

PINNACLE BANK
Morgan Hill, California

FINANCIAL STATEMENTS
December 31, 2024 and 2023

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CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
BALANCE SHEETS	3
STATEMENTS OF INCOME	4
STATEMENTS OF COMPREHENSIVE INCOME	5
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	6
STATEMENTS OF CASH FLOWS.....	7
NOTES TO FINANCIAL STATEMENTS	8

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors
Pinnacle Bank
Morgan Hill, California

Opinion

We have audited the financial statements of Pinnacle Bank, which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, Pinnacle Bank changed its method for accounting for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments - Credit Losses (ASC 326). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Crowe LLP

Sacramento, California
March 20, 2025

PINNACLE BANK
BALANCE SHEETS
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and due from banks	\$ 8,343,703	\$ 10,160,360
Interest-bearing deposits in other banks	<u>103,265,000</u>	<u>77,043,000</u>
Total cash and cash equivalents	111,608,703	87,203,360
Available-for-sale investment securities	36,836,382	56,057,863
Held-to-maturity investment securities (fair value of \$67,904,193 in 2024 and \$78,471,897 in 2023)	<u>76,329,064</u>	<u>86,103,642</u>
Loans, less allowance for credit losses of \$7,351,801 in 2024 and \$5,951,882 in 2023	589,181,081	553,162,927
Bank premises and equipment, net	9,351,693	9,971,491
Bank owned life insurance	5,570,734	5,429,154
Accrued interest receivable and other assets	<u>17,970,120</u>	<u>19,492,012</u>
Total assets	<u>\$ 846,847,777</u>	<u>\$ 817,420,449</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 248,677,306	\$ 262,756,830
Interest bearing	<u>483,555,082</u>	<u>451,961,498</u>
Total deposits	732,232,388	714,718,328
Accrued interest payable and other liabilities	<u>15,640,737</u>	<u>14,775,808</u>
Total liabilities	<u>747,873,125</u>	<u>729,494,136</u>
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock – no par value; 10,000,000 shares authorized, none outstanding	-	-
Common stock – no par value; 40,000,000 shares authorized; 5,865,666 shares issued and outstanding in 2024 and 5,721,976 in 2023	57,005,025	55,431,374
Retained earnings	43,997,491	35,151,674
Accumulated other comprehensive loss	<u>(2,027,864)</u>	<u>(2,656,735)</u>
Total shareholders' equity	<u>98,974,652</u>	<u>87,926,313</u>
Total liabilities and shareholders' equity	<u>\$ 846,847,777</u>	<u>\$ 817,420,449</u>

See accompanying notes to financial statements.

PINNACLE BANK
STATEMENTS OF INCOME
For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Interest income:		
Interest and fees on loans	\$ 41,992,645	\$ 37,325,226
Interest on interest-bearing deposits in other banks	5,301,760	5,143,974
Interest on investment securities	3,628,290	3,958,158
Other interest income	<u>787,960</u>	<u>253,340</u>
Total interest income	<u>51,710,655</u>	<u>46,680,698</u>
Interest expense:		
Interest on deposits	13,726,496	9,543,179
Interest on short-term borrowings	<u>17</u>	<u>18</u>
Total interest expense	<u>13,726,513</u>	<u>9,543,197</u>
Net interest income before credit loss expense	37,984,142	37,137,501
Credit loss expense on loans	3,807,000	330,000
Credit loss expense (reversal) on unfunded loan commitments	<u>(15,600)</u>	<u>-</u>
Net interest income after credit loss expense	<u>34,192,742</u>	<u>36,807,501</u>
Non-interest income:		
Service charges and fees	250,598	235,914
Loan servicing income, net	475,328	909,150
Gain on sale of loans	737,607	1,483,573
Gain on sale of other real estate owned	-	396,828
Other	<u>732,852</u>	<u>1,111,552</u>
Total non-interest income	<u>2,196,385</u>	<u>4,137,017</u>
Non-interest expense:		
Salaries and employee benefits	17,085,667	18,026,904
Occupancy and equipment	1,756,179	1,737,978
Data processing	1,258,633	1,134,914
Advertising and marketing	711,752	652,935
Professional fees	694,343	420,925
Regulatory costs	537,200	430,360
Other	<u>2,044,536</u>	<u>1,994,382</u>
Total non-interest expense	<u>24,088,310</u>	<u>24,398,398</u>
Income before income taxes	12,300,817	16,546,120
Income tax expense	<u>3,455,000</u>	<u>4,775,400</u>
Net income	<u>8,845,817</u>	<u>11,770,720</u>
Basic earnings per share	<u>\$ 1.52</u>	<u>\$ 2.09</u>
Diluted earnings per share	<u>\$ 1.49</u>	<u>\$ 2.06</u>

See accompanying notes to financial statements.

PINNACLE BANK
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Net income	\$ 8,845,817	\$ 11,770,720
Other comprehensive income:		
Unrealized gains on investment securities:		
Unrealized holding gains arising during the period	892,820	553,634
Tax effect	<u>(263,949)</u>	<u>(163,675)</u>
Other comprehensive income	<u>628,871</u>	<u>389,959</u>
Total comprehensive income	<u>\$ 9,474,688</u>	<u>\$ 12,160,679</u>

See accompanying notes to financial statements.

PINNACLE BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2024 and 2023

	<u>Common Stock</u>		<u>Retained</u>	<u>Accumulated</u>	<u>Shareholders'</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Other</u> <u>Compre-</u> <u>hensive</u> <u>Income (loss)</u>	<u>Equity</u>
Balance, January 1 ,2023	5,517,323	\$ 52,999,219	\$ 23,380,954	\$ (3,046,694)	\$ 73,333,479
Net income	-	-	11,770,720	-	11,770,720
Other comprehensive income	-	-	-	389,959	389,959
Exercise of stock options	153,856	1,734,235	-	-	1,734,235
Share-based compensation	<u>50,797</u>	<u>697,920</u>	<u>-</u>	<u>-</u>	<u>697,920</u>
Balance, December 31, 2023	<u>5,721,976</u>	<u>\$ 55,431,374</u>	<u>\$ 35,151,674</u>	<u>\$ (2,656,735)</u>	<u>\$ 87,926,313</u>
Net income	-	-	8,845,817	-	8,845,817
Other comprehensive income	-	-	-	628,871	628,871
Exercise of stock options	81,024	903,099	-	-	903,099
Share-based compensation	<u>62,666</u>	<u>670,552</u>	<u>-</u>	<u>-</u>	<u>670,552</u>
Balance, December 31, 2024	<u>5,865,666</u>	<u>\$ 57,005,025</u>	<u>\$ 43,997,491</u>	<u>\$ (2,027,864)</u>	<u>\$ 98,974,652</u>

See accompanying notes to financial statements.

