Continued

Based on the most recent analysis performed, the risk category of loans by class of loans and origination year is as follows as of December 31, 2024:

	Term Loans Amortized Cost Basis by Origination Year								
	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term	Total
December 31, 2023									
Real Estate:									
1-4 family residential									
Pass	-	-	17,589,000	155,729,000	-	-	10,000	-	173,328,000
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	3,589,000	-	-	-	-	3,589,000
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total 1-4 family residential	-	-	17,589,000	159,318,000	-	-	10,000	-	176,917,000
Multifamily residential									
Pass	-	-	2,994,000	-	-	9,223,000	-	-	12,217,000
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total multifamily residential	-	-	2,994,000	-	-	9,223,000	-	-	12,217,000
Commerical real estate and other									
Pass	85,099,000	17,120,000	88,762,000	66,787,000	42,990,000	110,402,000	3,597,000	-	414,757,000
Special mention	-	-	-	-	-	804,000	-	-	804,000
Substandard	-	-	-	-	1,332,000	3,732,000	-	-	5,064,000
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total commerical real estate and other	85,099,000	17,120,000	88,762,000	66,787,000	44,322,000	114,938,000	3,597,000	-	420,625,000
Commerical and industrial									
Pass	41,069,000	9,692,000	4,502,000	3,392,000	13,983,000	1,376,000	37,705,000	-	111,719,000
Special mention	-	-	-	-	-	1,796,000	5,374,000	-	7,170,000
Substandard	-	-	-	-	1,258,000	-	-	-	1,258,000
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total commerical and industrial	41,069,000	9,692,000	4,502,000	3,392,000	15,241,000	3,172,000	43,079,000	-	120,147,000
Consumer									
Pass	15,250,000	17,036,000	12,518,000	14,101,000	3,808,000	247,000	7,000	-	62,967,000
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	189,000	13,000	-	-	-	202,000
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total consumer	15,250,000	17,036,000	12,518,000	14,290,000	3,821,000	247,000	7,000	-	63,169,000
Total loans	$ 141,418,000	$ 43,848,000	$ 126,365,000	$ 243,787,000	$ 63,384,000	$ 127,580,000	$ 46,693,000	$ -	$ 793,075,000

A summary of gross charge-offs by class of loans and origination year for the twelve months ended December 31, 2024 follows:

	Term Loans Amortized Cost Basis by Origination Year								
	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term	Total
Real Estate:									
1-4 family residential	-	-	-	-	-	-	-	-	-
Multifaimly residential	-	-	-	-	-	-	-	-	-
Commerical real estate and other	-	-	-	-	-	-	-	-	-
Commerical and industrial	-	-	-	-	-	-	-	-	-
Consumer	-	-	181,000	46,000	-	-	-	-	227,000
Total	$ -	$ -	$ 181,000	$ 46,000	$ -	$ -	$ -	$ -	$ 227,000

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES, Continued

Based on the most recent analysis performed, the risk category of loans by class of loans and origination year is as follows as of December 31, 2023:

	Term Loans Amortized Cost Basis by Origination Year								
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term	Total
December 31, 2023									
Real Estate:									
1-4 family residential									
Pass	-	19,208,000	169,666,000	-	-	-	139,000	-	189,013,000
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	1,548,000	-	-	-	-	-	1,548,000
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total 1-4 family residential	-	19,208,000	171,214,000	-	-	-	139,000	-	190,561,000
Multifamily residential									
Pass	-	2,994,000	-	-	6,030,000	3,336,000	-	-	12,360,000
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total multifamily residential	-	2,994,000	-	-	6,030,000	3,336,000	-	-	12,360,000
Commerical real estate and other									
Pass	17,209,000	90,456,000	70,881,000	66,073,000	35,344,000	86,077,000	1,377,000	-	367,417,000
Special mention	-	-	-	-	-	830,000	-	-	830,000
Substandard	-	-	-	1,436,000	3,699,000	389,000	-	-	5,524,000
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total commerical real estate and other	17,209,000	90,456,000	70,881,000	67,509,000	39,043,000	87,296,000	1,377,000	-	373,771,000
Commerical and industrial									
Pass	13,548,000	6,535,000	5,797,000	17,894,000	3,546,000	3,094,000	33,155,000	-	83,569,000
Special mention	-	-	-	-	57,000	200,000	-	-	257,000
Substandard	-	-	-	586,000	-	-	-	-	586,000
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total commerical and industrial	13,548,000	6,535,000	5,797,000	18,480,000	3,603,000	3,294,000	33,155,000	-	84,412,000
Consumer									
Pass	23,655,000	16,236,000	17,748,000	4,755,000	362,000	-	10,000	-	62,766,000
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	346,000	228,000	-	-	-	-	-	574,000
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total consumer	23,655,000	16,582,000	17,976,000	4,755,000	362,000	-	10,000	-	63,340,000
Total loans	$ 54,412,000	$ 135,775,000	$ 265,868,000	$ 90,744,000	$ 49,038,000	$ 93,926,000	$ 34,681,000	$ -	$ 724,444,000

A summary of gross charge-offs by class of loans and origination year for the twelve months ended December 31, 2023 follows:

	Term Loans Amortized Cost Basis by Origination Year								
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term	Total
Real Estate:									
1-4 family residential	-	-	-	-	-	-	-	-	-
Multifaimly residential	-	-	-	-	-	-	-	-	-
Commerical real estate and other	-	-	-	-	-	-	-	-	-
Commerical and industrial	-	-	23,000	965,000	-	44,000	-	-	1,032,000
Consumer	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ 23,000	$ 965,000	$ -	$ 44,000	$ -	$ -	$ 1,032,000

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES, Continued

The following table presents the past due and non-accrual loans by loan type as of December 31, 2024.

December 31, 2024	30-89 Days Past Due	Over 90 Days Past Due	# of Nonaccruals	Nonaccrual Loans With Allowance for Credit Losses	Nonaccrual Loans With No Allowance for Credit Losses	Interest Income Received
	Accruing					
Real Estate:						
1-4 family residential	$ 4,159,000	$ -	5	$ -	$ 3,589,000	$ 81,000
Commercial real estate and other	-	-	1	-	1,332,000	65,000
Commercial and industrial	87,000	-	5	1,232,000	26,000	47,000
Consumer	242,000	-	2	202,000	-	10,000
	$ 4,488,000	$ -	13	$ 1,434,000	$ 4,947,000	$ 203,000

The following table presents the past due and non-accrual loans by loan type as of December 31, 2023.

December 31, 2023	30-89 Days Past Due	Over 90 Days Past Due	# of Nonaccruals	Nonaccrual Loans With Allowance for Credit Losses	Nonaccrual Loans With No Allowance for Credit Losses	Interest Income Received
	Accruing					
Real Estate:						
1-4 family residential	$ 352,000	$ -	1	$ -	$ 1,549,000	$ 48,000
Commercial real estate and other	-	-	1	-	1,436,000	11,000
Commercial and industrial	694,000	-	3	536,000	50,000	35,000
Consumer	193,000	-	4	552,000	21,000	22,000
	$ 1,239,000	$ -	9	$ 1,088,000	$ 3,056,000	$ 116,000

The following table presents the amortized cost basis of collateral-dependent loans, by the primary collateral type, which are individually evaluated to determine expected credit losses, and the related allowance for credit losses allocated to these loans as of December 31, 2024:

	December 31, 2024			
	Collateral Type			Allowance for
	Real Estate	Other	Total	Credit Losses
Real Estate:				
1-4 family residential	$ 3,589,000	$ -	$ 3,589,000	$ 104,000
Commercial real estate and other	4,976,000	-	4,976,000	607,000
Commercial and industrial	-	1,258,000	1,258,000	1,029,000
Consumer	-	202,000	202,000	126,000
	$ 8,565,000	$ 1,460,000	$ 10,025,000	$ 1,866,000