PINNACLE BANK
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Net income	\$ 8,845,817	\$ 11,770,720
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of loans	(737,607)	(1,483,573)
Credit loss expense	3,791,400	330,000
Depreciation and amortization	588,107	607,465
Net amortization of deferred loan origination costs	(529,154)	(173,683)
Amortization and disposals of servicing rights	1,720,182	1,620,887
Earnings on Bank owned life insurance	(141,580)	(123,623)
Share-based compensation expense	670,552	697,920
Gain on sale of other real estate owned	-	(396,828)
Deferred income tax benefit	(494,795)	(1,084,085)
Decrease in accrued interest receivable and other assets	280,750	275,180
Increase in accrued interest payable and other liabilities	<u>880,529</u>	<u>107,484</u>
Net cash provided by operating activities	<u>14,874,201</u>	<u>12,147,864</u>
Cash flows from investing activities:		
Increase in loans, net	(54,086,788)	(93,679,311)
Proceeds from the sale of loans	15,528,404	40,166,900
Proceeds from the sale of other real estate owned	-	1,187,734
Purchase of premises and equipment	(95,389)	(63,969)
Purchase of FHLB stock	(248,200)	(1,501,300)
Purchase of available-for-sale securities	-	(5,824,231)
Maturities and repayments of available-for-sale securities	20,257,066	2,644,034
Maturities and repayments of held-to-maturity securities	<u>9,758,890</u>	<u>9,414,622</u>
Net cash used in investing activities	<u>(8,886,017)</u>	<u>(47,655,521)</u>
Cash flows from financing activities:		
Increase (decrease) in demand, interest bearing and savings deposits, net	21,886,841	(973,592)
(Decrease) increase in time deposits, net	(4,372,781)	46,304,705
Proceeds from stock options exercised	<u>903,099</u>	<u>1,734,235</u>
Net cash provided by financing activities	<u>18,417,159</u>	<u>47,065,348</u>
Increase in cash and cash equivalents	24,405,343	11,557,691
Cash and cash equivalents at beginning of period	<u>87,203,360</u>	<u>75,645,669</u>
Cash and cash equivalents at end of period	<u>\$ 111,608,703</u>	<u>\$ 87,203,360</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest expense	\$ 13,767,800	\$ 9,089,428
Income taxes paid	\$ 4,065,000	\$ 5,717,000

See accompanying notes to financial statements.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Pinnacle Bank ("Bank" or "we" or "our") was approved as a state-chartered non-member bank on July 17, 2006. We are subject to regulation by the California Department of Financial Protection and Innovation, (the "DFPI") and the Federal Deposit Insurance Corporation (the "FDIC"). Our deposits are insured by the FDIC up to applicable legal limits. We are headquartered in Gilroy, California and have offices in Morgan Hill and Salinas. We provide products and services to clients who are predominately small to middle-market businesses, professionals, not-for-profit organizations and individuals located in Santa Clara, San Benito and Monterey counties. Our primary deposit products are checking, savings, and term certificate accounts, and our primary lending products are commercial, commercial real estate, construction, multifamily, agriculture, single-family home equity loans, and asset-backed loans. Bank lending products also include various government guarantee programs such as Small Business Administration ("SBA") 7(a) and 504 programs, as well as US Department of Agriculture ("USDA") programs. Our largest industry concentration is in hotels and lodging, as commercial real estate loans with hotel related collateral as well as commercial loans to hotel and related borrowers composed 19% of total outstanding loans as of December 31, 2024. No single largest borrower had combined outstanding and unfunded commitments that represented more than 5% of total outstanding loans as of December 31, 2024.

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

Subsequent Events: Management has evaluated subsequent events for recognition and disclosure through March 20, 2025, which is the date the financial statements were available to be issued. There were no other subsequent events requiring accrual or disclosure at December 31, 2024.

Use of Estimates: 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. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents: For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and due from banks, and interest-bearing deposits in other banks with original maturities, if any, of three months or less. Net cash flows are reported for client loan and deposit transactions and interest-bearing deposits in other financial institutions.

Investment Securities: Investments are classified into the following categories:

- Available-for-sale investment securities, which management believes might be sold before maturity, are carried at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), net of tax, within shareholders' equity.
- Held-to-maturity investment securities, which management has the positive intent and ability to hold to maturity, are carried at amortized cost.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. There were no transfers between categories during the years ended December 31, 2024 and 2023.

Interest income on investment securities includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method with mortgage backed securities including anticipated prepayments. Gains and losses on sales of investment securities are determined using the specific identification method.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Allowance for credit losses on available-for-sale investment securities. For available-for-sale investment securities in an unrealized loss position, management 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 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.

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

Allowance for credit losses on held-to-maturity investment securities. Management measures expected credit losses on held-to-maturity debt securities on a collective basis.

The estimate for expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

All of the held-to-maturity securities we held are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major ratings agencies and have a long history of no credit losses. There were no past due or nonaccrual held-to-maturity securities as of December 31, 2024 and 2023. Based on these factors, management has a zero loss expectation on held-to-maturity securities.

FHLB Stock: As a member of the Federal Home Loan System, we are required to maintain an investment in the capital stock of the Federal Home Loan Bank of San Francisco (FHLB). At December 31, 2024 and 2023, our investment of \$4,235,000 and \$3,987,000, respectively, was carried at cost and redeemable at its par value of \$100 per share. FHLB Stock is included in accrued interest receivable and other assets on the balance sheet. The FHLB can suspend dividends and redemptions upon notification to its members.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amounts outstanding, adjusted for deferred loan origination fees and costs, purchase premiums and discounts, write-downs and the allowance for credit losses. Loan origination fees, net of certain deferred origination costs, and purchase premiums and discounts are recognized as an adjustment to the yield of the related loans, and are reported as a component of net loans.

A loan is collateral dependent if the repayment of the loan is expected to be repaid solely by the underlying collateral.

Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. A loan is moved to nonaccrual status in accordance with the policy, typically after 90 days of nonpayment.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such 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 the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan Sales and Servicing: Included in the portfolio are Small Business Administration (SBA) guaranteed loans that may be sold in the secondary market. Loans held for sale are carried at the lower of cost or market value. Market value is determined by the specific identification method as of the balance sheet date or the date that the purchasers have committed to purchase the loans. At the time the loan is sold, the related right to service the loan is recorded at fair value with the Bank earning future servicing income. Gains and losses are calculated based on the difference between the selling price and the fair value of servicing rights and the allocated carrying value of the loans sold. At December 31, 2024 and 2023, there were no loans designated as held for sale.

Loans held for sale subsequently transferred to the loan portfolio are transferred at the lower of cost or market value at the date of transfer. Any difference between the carrying amount of the loan and its outstanding principal balance is recognized as an adjustment to yield by the interest method. Servicing rights acquired through the origination of loans which are sold with servicing rights retained are recognized as separate assets or liabilities. Servicing rights are recorded at the difference between the contractual servicing fees and adequate compensation for performing the servicing and are subsequently amortized in proportion to and over the period of the related net servicing income or expense.

Concentration of Credit Risk: More than half of our business activity is with clients located within Santa Clara, San Benito and Monterey counties. Therefore, exposure to credit risk is significantly affected by changes in the economy in the Santa Clara, San Benito and Monterey counties area.

Allowance for Credit Losses – Loans (“ACL”): The ACL is a valuation account that is deducted from the loans’ amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the ACL balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Our ACL model uses the average charge-off method to measure the expected credit losses on loans at the instrument level. The model incorporates historical loss rates, qualitative factors, and a forward estimate to determine overall reserve rates on a loan-by-loan basis.

Historical loss rates are based on peer bank loss data using Call Report data in lieu of using our own data due to limited loss history and are calculated using a rolling four-quarter average loss rate applied to future expected cash flows. Qualitative adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors. Forward looking adjustments are based on reasonable and supportable forecasts of future expected losses using a forecast of the national unemployment rate for the next 12 months. The loss rate reverts immediately to historical loss experience for the period after the forecast period.

The ACL consists of specific and general reserves. The general reserve is measured on a collective (pool) basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation and typically encompass nonaccrual loans, collateral-dependent loans, certain financially distressed restructured loans, and loans graded as substandard or worse by management. When management determines that foreclosure is probable expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Management has identified the following portfolio segments and measures the allowance for credit losses using the average charge-off method: commercial and industrial, commercial real estate, land and construction and other.

Commercial and industrial – Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. The commercial and industrial loan portfolio includes borrowers operating in a wide range of activities including manufacturing, services, agri-business and religious organizations. The loans are collateralized by business assets, including receivables, inventory, and equipment. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Commercial real estate – Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. These loans include owner-occupied commercial properties as well as non-owner occupied properties that generate revenues by leasing the property to others such as commercial buildings of all types and include motels, residential care facilities and self-storage units. Adverse economic developments or an overbuilt market could negatively impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

Land and construction – Land and construction loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified cost and timelines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Other – Other loans consist of home equity lines of credit, business loans secured by single family residential real estate, cash secured loans and unsecured loans. The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrower's capacity to repay their obligations may be deteriorating.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that an extension, modification or renewal will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Bank.

Although management believes the ACL on loans to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors and management review the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, our primary regulators, FDIC and DFPI, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: Management estimates expected credit losses over the contractual period in which we are exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. 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. The estimate uses the same considerations as the allowance for credit losses on loans including the same portfolio segments. The allowance for off-balance-sheet commitments is included in accrued interest payable and other liabilities on the balance sheet. At December 31, 2024 and 2023, the allowance related to these commitments was \$44,000 and \$59,000, respectively.

Other Real Estate: Real estate properties acquired through, or in lieu of, loan foreclosure are expected to be sold and are initially recorded at the fair value of the property, less estimated costs to sell. The excess, if any, of the loan amount over the fair value is charged to the allowance for credit losses. Subsequent declines in the fair value of other real estate, along with related revenue and expenses from operations, are charged to noninterest expense as incurred.

Bank Premises and Equipment: Bank premises and equipment are carried at cost, less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of premises are estimated to be 40 years. The useful lives of furniture, fixtures and equipment are estimated to be 3 to 10 years. Leasehold improvements are generally amortized over the lesser of the respective lease term, including renewal periods that are reasonably assured, or their useful lives.

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. We evaluate premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Bank Owned Life Insurance: We have purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Income Taxes: Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed.

Accounting for Uncertainty in Income Taxes: We use a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the statement of income. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the years ended December 31, 2024 and 2023.

Earnings Per Share: Basic earnings per share is net income divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock options. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted earnings per share.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are now such matters that will have a material effect on the financial statements.

Share-Based Compensation: The Pinnacle Bank 2016 Equity Incentive Plan (the "Plan"), which was approved by our shareholders and permits the grant of stock options and restricted stock for up to 813,734 shares of our common stock of which 360,714 shares were available for grant as of December 31, 2024. With the adoption of the Plan, no further shares are available for grant under the 2006 Equity Incentive Plan. The Plan is designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, our operating results and government regulations. New shares are issued upon option exercise or grant of restricted stock. The Plan does not provide for the settlement of awards in cash. The Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the exercise price must be paid in full at the time the option is exercised.

Share-based compensation expense is recognized for all stock options and restricted stock awards as the requisite service is rendered based on the grant date fair value of the awards. The fair value of each option award is estimated as of the date of grant using a Black-Scholes-Merton option pricing formula. Expected volatility is based on historical volatility of the Bank's common stock over a preceding period commensurate with the expected term of the options. The "simplified" method described in SEC Staff Accounting Bulletin No. 110 is used to determine the expected term of our options due to the lack of sufficient historical data. The risk-free rate for the expected term is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield is not considered in the option pricing formula since we have no plans to pay cash dividends. In addition to these assumptions, we make estimates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the Plan.

Restricted stock awards are grants of shares of the Bank's common stock that are subject to forfeiture until specific conditions or goals are met. Conditions may be based on continuing employment or service and / or achieving specified performance goals. During the period of restriction, Plan participants holding restricted share awards have voting and cash dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors as reflected in each award agreement. The restricted stock awards are considered fixed awards as the number of shares and fair value are known at the date of grant. The fair value for restricted stock awards is determined by the market price of the Bank's common stock on the date of grant.

Management recognizes the share-based compensation expense over the vesting period of each award of restricted shares based upon the fair value of the common stock at the date of grant, and, if applicable, considering the probability of the performance criteria being achieved.

Upon the exercise of each vested stock option and vesting of each restricted share award, we issue the associated common shares from our inventory of authorized common shares. All outstanding stock options and restricted stock awards under the Plan immediately vest in the event of a change in control of the Bank. The shares associated with any stock options that are forfeited or expire unexercised and restricted share awards that fail to vest become available for re-issuance under the Plan.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassification had no effect on prior year net income or shareholder's equity.

Segment Reporting: Effective January 1, 2024, the Bank adopted Accounting Standards Update ("ASU") 2023-07 "Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures". This update expands the disclosure requirements for reportable segments by requiring additional qualitative and quantitative information about significant segment expenses, as well as interim segment disclosures. The adoption of ASU 2023-07 did not have a material impact on the financial statements.

The Bank's reportable segment is banking operations as determined by the Chief Executive Officer, who is the designated chief operating decision maker, based upon information provided about the Bank's products and services offered. Loans, investments, and deposits provide revenues in the banking operation. Interest expense, credit loss expense, and salaries and employee benefits provide the significant expenses in the banking operations. While the chief decision-maker monitors the revenue streams of the various products and services, operations are managed, and financial performance is evaluated on a Bank-wide basis as reflected in the financial statements contained in this report. The net income is used to benchmark the Bank against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results are used in assessment performance and in establishing compensation.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 2 – INVESTMENT SECURITIES

The following table summarizes the amortized cost and estimated fair value of investment securities available-for-sale and securities held-to-maturity at December 31, 2024 and 2023. There was no allowance for credit losses on securities available-for-sale and held-to-maturity securities at December 31, 2023.

	2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
U. S. Treasury	\$ 4,988,479	\$ -	\$ (18,167)	\$ 4,970,312
U. S. Government sponsored entities	4,973,585	\$ -	(27,487)	4,946,098
U.S. Government sponsored entities collateralized by residential mortgage obligations	14,528,466	\$ 45,899	(1,346,663)	13,227,702
Corporate debt obligations	<u>15,224,852</u>	<u>-</u>	<u>(1,532,582)</u>	<u>13,692,270</u>
	<u>\$ 39,715,382</u>	<u>\$ 45,889</u>	<u>\$ (2,924,899)</u>	<u>\$ 36,836,382</u>
Held-to-maturity:				
U.S. Government sponsored entities collateralized by residential mortgage obligations	<u>\$ 76,329,064</u>	<u>\$ 37,755</u>	<u>\$ (8,462,626)</u>	<u>\$ 67,904,193</u>

At December 31, 2024, net unrealized losses on available-for-sale investment securities totaling \$2,879,000 were recorded net of related tax asset of \$851,136, as accumulated other comprehensive income within shareholders' equity.

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
U. S. Treasury	\$ 20,956,239	\$ -	\$ (163,427)	\$ 20,792,812
U. S. Government sponsored entities	6,881,065	\$ -	(188,069)	6,692,996
U.S. Government sponsored entities collateralized by residential mortgage obligations	16,803,345	\$ 48,229	(1,433,883)	15,417,691
Corporate debt obligations	<u>15,189,034</u>	<u>-</u>	<u>(2,034,670)</u>	<u>13,154,364</u>
	<u>\$ 59,829,683</u>	<u>\$ 48,229</u>	<u>\$ (3,820,049)</u>	<u>\$ 56,057,863</u>
Held-to-maturity:				
U.S. Government sponsored entities collateralized by residential mortgage obligations	<u>\$ 86,103,642</u>	<u>\$ 33,351</u>	<u>\$ (7,665,096)</u>	<u>\$ 78,471,897</u>

At December 31, 2023, net unrealized losses on available-for-sale investment securities totaling \$3,771,820 were recorded net of related tax asset of \$1,115,085, as accumulated other comprehensive income within shareholders' equity.