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES, Continued

The following table presents the amortized cost basis of collateral-dependent loans, by the primary collateral type, which are individually evaluated to determine expected credit losses, and the related allowance for credit losses allocated to these loans as of December 31, 2023:

	December 31, 2023			
	Collateral Type			Allowance for
	Real Estate	Other	Total	Credit Losses
Real Estate:				
1-4 family residential	$ 1,549,000	$ -	$ 1,549,000	$ -
Commercial real estate	1,436,000	-	1,436,000	-
Commercial and industrial	-	562,000	562,000	449,000
Consumer	-	573,000	573,000	73,000
	$ 2,985,000	$ 1,135,000	$ 4,120,000	$ 522,000

Occasionally, the Company modifies loans to borrowers in financial distress by providing term extension, an other-than- insignificant payment delay or interest rate reduction. In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another type of concession may be granted.

The following table presents our loan modifications made to borrowers experiencing financial difficulty by type of modification for the twelve months ended December 31, 2024, with related amortized cost balances, respective percentage share of the total class of loans, and the related financial effect. There were no loan modifications for the twelve months ended December 31, 2023.

	December 31, 2024		
	Payment Deferrals		
	Amortized Cost Basis	% of Total Class of Loans	Financial Effect
Commercial and industrial	193,000	0.2%	2 loans with principal deferrals

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The Company committed to lend no additional amounts to clients with outstanding loans that the original terms had been modified as of December 31, 2024.

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES, Continued

The following table presents the payment status of our loan modifications made during the twelve months ended December 31, 2024:

	Current	30-89 Days Past Due	90+ Days Past Due	Total
December 31, 2024:				
Commercial and industrial loans	$ -	$ 175,000	$ 18,000	$ 193,000
Total	$ -	$ 175,000	$ 18,000	$ 193,000

The Company purchased $16,369,000 and $25,162,000 of automobile loans during the years ended December 31, 2024 and 2023, respectively. The Company did not sell any loans during the years ended December 31, 2024 and 2023.

NOTE 4 - PREMISES AND EQUIPMENT

A summary of premises and equipment as of December 31 follows:

	2024	2023
Leasehold Improvements	$ 531,000	$ 531,000
Furniture and Equipment	1,424,000	1,371,000
	1,955,000	1,902,000
Less Accumulated Depreciation and Amortization	(1,147,000)	(864,000)
	$ 808,000	$ 1,038,000

NOTE 5 - LEASES

The Company has one operating lease which is for its corporate office and branch location. The amount of the lease liability and ROU asset is impacted by the lease term and the discount rate applied to determine the present value of future lease payments. The remaining term of the operating lease is 49 months.

The lease includes one or more options to renew, with renewal terms that can extend the lease term by varying amounts. The exercise of renewal options is at the sole discretion of the Company. Renewal option periods were not included in the measurement of ROU asset and lease liability as they are not considered reasonably certain of exercise.

The consolidated statements of financial condition and supplemental information at December 31, 2024 and December 31, 2023 are shown below.

	2024	2023
Operating Lease Right-of-Use Asset	$ 2,734,000	$ 3,368,000
Operating Lease Liability	$ 3,038,000	$ 3,721,000
Weighted Average Remaining Lease Term, in Years	4.1	5.1
Weighted Average Discount Rate	3.75%	3.75%

	2024	2023
Other Information:		
Cash Paid for Amounts Included in the Measurement of Lease Liabilities	$ 814,000	$ 791,000

The future minimum lease payments under non-cancelable operating lease with a term greater than one year is as follows:

Year Ending	
2025	767,000
2026	864,000
2027	891,000
2028	916,000
Total Lease Payments	$ 3,438,000
Less Imputed Interest	(400,000)
Present Value of Net Future Minimum Lease Payments	$ 3,038,000

NOTE 6 - DEPOSITS

The aggregate amounts of certificates of deposit in denominations that meet or exceed the FDIC insured limit were approximately $82,861,000 and $56,291,000 at December 31, 2024 and 2023, respectively.