There were no sales of investment securities available-for-sale during the years ended December 31, 2024 and 2023. There were no pledged securities as of December 31, 2024 and 2023.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

The following table summarizes securities with unrealized and unrecognized losses at December 31, 2024, aggregated by major security type and length of time in a continuous unrealized and unrecognized loss position (amounts in thousands):

	December 31, 2024					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
U. S. Treasury	\$ -	\$ -	\$ 4,970	\$ 18	\$ 4,970	\$ 18
U. Government sponsored entities	-	-	4,946	27	4,946	27
U.S. Government sponsored entities collateralized by residential mortgage obligations	1,886	10	8,162	1,337	10,048	1,347
Corporate debt obligations	-	-	13,692	1,533	13,692	1,533
Total	\$ 1,886	\$ 10	\$ 31,770	\$ 2,915	\$ 33,656	\$ 2,925
Held to maturity:						
U. S. Government sponsored entities collateralized by residential mortgage obligations	\$ -	\$ -	\$ 66,826	\$ 8,463	\$ 66,826	\$ 8,463

The securities collateralized by residential mortgage obligations we held are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major ratings agencies and have a long history of no credit losses. Because the decline in fair value is attributable to changes in interest rates and other conditions, and not credit quality, and because we do not have the intent to sell these mortgage-backed securities and it is likely that we will not be required to sell the securities before their anticipated recovery, Management does not consider these securities to have a credit loss at December 31, 2024.

Unrealized losses on corporate debt obligations at December 31, 2024 have not been recognized into income because the issuers bonds are of high credit quality (as determined by credit rating of AA or higher or an analysis of the ability to meet financial obligations if not rated), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

The following table summarizes securities with unrealized and unrecognized losses at December 31, 2023, aggregated by major security type and length of time in a continuous unrealized and unrecognized loss position (amounts in thousands):

	December 31, 2023					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
U. S. Treasury	\$ -	\$ -	\$ 20,793	\$ 163	\$ 20,793	\$ 163
U. Government sponsored entities	-	-	6,693	188	6,693	188
U.S. Government sponsored entities collateralized by residential mortgage obligations	3,825	2	9,599	1,432	13,424	1,434
Corporate debt obligations	484	266	12,671	1,769	13,155	2,035
Total	\$ 4,309	\$ 268	\$ 49,756	\$ 3,552	\$ 54,065	\$ 3,820
Held to maturity:						
U. S. Government sponsored entities collateralized by residential mortgage obligations	\$ -	\$ -	\$ 85,026	\$ 7,665	\$ 85,026	\$ 7,665

The securities collateralized by residential mortgage obligations we held are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major ratings agencies and have a long history of no credit losses. Because the decline in fair value is attributable to changes in interest rates and other conditions, and not credit quality, and because we do not have the intent to sell these mortgage-backed securities and it is likely that we will not be required to sell the securities before their anticipated recovery, Management does not consider these securities to have a credit loss at December 31, 2023.

Unrealized losses on corporate debt obligations at December 31, 2023 have not been recognized into income because the issuers bonds are of high credit quality (as determined by credit rating of AA or higher or an analysis of the ability to meet financial obligations if not rated), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

The amortized cost and estimated fair value of investment securities at December 31, 2024 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Amortized <u>Cost</u>	Estimated <u>Fair Value</u>
Available-for-sale:		
Within 1 year	\$ 9,962,064	\$ 9,916,412
After 1 year through 5 years	6,874,852	6,730,000
After 5 year through 10 years	8,350,000	6,962,268
After 10 years	-	-
U.S. Government sponsored entities collateralized		
By mortgage obligations	14,528,466	13,227,702
total	<u>\$ 39,715,382</u>	<u>\$ 36,836,382</u>
 Held-to-maturity:		
U.S. Government sponsored entities collateralized		
by mortgage obligations	<u>\$ 76,329,064</u>	<u>\$ 67,904,193</u>

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans at year-end are summarized below:

	<u>2024</u>	<u>2023</u>
Commercial and industrial	\$ 67,760,290	\$ 76,016,327
Commercial real estate	478,889,192	438,595,348
Land and construction	10,549,817	8,359,260
Other	<u>39,333,583</u>	<u>36,143,873</u>
 Loans, net of deferred fees and costs	596,532,882	559,114,808
 Allowance for credit losses on loans	<u>(7,351,801)</u>	<u>(5,951,882)</u>
 Loans receivable, net of allowance	<u>\$ 589,181,081</u>	<u>\$ 553,162,927</u>

Deferred fees at December 31, 2024 and 2023 were \$1,062,200 and \$1,158,800 respectively. Deferred costs at December 31, 2024 and 2023 were \$1,521,100 and \$1,642,800 respectively.

Salaries and employee benefits totaling \$905,000 and \$1,046,000 were deferred as loan origination costs for the years ended December 31, 2024 and 2023, respectively.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

The following tables show the activity of the allowance for credit losses and the balance of loans excluding deferred loan origination fees and costs at and for the years ended December 31, 2024 and 2023 by portfolio segment (amounts in thousands):

December 31, 2024					
	Commercial and Industrial	Commercial Real Estate	Land and Construction	Other	Total
<u>Allowance for Credit Losses</u>					
Beginning balance	\$ 539	\$ 4,885	\$ 19	\$ 509	\$ 5,952
Credit loss expense	2,323	1,490	-	(6)	3,807
Loans charged-off	(2,435)	-	-	(5)	(2,440)
Recoveries	29	-	-	4	33
Ending balance	<u>\$ 456</u>	<u>\$ 6,375</u>	<u>\$ 19</u>	<u>\$ 502</u>	<u>\$ 7,352</u>
December 31, 2023					
	Commercial and Industrial	Commercial Real Estate	Land and Construction	Other	Total
<u>Allowance for Credit Losses</u>					
Beginning balance	\$ 610	\$ 4,556	\$ 30	\$ 390	\$ 5,586
Credit loss expense	(101)	329	(11)	113	330
Loans charged-off	-	-	-	-	-
Recoveries	30	-	-	6	36
Ending balance	<u>\$ 539</u>	<u>\$ 4,885</u>	<u>\$ 19</u>	<u>\$ 509</u>	<u>\$ 5,952</u>

There were \$11,968,000 of collateral-dependent commercial real estate loans as of December 31, 2024. There were no collateral dependent loans as of December 31, 2023.

The following tables show the ageing of the loan portfolio net of deferred fees and costs in past due loans at December 31, 2024 and 2023 (amounts in thousands):

December 31, 2024						
	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Loans Not Past Due	Total
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ 67,760	\$ 67,760
Commercial real estate	1,096	-	11,968	13,064	465,825	478,889
Land and construction	-	-	-	-	10,550	10,550
Other	-	-	-	-	39,334	39,334
Total	<u>\$ 1,096</u>	<u>\$ -</u>	<u>\$ 11,968</u>	<u>\$ 13,064</u>	<u>\$ 583,469</u>	<u>\$ 596,533</u>
December 31, 2023						
	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Loans Not Past Due	Total
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ 76,016	\$ 76,016
Commercial real estate	5,172	-	-	5,172	433,424	438,596
Land and construction	-	-	-	-	8,359	8,359
Other	516	-	-	516	35,628	36,144
Total	<u>\$ 5,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,688</u>	<u>\$ 553,427</u>	<u>\$ 559,115</u>

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Nonaccrual loans totaled \$11,968,000 at December 31, 2024 all of which were commercial real estate loans, including \$3,323,000 of commercial real estate loans with no allowance for credit losses.

Occasionally, we modify loans to borrowers in financial distress by providing term extensions or interest reductions. In some cases, we may provide multiple types of types of concessions on one loan. For loans included in the “combination” columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is a term extension and interest rate reduction.

The following tables present the amortized cost basis loans at December 31, 2024 and 2023 that were both experiencing financial difficulty and modified during the years ended December 31, 2024 and 2023, by class and type of modification. The percentage of the of loans that were modified to borrowers in financial distress as compared to each class of loan is also presented below (amounts in thousands).

	Term Extension	Interest Rate Reduction	Payment Delay	Combination Term Extension Payment Delay	Total Class of Loan
<u>December 31, 2024</u>					
Commercial and industrial	\$ 1,300	\$ -	\$ -	\$ -	1.9%
Commercial real estate	-	7,352	-	-	1.5%
Land and construction	-	-	-	-	-
Other	306	-	-	-	0.8%
Total	<u>\$ 1,606</u>	<u>\$ 7,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1.5%</u>
<u>December 31, 2023</u>					
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	-
Commercial real estate	1,164	-	-	1,879	0.7%
Land and construction	-	-	-	-	-
Other	-	-	-	-	-
Total	<u>\$ 1,164</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,879</u>	<u>0.5%</u>

There were no commitments to lend additional amounts to the borrowers in the above table.

We monitor the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of our modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months (amounts in thousands).

	30-59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Nonaccrual
<u>December 31, 2024</u>					
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	-
Commercial real estate	-	-	-	-	3,637
Land and construction	-	-	-	-	-
Other	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,637</u>

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

	30-59 Days	60 - 89 Days	Greater than 89 Days	Total	
	<u>Past Due</u>	<u>Past Due</u>	<u>Past Due</u>	<u>Past Due</u>	<u>Nonaccrual</u>
<u>December 31, 2023</u>					
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	3,042	-	-	3,042	-
Land and construction	-	-	-	-	-
Other	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,042</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,042</u>	<u>\$ -</u>

The following table presents the financial effects of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31, 2024 and 2023.

	Weighted- Average Interest Rate <u>Reduction</u>	Weighted- Average Term <u>Extension</u>
<u>December 31, 2024</u>		
Commercial and industrial	-	16 months
Commercial real estate	2.6%	-
Land and construction	-	-
Other	<u>-</u>	<u>60 months</u>
Total	<u>2.6%</u>	<u>33 months</u>
	Weighted- Average Interest Rate <u>Reduction</u>	Weighted- Average Term <u>Extension</u>
<u>December 31, 2023</u>		
Commercial and industrial	-	-
Commercial real estate	-	77 months
Land and construction	-	-
Other	<u>-</u>	<u>-</u>
Total	<u>-</u>	<u>77 months</u>

Credit Risk Indicators

We assign a risk rating to all loans and periodically perform detailed loan reviews to identify credit risks, validate risk ratings and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by management and our regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into four major categories, defined as follows:

Pass – A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date.

Substandard – A substandard loan is not adequately protected by the current net worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses may include inadequate cash flow or collateral support, failure to complete construction on time or a project's failure to fulfill economic expectations. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Doubtful – Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Based on the most recent analysis performed, the risk category of loans by class is as follows (amounts in thousands):

	Term Loans Amortized Cost Basis by Origination Year						Revolving	Total
	2024	2023	2022	2021	2020	Prior	Loans	
As of December 31, 2024								
<u>Commercial and industrial</u>								
Pass	\$ 7,130	\$ 7,222	\$ 4,757	\$ 764	\$ 30	\$ 802	\$ 28,632	\$ 49,337
Special mention	390	28	242	56	-	-	6,953	7,669
Substandard	-	61	1,072	88	-	78	9,455	10,754
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 7,520</u>	<u>\$ 7,311</u>	<u>\$ 6,071</u>	<u>\$ 908</u>	<u>\$ 30</u>	<u>\$ 880</u>	<u>\$ 45,040</u>	<u>\$ 67,760</u>
Current period gross write offs	<u>\$ -</u>	<u>\$ 2,410</u>	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,435</u>
<u>Commercial real estate</u>								
Pass	\$ 51,534	\$ 93,232	\$ 91,379	\$ 63,672	\$ 37,162	\$ 109,359	\$ -	\$ 446,338
Special mention	-	-	2,439	-	4,426	1,209	-	8,074
Substandard	-	-	10,042	1,000	2,000	11,435	-	24,477
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 51,534</u>	<u>\$ 93,232</u>	<u>\$ 103,860</u>	<u>\$ 64,672</u>	<u>\$ 43,588</u>	<u>\$ 122,003</u>	<u>\$ -</u>	<u>\$ 478,889</u>
Current period gross write offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Land and construction</u>								
Pass	\$ 5,284	\$ 2,062	\$ 343	\$ -	\$ -	\$ -	\$ 2,861	\$ 10,550
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 5,284</u>	<u>\$ 2,062</u>	<u>\$ 343</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,861</u>	<u>\$ 10,550</u>
Current period gross write offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Other</u>								
Pass	\$ 7,125	\$ 6,862	\$ 4,093	\$ 2,732	\$ 1,793	\$ 5,610	\$ 10,161	\$ 38,376
Special mention	-	141	-	182	52	211	90	676
Substandard	-	-	-	-	-	282	-	282
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 7,125</u>	<u>\$ 7,003</u>	<u>\$ 4,093</u>	<u>\$ 2,914</u>	<u>\$ 1,845</u>	<u>\$ 6,103</u>	<u>\$ 10,251</u>	<u>\$ 39,334</u>
Current period gross write offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 5</u>

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

<u>Term Loans Amortized Cost Basis by Origination Year</u>							<u>Revolving Loans</u>	<u>Total</u>
<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>Prior</u>			
<u>As of December 31, 2023</u>								
<u>Commercial and industrial</u>								
Pass	\$ 11,539	\$ 9,874	\$ 5,576	\$ 448	\$ 210	\$ 2,846	\$ 44,987	\$ 75,480
Special mention	-	195	-	-	-	59	-	\$ 254
Substandard	-	-	-	-	-	18	264	282
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 11,539</u>	<u>\$ 10,069</u>	<u>\$ 5,576</u>	<u>\$ 448</u>	<u>\$ 210</u>	<u>\$ 2,923</u>	<u>\$ 45,251</u>	<u>\$ 76,016</u>
Current period gross write offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Commercial real estate</u>								
Pass	\$ 95,397	\$ 106,435	\$ 56,414	\$ 44,437	\$ 40,455	\$ 76,390	\$ -	\$ 419,528
Special mention	-	3,716	1,028	894	2,225	888	-	8,751
Substandard	-	-	-	964	2,973	6,379	-	10,316
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 95,397</u>	<u>\$ 110,151</u>	<u>\$ 57,442</u>	<u>\$ 46,295</u>	<u>\$ 45,653</u>	<u>\$ 83,657</u>	<u>\$ -</u>	<u>\$ 438,595</u>
Current period gross write offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Land and construction</u>								
Pass	\$ 2,377	\$ 3,062	\$ 2,542	\$ -	\$ -	\$ -	\$ 378	\$ 8,359
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 2,377</u>	<u>\$ 3,062</u>	<u>\$ 2,542</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 378</u>	<u>\$ 8,359</u>
Current period gross write offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Other</u>								
Pass	\$ 7,242	\$ 4,664	\$ 3,312	\$ 4,263	\$ 754	\$ 7,624	\$ 7,875	\$ 35,734
Special mention	-	-	-	-	-	92	-	92
Substandard	-	-	-	-	-	319	-	319
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 7,242</u>	<u>\$ 4,664</u>	<u>\$ 3,312</u>	<u>\$ 4,263</u>	<u>\$ 754</u>	<u>\$ 8,035</u>	<u>\$ 7,874</u>	<u>\$ 36,145</u>
Current period gross write offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