At December 31, 2024, the scheduled maturities of time deposits were as follows:

2025	$ 98,816,000
2026	4,999,000
2028	150,000
	$ 103,965,000

NOTE 7 - BORROWING ARRANGEMENTS

The Company has a line of credit with the FHLB that reflects a total borrowing capacity of approximately $325,646,000 at December 31, 2024. This line is secured by loans and debt securities. Total loans and securities pledged were $607,144,000 as of December 31, 2024. There were no borrowings under this arrangement as of December 31, 2024 and 2023.

The Company has a line of credit with the FRB of San Francisco that reflects a total borrowing capacity of $85,411,000 at December 31, 2024. This line is secured by loans and debt securities. Total loans and debt securities pledged were $91,961,000 as of December 31, 2024. There were no borrowings under this arrangement as of December 31, 2024 and 2023.

The Company also has unsecured lines of credit with one of its correspondent banks, with a total borrowing capacity of $50,000,000 at December 31, 2024, which were unused at year-end.

On March 12, 2021, the Company raised $32.5 million aggregate principal amount 3.75% fixed-to-floating rate subordinated notes (the "Notes"). The Notes will mature on April 1, 2031, and will initially bear interest at a rate equal to 3.75% per annum from and including March 12, 2022, to, but excluding, April 1, 2026, payable semiannually in arrears. Thereafter, the Notes will bear interest at a floating rate per annum equal to a benchmark rate, which is expected to be the three-month term secured overnight financing rate, plus a spread of 307 basis points, payable quarterly in arrears.

The Notes qualify as Tier 2 capital for regulatory purposes. On December 2, 2021, the Company raised an additional $17.5 million aggregate principal amount 3.75% fixed-to-floating rate subordinated notes. The Notes will mature on December 15, 2031, and initially bear interest at a rate equal to 3.75% per annum including December 2, 2022 to, but excluding, December 15, 2026, payable semiannually in arrears. Thereafter, the Notes will bear interest at a floating rate per annum equal to a benchmark rate, which is expected to be the three-month term secured overnight financing rate, plus a spread of 256 basis points, payable quarterly in arrears. The Notes qualify as Tier 2 capital for regulatory purposes.

NOTE 8 - INCOME TAXES

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Income tax expense (benefit) consists of the following:

	2024	2023
Current Expense:		
Federal	$ 2,647,000	$ 4,927,000
State	1,675,000	2,834,000
	4,322,000	7,761,000
Deferred (Benefit) Expense	822,000	(1,035,000)
Total Income Tax Expense	$ 5,144,000	$ 6,726,000

A comparison of the federal statutory income tax rates to the Company's effective income tax rates at December 31 follows:

	2024		2023	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 3,841,000	21.0%	$ 5,111,000	21.0%
State Franchise Tax, Net of Federal Benefit	1,527,000	8.3%	1,994,000	8.2%
Stock-Based Compensation	13,000	0.1%	13,000	0.1%
Earnings on BOLI	(49,000)	(0.3%)	(45,000)	(0.2%)
Municipal Interest	(63,000)	(0.3%)	(105,000)	(0.4%)
Exercised Stock Options	(92,000)	(0.5%)	(218,000)	(0.9%)
Other Items, Net	(33,000)	(0.3%)	(24,000)	(0.2%)
Actual Tax Expense	$ 5,144,000	28.0%	$ 6,726,000	27.6%

NOTE 8 - INCOME TAXES, Continued

The following is a summary of the components of the net deferred tax asset (liability) accounts recognized in the accompanying consolidated statements of financial condition at December 31:

	2024	2023
Deferred Tax Assets:		
Director Stock-Based Compensation	$ 176,000	$ 161,000
Unrealized Loss on Debt Securities	4,259,000	3,815,000
Allowance for Credit Losses	3,397,000	3,410,000
Net Operating Loss Carryforwards	281,000	281,000
Accrued Expenses	1,969,000	2,004,000
Lease Liability	898,000	1,100,000
Other Items	801,000	941,000
	11,781,000	11,712,000
Deferred Tax Liabilities:		
Capitalized Loan Costs	(1,186,000)	(346,000)
Depreciation Differences	(41,000)	(252,000)
Right of Use Assets	(808,000)	(996,000)
Other Items	(286,000)	(280,000)
	(2,321,000)	(1,874,000)
Net Deferred Tax Assets	$ 9,460,000	$ 9,838,000

The Company has no net operating loss carryforwards for federal income tax purposes and $3,285,000 for California franchise tax purposes. This amount is comprised of net operating losses acquired in the acquisition of Discovery Bank which are limited in use to approximately $411,000 annually. California net operating loss carryforwards, to the extent not used will expire by 2034 reflecting extensions by California due to suspension of the utilization of net operating losses.

The Company is subject to federal income tax and franchise tax of the state of California. Federal income tax returns for the years ended on or after December 31, 2021 are open to audit by the federal authorities and California state tax returns for the years ended on or after December 31, 2020 are open to audit by state authorities.

The Company does not expect unrecognized tax benefits to significantly increase or decrease within the next twelve months.

NOTE 9 - EMPLOYEE PROFIT SHARING AND DEFERRED COMPENSATION

The Company sponsors a 401(k) plan for the benefit of its employees. Contributions to this plan are determined by the Board of Directors. For income tax purposes, the annual contribution is limited to 15% of the compensation of eligible employees. The Company contributed approximately $260,000 in 2024 and approximately $194,000 in 2023 to the 401(k) plan.

NOTE 9 - EMPLOYEE PROFIT SHARING AND DEFERRED COMPENSATION, Continued

The Company has entered into deferred compensation agreements with key officers. Under these agreements, the Company is obligated to provide, upon retirement, a fixed benefit for each of the officers for a fixed period of time. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of the agreement until the expected retirement dates of the participants. The expense incurred was $17,000 for the year ended December 31, 2024, and the total accrued at year end was $6,209,000. The expense incurred was $457,000 for the year ended December 31, 2023, and the total accrued at year end was $6,210,000. The Company is a beneficiary of life insurance policies that have been purchased as a method of financing the benefits under the agreement.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance-Sheet Risk

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its clients. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of amounts recognized on the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instrument for these commitments is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

As of December 31, 2024 and 2023, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2024	2023
Commitments to Extend Credit	$ 58,612,000	$ 57,239,000
Standby Letters of Credit	1,169,000	718,000
	$ 59,781,000	$ 57,957,000

Commitments to Extend Credit

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

NOTE 10 - COMMITMENTS AND CONTINGENCIES, Continued

Standby Letters of Credit

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. Collateral held varies as specified above and is required as deemed necessary.

Litigation

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the consolidated financial statements.

Concentration by Geographic Location

The Company makes commercial and residential loans to clients primarily in Orange, Los Angeles, Riverside and San Diego counties. A substantial portion of the Company's clients' abilities to honor their contracts is dependent on the economy of these areas. Although the Company's loan portfolio is diversified, there is a relationship in this region between the local economy and the economic performance of loans made to clients.

Concentration by Clients

The Company has approximately $606.6 million on deposit from ten clients as of December 31, 2024. A significant portion of these amounts consists of demand deposits that may fluctuate significantly during the upcoming year.