The following tables show the loan portfolio excluding deferred loan origination fees and costs allocated by management's internal risk ratings at December 31, 2024 and 2023 (amounts in thousands):

December 31, 2024					
Commercial Credit Exposure					
Credit Risk Profile by Internally Assigned Grade					
	Commercial and Industrial	Commercial Real Estate	Land and Construction	Other	Total
Grade:					
Pass	\$ 49,337	\$ 446,338	\$ 10,550	\$ 38,376	\$ 544,601
Special Mention	7,689	8,074	-	676	16,419
Substandard	10,754	24,477	-	282	35,513
Doubtful	-	-	-	-	-
Total	<u>\$ 67,760</u>	<u>\$ 478,889</u>	<u>\$ 10,550</u>	<u>\$ 39,334</u>	<u>\$ 596,533</u>

December 31, 2023					
Commercial Credit Exposure					
Credit Risk Profile by Internally Assigned Grade					
	Commercial and Industrial	Commercial Real Estate	Land and Construction	Other	Total
Grade:					
Pass	\$ 75,480	\$ 419,528	\$ 8,359	\$ 35,734	\$ 539,100
Special Mention	254	8,751	-	92	9,096
Substandard	282	10,316	-	319	10,918
Doubtful	-	-	-	-	-
Total	<u>\$ 76,016</u>	<u>\$ 438,595</u>	<u>\$ 8,359</u>	<u>\$ 36,145</u>	<u>\$ 559,115</u>

Concentrations of Credit Risk: We grant commercial real estate, land and construction and commercial and industrial loans to clients in Santa Clara, San Benito, Monterey and surrounding counties. Although we intend to have a diversified loan portfolio, a substantial portion of the portfolio is secured by non-owner occupied real estate.

In management's judgment, a concentration existed in non-owner occupied real estate loans at December 31, 2024 and 2023. Commercial real estate loans were approximately 78% and 78% of total loans at December 31, 2024 and 2023, respectively, with motel collateral representing 15% and 15% of total loans as of the same dates, respectively.

Although management believes the collectability of loans within this concentration has been appropriately considered in adequacy of the allowance for credit losses, a continued substantial decline in the performance of the economy in general or a continued decline in real estate values in our primary market area, in particular, could have an adverse impact on collectability, increase the level of real estate related nonperforming loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on our financial condition. Business income represents the primary source of repayment for a majority of these loans.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 4 – BANK PREMISES AND EQUIPMENT

Bank premises and equipment at December 31, 2024 and 2023 consisted of the following:

	<u>2024</u>	<u>2023</u>
Premises	\$ 8,489,710	\$ 8,489,710
Furniture, fixtures and equipment	2,317,234	2,297,386
Leasehold improvements	<u>5,866,247</u>	<u>5,790,706</u>
	16,673,191	16,557,802
Less accumulated depreciation and amortization	<u>(7,321,498)</u>	<u>(6,606,311)</u>
	<u>\$ 9,351,693</u>	<u>\$ 9,971,491</u>

Depreciation and amortization included in occupancy and equipment expense totaled \$715,000 and \$775,000 for the years ended December 31, 2024 and 2023, respectively.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 5 – LEASES

Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. During 2019, we entered into a lease for a new banking office which opened in 2020. The lease has a term of 10 years and includes one option to renew for 5 years. The lease was classified as an operating lease at the commencement date.

Management uses its incremental borrowing rate at lease commencement to calculate the present value of the lease payments when the rate implicit in a lease liability is unknown. The Bank's incremental borrowing rate was 2.18%. Lease expense of \$427,000 and \$424,000 was recognized in the years ended December 31, 2024 and 2023.

The right-of-use asset is included in accrued interest receivable and other assets while the lease liability is included in accrued interest payable and other liabilities. As of December 31, 2024 and 2023, right-of-use assets were \$1,883,000 and \$2,229,000, respectively and lease obligations were \$2,132,000 and \$2,486,000, respectively.

Future undiscounted lease payments as of December 31, 2024 are as follows:

2025	417,000
2026	429,000
2027	442,000
2028	457,000
2029	469,000
Thereafter	<u>40,000</u>
Total lease payments	2,254,000
Less: present value discount	<u>(122,000)</u>
Lease liability balance	<u>\$ 2,132,000</u>

NOTE 6 – LOAN SERVICING

SBA loans and USDA loans with unpaid balances of approximately \$230,822,000 and \$276,080,000 were being serviced for others at December 31, 2024 and 2023, respectively. Servicing rights are periodically evaluated for impairment. Servicing rights at December 31, 2024 and 2023 were \$1,960,495 and \$3,417,282, respectively and are included in accrued interest receivable and other assets on the balance sheet. Activity for loan servicing rights consisted of the following:

	<u>2024</u>	<u>2023</u>
Beginning of year	\$ 3,417,282	\$ 4,464,230
Additions	263,395	573,939
Disposals	(926,288)	(451,498)
Amortized to expense	<u>(793,894)</u>	<u>(1,169,389)</u>
End of year	<u>\$ 1,960,495</u>	<u>\$ 3,417,282</u>

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 7 – INTEREST-BEARING DEPOSITS

Interest-bearing deposits at December 31, 2024 and 2023 consisted of the following:

	<u>2024</u>	<u>2023</u>
Savings	\$ 111,967,473	\$ 112,119,074
Money market	253,078,213	217,634,130
Interest-bearing demand accounts	20,266,274	19,592,390
Time deposits \$250,000 or more	51,933,339	51,399,701
Time deposits less than \$250,000	<u>46,309,783</u>	<u>51,216,203</u>
	<u>\$ 483,555,082</u>	<u>\$ 451,961,498</u>

Aggregate annual maturities of time deposits are as follows:

<u>Year Ending December 31,</u>	
2025	\$ 94,082,409
2026	3,057,651
2027	1,103,062
2028	<u>-</u>
	<u>\$ 98,243,122</u>

NOTE 8 – SHORT-TERM BORROWING ARRANGEMENTS

We have unsecured lines of credit with two correspondent banks in the amount of \$23,000,000 and \$5,000,000 at December 31, 2024 and 2023, respectively. There were no borrowings outstanding under these borrowing arrangements as of December 31, 2024 and 2023.

We have secured lines of credit at the Federal Home Loan Bank of San Francisco and the Federal Reserve Bank of San Francisco under which we can borrow up to approximately \$78,667,000 on either a short-term or long-term basis. These secured lines of credit are based on pledged loans with carrying values of approximately \$152,115,000 and \$160,760,000 at December 31, 2024 and 2023, respectively. There were no borrowings outstanding under these arrangements at December 31, 2024 and 2023.

NOTE 9 – INCOME TAXES

Income taxes for the years ended December 31, 2024 and 2023 consisted of the following:

	<u>2024</u>	<u>2023</u>
Current	\$ 3,949,798	\$ 5,859,485
Deferred	<u>(494,798)</u>	<u>(1,084,085)</u>
Income tax expense	<u>\$ 3,455,000</u>	<u>\$ 4,775,400</u>

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Our effective tax rate differs from the statutory rate primarily as a result of stock option compensation expense related to incentive stock options, non-taxable income from Bank owned life insurance and non-deductible expenses.

The total amount of unrecognized tax benefits, including interest and penalties, at December 31, 2024 and 2023 was not considered significant. The amount of tax benefits that would impact the effective rate, if recognized, is not expected to be material. We do not anticipate any significant changes with respect to unrecognized tax benefits within the next 12 months.

Deferred tax assets and liabilities at December 31, 2024 and 2023 are included in accrued interest receivable and other assets and consisted of the following:

	<u>2024</u>	<u>2023</u>
Deferred tax assets:		
State deferred tax asset	\$ 324,990	\$ 461,349
Share-based compensation expense	208,572	235,060
Allowance for loan losses	2,186,287	1,777,032
Lease Liabilities	687,707	792,464
Accrued and Deferred Compensation	3,286,644	3,163,337
Bank premises and equipment	114,116	40,382
Other accruals	95,962	74,848
Unrealized loss on available-for-sale securities	<u>851,136</u>	<u>1,115,085</u>
Total deferred tax assets	<u>7,755,414</u>	<u>7,659,557</u>
	<u>2024</u>	<u>2023</u>
Deferred tax liabilities:		
Deferred loan costs	(459,242)	(495,222)
Right of Use asset	(556,953)	(658,983)
Other liabilities	<u>(20,337)</u>	<u>(17,319)</u>
Total deferred tax liabilities	<u>(1,036,532)</u>	<u>(1,171,524)</u>
Net deferred tax assets	<u>\$ 6,718,882</u>	<u>\$ 6,488,033</u>

Management believes that it is more likely than not that it will realize the above deferred tax assets in future periods; therefore, no valuation allowance has been provided against its deferred tax assets.

At December 31, 2024, we had no federal or California net operating loss carryforwards.

We file income tax returns in the U.S. Federal and California jurisdictions. There are currently no pending U.S. Federal or State income tax or non-U.S. income tax examinations by tax authorities. With few exceptions, we are no longer subject to tax examinations by U.S. Federal taxing authorities for years ended before December 31, 2021 and by state and local taxing authorities for years ended before December 31, 2020.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 10 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Correspondent Banking: We maintain funds on deposit with other federally insured financial institutions that may exceed federally insured limits. Funds maintained with these institutions in excess of federally insured limits totaled \$1,795,000 and \$1,688,000, as of December 31, 2024 and 2023, respectively.

Financial Instruments With Off-Balance-Sheet Risk: In the normal course of business to meet the financing needs of our clients, we enter into various financial arrangements where the financial instruments are not recorded in our balance sheet. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

Our exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments as we use for loans included on the balance sheet.

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

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

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

	<u>2024</u>	<u>2023</u>
Commitments to make loans	\$ 102,964	\$ 108,760
Standby letters of credit	<u>605</u>	<u>498</u>
	<u>\$ 103,569</u>	<u>\$ 109,258</u>

NOTE 11 – SHARE-BASED PAYMENTS

The Pinnacle Bank 2016 Equity Incentive Plan (the "Plan") permits the grant of stock options to directors, organizers and employees as well as restricted stock awards to directors and employees. Option grants to directors and employees are either non-qualified or incentive stock option awards. All of the options granted under the Plan and the 2006 Equity Incentive Plan have a 10 year term and have been issued with exercise prices at the fair market value of the underlying shares at the date of grant. The stock option awards to directors and employees stock option awards vest over a three to five year period from the date the options were granted.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

A summary of stock option activity for 2024 follows:

	<u>Outstanding</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price Per Share</u>
Balance, December 31, 2023	249,019	\$ 9.09
Options granted	-	\$ -
Options vested		\$ -
Options expired or cancelled	(35,280)	\$ 11.86
Options exercised	<u>(81,024)</u>	<u>\$ 7.73</u>
Balance, December 31, 2024	<u>132,715</u>	\$ 9.09

There were no grants of stock options in 2024 and 2023.

Information related to stock options during each year follows:

	<u>2024</u>	<u>2023</u>
Total intrinsic value of options exercised	\$ 574,402	\$ 350,028
Cash received from option exercises	\$ 903,099	\$ 1,734,235
Tax benefit from option exercises	\$ 96,194	\$ 168,614

A summary of the restricted stock activity for 2024 follows:

	<u>Unvested Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Balance, December 31, 2023	107,695	\$ 13.04
Granted	70,450	\$ 15.02
Vested	(53,225)	\$ 12.51
Forfeited	<u>(7,784)</u>	\$ 14.37
Balance, December 31, 2024	<u>117,136</u>	\$ 14.38

NOTE 12 – SHAREHOLDERS' EQUITY

Dividends: Upon declaration by the Board of Directors, shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment in any calendar year to the lesser of (1) the Bank's retained earnings or (2) the Bank's net income for the last three fiscal years, less distributions made to shareholders during the same three-year period. No cash dividend will be declared without a complete analysis of capital impact, current economic assessment, and current risk analysis.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Earnings Per Share: A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years ended December 31, 2024 and 2023 is shown below.

	<u>Net Income</u>	<u>Weighted Average Number of Shares Outstanding</u>	<u>Per Share Amount</u>
<u>December 31, 2024</u>			
Basic earnings per share	\$ 8,845,817	5,838,440	\$ <u>1.52</u>
Effect of dilutive stock options	<u>-</u>	<u>87,257</u>	<u>(0.03)</u>
Diluted earnings per share	<u>\$ 8,845,817</u>	<u>5,925,697</u>	<u>\$ 1.49</u>
<u>December 31, 2023</u>			
Basic earnings per share	\$ 11,770,720	5,639,925	\$ <u>2.09</u>
Effect of dilutive stock options	<u>-</u>	<u>83,709</u>	<u>(0.03)</u>
Diluted earnings per share	<u>\$ 11,770,720</u>	<u>5,723,634</u>	<u>\$ 2.06</u>

There were no anti-dilutive options for 2024 and 2023.

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

Under the Basel committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules), we must hold a capital conservation buffer above the adequately capitalized risk-based ratios. The capital conservation buffer is 2.50%. 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, we meet all capital adequacy requirements to which we are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. As of December 31, 2024 and 2023, the most recent regulatory notifications categorized the Bank as "well capitalized" under the regulatory framework for prompt correction action. There are no conditions or events since the most recent notification that management believes have changed the Bank's category. The following table includes the capital conservation buffer.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

	2024		2023	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>Tier 1 Leverage Ratio</u>				
Pinnacle Bank	\$ 101,001	11.4%	\$ 90,574	10.7%
Minimum requirement for "Well-Capitalized" institution	\$ 44,253	5.0%	\$ 42,259	5.0%
Minimum regulatory requirement	\$ 35,403	4.0%	\$ 33,807	4.0%
<u>Common Equity Tier 1 Capital Ratio</u>				
Pinnacle Bank	\$ 101,001	15.2%	\$ 90,574	13.7%
Minimum requirement for "Well-Capitalized" institution	\$ 43,130	6.5%	\$ 42,895	6.5%
Minimum regulatory requirement	\$ 46,448	7.0%	\$ 46,195	7.0%
<u>Tier 1 Capital Ratio</u>				
Pinnacle Bank	\$ 101,001	15.2%	\$ 90,574	13.7%
Minimum requirement for "Well-Capitalized" institution	\$ 53,083	8.0%	\$ 52,794	8.0%
Minimum regulatory requirement	\$ 56,401	8.5%	\$ 56,094	8.5%
<u>Total Capital Ratio</u>				
Pinnacle Bank	\$ 108,396	16.3%	\$ 96,585	14.6%
Minimum requirement for "Well-Capitalized" institution	\$ 66,354	10.0%	\$ 65,993	10.0%
Minimum regulatory requirement	\$ 69,671	10.5%	\$ 69,293	10.5%

NOTE 13 – RELATED PARTY TRANSACTIONS

During the normal course of business, we enter into transactions with related parties, including directors, and executive officers. The following is a summary of the aggregate activity involving related party borrowers during the year ended December 31, 2024:

Balance, January 1, 2024	\$ 10,833,812
Disbursements	1,987,094
Amounts repaid	<u>(3,262,256)</u>
Balance, December 31, 2024	<u>\$ 9,558,650</u>
Undisbursed commitments to related parties, December 31, 2024	<u>\$ 3,358,994</u>

At December 31, 2024 and 2023, our deposits from related parties totaled \$23,089,000 and \$21,721,000, respectively.