Data Processing Commitment

The Company processes its data and check items under a non-cancelable agreement. The Company signed a contract in 2020 which will expire in April 2026 and contains a base monthly charge of $47,000. The monthly payment will increase as the Company's volume of transactions increases. The agreement contains a termination clause whereby the Company would be liable to the service bureau for an immediate lump sum payment based on the average monthly billings over the number of months remaining on the contract.

NOTE 11 - OTHER EXPENSES

Other expenses as of December 31 are comprised of the following:

	2024	2023
Telephone	$ 83,000	$ 79,000
Other Employee Expenses	258,000	305,000
Printing	11,000	6,000
Correspondent Bank Fees	255,000	241,000
Insurance	109,000	102,000
Supplies	4,000	5,000
Regulatory Assessments	164,000	141,000
Courier	1,329,000	1,348,000
Postage	17,000	13,000
Other	1,617,000	1,337,000
Total Other Expenses	$ 3,847,000	$ 3,577,000

NOTE 12 - STOCK OPTION PLAN

The stockholders of the Bank approved the 2013 Omnibus Stock Incentive Plan as a replacement to the CommerceWest Bank, N.A. 2006 Omnibus Stock Incentive Plan. Existing option holders were subject to the 2013 Plan. The stockholders approved the 2013 Omnibus Incentive Plan (the "2013 Plan"), under which stock-based incentives, ("incentives") to purchase shares of the Bank's common stock have been or may be granted to certain officers, directors and organizers of the Company. Incentives are granted at an exercise price of not less than the fair market value of the common stock at the date of grant. The 2013 Plan is authorized to grant a maximum of 1,293,708 shares of the Bank's common stock as options, stock appreciation rights, restricted shares, deferred shares or performance shares. The 2013 Plan is authorized to grant a maximum of 970,281 shares of the Bank's common stock as incentive stock options. Options granted under the 2013 Plan may specify a period of continuous employment of the optionee by the Bank (or in the case of a Nonemployee Director, service on the Board) that is necessary before the options or installments thereof shall become exercisable, and any grant will provide for the earlier exercise of such rights in the event of a change in control of the Bank or other similar transaction or event. The 2013 Plan expires ten years from the date of adoption.

The stockholders of CommerceWest Bank ratified prospectively, as stockholders of the Company, the CW Bancorp 2020 Equity Incentive Plan (the “2020 Plan”). The Bank’s 2013 Omnibus Stock Incentive Plan has been assumed by the Company, and will remain in place only for the issuance of shares of common stock pursuant to equity compensation awards granted prior to the consummation of the Reorganization which equity awards will continue to be governed by the terms of the Bank’s 2013 Omnibus Stock Incentive Plan.

NOTE 12 - STOCK OPTION PLAN, Continued

The 2020 Plan is authorized to grant a maximum of 530,000 shares of the Company's common stock as incentive stock options, nonqualified stock options, stock appreciation rights (SARs), restricted stock, restricted stock units (RSUs), and other stock-based awards options. The 2020 Plan is authorized to grant a maximum of 530,000 shares of the Company's common stock as incentive stock options. Options granted under the 2020 Plan may specify a period of continuous employment of the optionee by the Company (or in the case of a Nonemployee Director, service on the Board) that is necessary before the options or installments thereof shall become exercisable, and any grant will provide for the earlier exercise of such rights in the event of a change in control of the Company or other similar transaction or event. The 2020 Plan expires ten years from the date of adoption.

The Company recognized stock-based compensation cost of approximately $274,000 and $225,000 in 2024 and 2023, respectively. Tax benefits of $81,000 and $66,000 were recognized in 2024 and 2023 related to stock-based compensation, respectively.

Fair value of each stock option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2024	2023
Expected Stock Volatility	27.20%	31.70%
Estimated Average Life	6.5 Years	6.5 Years
Expected Dividend Rates	3.02%	2.74%
Risk-Free Interest Rate	4.09%	3.73%
Weighted-Average Grant Date Fair Value	$ 7.38	$ 9.18

Since the Company has a limited amount of historical stock activity, the expected volatility is based on the historical volatility of similar banks that have a longer trading history. The expected term represents the estimated average period of time that the options remain outstanding. Since the Company does not have sufficient historical data on the exercise of stock options, the expected term is based on the "simplified" method that measures the expected term as the average of the vesting period and the contractual term. The risk free rate of return reflects the grant date interest rate offered for zero coupon U.S. Treasury bonds over the expected term of the options.

NOTE 12 - STOCK OPTION PLAN, Continued

A summary of the status of the Company's stock option plan as of December 31, 2024, and changes during the year then ended is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	225,351	$ 24.72		
Granted	53,000	$ 30.45		
Exercised	(35,176)	$ 18.10		
Forfeited or Expired	-	$ -		
Outstanding at End of Year	243,175	$ 26.92	6.50 Years	$ 2,123,000
Options Exercisable	110,535	$ 22.91	4.53 Years	$ 1,408,000

As of December 31, 2024, there was approximately $799,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 2.10 years. The intrinsic value of stock options exercised in 2024 was approximately $594,000. The tax benefit on exercised shares was $172,000. The intrinsic value of stock options exercised in 2023 was approximately $1,374,000. The tax benefit on exercised shares was $404,000.

NOTE 13 - RELATED PARTY TRANSACTIONS

Stockholders of the Company, officers and directors, including their families and companies of which they are principal owners, are considered to be related parties. These related parties were loan clients of, and had other transactions with, the Company in the ordinary course of business.

Total loan commitments to related parties at December 31, 2024 and 2023 were approximately $2,918,000 and $3,070,000 respectively. Total outstanding loans to related parties were at December 31, 2024 and 2023 were approximately $552,000. There were no loans to related parties that were past due or downgraded as of and for the years ended December 31, 2024 and 2023.

Also, in the ordinary course of business, certain officers, directors and employees of the Company have deposits with the Company. The balance of these deposits at December 31, 2024 and 2023 was approximately $5,454,000 and $9,056,000, respectively.

NOTE 14 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and 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. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2024 and 2023, that the Bank met all capital adequacy requirements to which it was subject.

Prompt corrective action regulations provide five classifications: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and capital restoration plans are required. As of December 31, 2024 and 2023, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank’s category. To be categorized as well-capitalized, the Bank must maintain minimum ratios.

The following table also sets forth the Bank's actual and required capital amounts and ratios (dollar amounts in thousands):

			Amount of Capital Required			
	Actual		To Be Adequately Capitalized		To Be Well-Capitalized Under Prompt Corrective Action Framework	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2024:						
Total Capital (to Risk-Weighted Assets)	$ 144,139	17.9%	$ 64,356	8.0%	$ 80,445	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 134,063	16.7%	$ 48,267	6.0%	$ 64,356	8.0%
CET1 Capital (to Risk-Weighted Assets)	$ 134,063	16.7%	$ 36,200	4.5%	$ 52,289	6.5%
Tier 1 Capital (to Average Assets)	$ 134,063	11.2%	$ 48,048	4.0%	$ 60,060	5.0%
As of December 31, 2023:						
Total Capital (to Risk-Weighted Assets)	$ 137,853	19.8%	$ 55,645	8.0%	$ 69,556	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 129,121	18.6%	$ 41,734	6.0%	$ 55,645	8.0%
CET1 Capital (to Risk-Weighted Assets)	$ 129,121	18.6%	$ 31,300	4.5%	$ 45,211	6.5%
Tier 1 Capital (to Average Assets)	$ 129,121	12.1%	$ 42,736	4.0%	$ 53,420	5.0%

Dividends

The California Financial Code provides that a bank may not make cash distribution to its stockholders in excess of the lesser of the Bank's undivided profits or the Bank’s net income for its last three fiscal years less the amount of any distribution made by the Bank to stockholders during the same period. The Bank’s dividend payments in 2024 and 2023 were in compliance with the various dividend limitation rules.

NOTE 15 - FAIR VALUE MEASUREMENTS

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Debt Securities: The fair value 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).

Collateral-dependent individually evaluated loans: Collateral-dependent individually evaluated loans are carried at fair value when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the original loan agreement and the loan has been written down to the fair value of its underlying collateral, net of expected disposition costs where applicable (Level 3).

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2024 and 2023:

	Fair Value Measurements			
December 31, 2024	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis				
Securities Available for Sale	$ -	$ 136,912,000	$ -	$ 136,912,000
December 31, 2023				
Assets measured at fair value on a recurring basis				
Securities Available for Sale	$ -	$ 110,809,000	$ -	$ 110,809,000

Under certain circumstances, the Company may make adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table sets forth the assets and liabilities measured at fair value on a non-recurring basis at December 31, 2024:

December 31, 2024	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Collateral dependent loans:				
Real Estate:				
1-4 family residential	$ 2,017,000	$ -	$ -	$ 2,017,000
Commerical real estate and other	3,044,000	-	-	3,044,000
Commercial	203,000	-	-	203,000
Consumer	76,000	-	-	76,000
	$ 5,340,000	$ -	$ -	$ 5,340,000

NOTE 15 - FAIR VALUE MEASUREMENTS, Continued

The following table presents quantitative information about non-recurring Level 3 fair value measurements at December 31, 2024:

	2024	Valuation Technique	Unobservable Input	Discount
Collateral dependent loans:				
Real Estate:				
1-4 family residential	$ 2,017,000	Collateral Valuation	Discounts and estimated selling costs	35%
Commerical real estate and other	3,044,000	Collateral Valuation	Discounts and estimated selling costs	15%
Commercial	203,000	Collateral Valuation	Discounts and estimated selling costs	77%
Consumer	76,000	Collateral Valuation	Discounts and estimated selling costs	55%
	$ 5,340,000			

Under certain circumstances, the Company may make adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table sets forth the assets and liabilities measured at fair value on a non-recurring basis at December 31, 2023:

December 31, 2023	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Collateral dependent loans:				
Commercial	87,000	-	-	87,000
Consumer	479,000	-	-	479,000
	$ 566,000	$ -	$ -	$ 566,000

The following table presents quantitative information about non-recurring Level 3 fair value measurements at December 31, 2023:

	2023	Valuation Technique	Unobservable Input	Discount
Collateral dependent loans:				
Commercial	87,000	Collateral Valuation	Discounts and estimated selling costs	80%
Consumer	479,000	Collateral Valuation	Discounts and estimated selling costs	14%
	$ 566,000			

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value if anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gain and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

The estimated fair value of significant financial instruments at December 31, 2024 and 2023, is summarized as follows:

		2024		2023	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:					
Cash and Cash Equivalents	Level 1	$ 502,873,000	$ 502,873,000	$ 386,719,000	$ 386,719,000
Time Deposits in Other Banks	Level 1	495,000	495,000	745,000	745,000
Securities Available for Sale	Level 2	136,912,000	136,912,000	110,809,000	110,809,000
Securities Held to Maturity	Level 2	28,581,000	24,593,000	50,610,000	44,949,000
Loans, Net	Level 3	781,586,000	786,593,000	712,911,000	719,622,000
Restricted Stock, at Cost	Level 2	6,840,000	6,840,000	6,840,000	6,840,000
Accrued Interest Receivable	Level 2	4,348,000	4,348,000	3,865,000	3,865,000
Liabilities:					
Deposits	Level 2	$ 1,342,421,000	$ 1,342,263,000	$ 1,158,489,000	$ 1,157,793,000
Subordinated Debenture	Level 2	50,000,000	50,000,000	50,000,000	50,000,000
Accrued Interest Payable	Level 2	979,000	979,000	957,000	957,000