NOTE 14 – EMPLOYEE BENEFIT PLANS

401(k) Plan: In 2006, we adopted the Pinnacle Bank 401(k) Profit Sharing Plan and Trust effective January 1, 2007. All employees 21 years of age or older are eligible to participate in the plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. We may make additional contributions to the plan at the discretion of the Board of Directors. During the years ended December 31, 2024 and 2023, we contributed \$183,000 and \$193,000 to the Plan on behalf of our employees.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Supplemental Executive Retirement Plans: Effective in 2014, we adopted a Supplemental Executive Retirement Plan (SERP) for five executives (participants). We annually contribute to the SERP a designated percentage of income before income tax (5.54% for 2024 and 4.17% for 2023) which is then allocated to the participants' accounts up to age 65. Additional contributions may be made at the discretion of the board of directors. Interest accrues on the participants' account balances based on the FTSE Pension Liability Index adjusted annually as of the last business day in the prior calendar year (5.54% at December 31, 2024). Participants will receive 240 monthly payments from their accumulated balances following separation of service after reaching age 62 with seven years of service or after 15 years of service. As of and for the year ended December 31, 2024 and 2023, the SERP had accrued liabilities of \$7,310,000 and \$6,416,000, respectively, which are included in accrued interest payable and other liabilities and incurred expenses of \$856,000 and \$1,220,000, respectively. There were no payments made under the SERP to participants in 2024 and \$1,451,000 in payments during 2023. Further payments to participants will begin after separation from service.

NOTE 15 – FAIR VALUE MEASUREMENTS

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

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.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Assets Recorded at Fair Value – The following tables present information about our assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2024 and 2023.

Recurring Basis

<u>Description</u>	<u>December 31, 2024</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available for Sale securities:				
U.S Treasury	\$ 4,970,312	\$ -	\$ 4,970,312	\$ -
U.S. Government sponsored entities	4,946,098	\$ -	4,946,098	-
U.S. Government sponsored entities collateralized by residential mortgage obligations	13,227,702	\$ -	13,227,702	-
Corporate debt obligations	<u>13,692,270</u>	<u>\$ -</u>	<u>13,692,270</u>	<u>-</u>
Total assets measured at fair value	<u>\$36,836,382</u>	<u>\$ -</u>	<u>\$36,836,382</u>	<u>\$ -</u>
<u>December 31, 2023</u>				
<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available for Sale securities:				
U.S Treasury	\$20,792,812	\$ -	\$20,792,812	\$ -
U.S. Government sponsored entities	6,692,996	\$ -	6,692,996	-
U.S. Government sponsored entities collateralized by residential mortgage obligations	15,417,691	\$ -	15,417,691	-
Corporate debt obligations	<u>13,154,364</u>	<u>\$ -</u>	<u>13,154,364</u>	<u>-</u>
Total assets measured at fair value	<u>\$56,057,863</u>	<u>\$ -</u>	<u>\$56,057,863</u>	<u>\$ -</u>

Fair values for Level 2 available-for-sale investment securities are based on quoted market prices for similar securities. During the years ended December 31, 2024 and 2023, there were no transfers in or out of Levels 1 and 2.

Non-recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date.

At December 31, 2024 the fair value of collateral-dependent commercial real estate loans with specific allocations of the allowance for credit losses was \$7,567,000. The fair value of these loans was based on recent real estate appraisals using the comparable sales approach, the income approach or a combination of approaches. Adjustments are routinely made in the appraisal process by the independent appraiser to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Such adjustments resulted in a Level 3 classification of the inputs for determining fair value. There were no assets that were measured at fair value on a non-recurring basis as of December 31, 2023.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Fair Value of Financial Instruments: The carrying amount and estimated fair values of the Bank's financial instruments are as follows:

		Fair Value Measurements at Using:			
<u>December 31, 2024</u>	<u>Carrying Amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:					
Cash and cash equivalents	\$ 111,608,703	\$ 111,608,703	\$ -	\$ -	\$ 111,608,703
Held to maturity securities	76,329,064	-	67,904,193	-	67,904,193
Loans, net	589,181,081	-	-	576,886,013	576,886,013
FHLB stock	4,235,200	NA	NA	NA	NA
Accrued interest receivable	2,816,150	2,816,150	-	-	2,816,150
Financial liabilities:					
Deposits	\$ 732,232,387	\$ 633,989,265	\$ -	\$ 98,314,937	\$ 732,304,202
Accrued interest payable	489,088	489,088	-	-	489,088
		Fair Value Measurements at Using:			
<u>December 31, 2023</u>	<u>Carrying Amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:					
Cash and cash equivalents	\$ 87,203,360	\$ 87,203,360	\$ -	\$ -	\$ 87,203,360
Held to maturity securities	86,103,642	-	78,471,897	-	78,471,897
Loans, net	553,162,927	-	-	537,995,690	537,995,690
FHLB stock	3,987,000	NA	NA	NA	NA
Accrued interest receivable	3,066,159	3,066,159	-	-	3,066,159
Financial liabilities:					
Deposits	\$ 714,718,328	\$ 612,102,424	\$ -	\$ 102,479,965	\$ 714,582,389
Accrued interest payable	530,375	530,375	-	-	530,375

These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following methods and assumptions were used by management to estimate the fair values of its financial instruments at December 31, 2024 and December 31, 2023:

Cash and cash equivalents: The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Investment securities: For investment securities, fair values are estimated using quoted market prices for similar securities and model-based valuation techniques for which all significant assumptions are observable and are classified as Level 2 classification.

Loans and leases: The fair value of loans is estimated on an exit price basis incorporating contractual cash flow, prepayments discount spreads, credit loss and liquidity premiums. Loans with similar characteristics are aggregated for purposes of the calculations resulting in a Level 3 classification.

FHLB stock: It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

PINNACLE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2024 and 2023

Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amount) resulting in a Level 1 classification. Fair values for fixed rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Accrued interest receivable and payable: The carrying amount of accrued interest receivable and payable approximates fair value resulting in a Level 1 classification.

The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements and are not significant and, therefore, not included in the above table.

NOTE 16 – REVENUE FROM CONTRACTS WITH CLIENTS

All of the Bank's revenue from contracts with clients in the scope of ASC 606 is recognized within Non-Interest Income. The sources of Non-Interest Income subject to ASC 606 were service charges on asset-based loans of \$327,000 and \$728,000 for the years ended December 31, 2024 and 2023, respectively, service charges on deposit accounts of \$251,000 and \$236,000 for the years ended December 31, 2024 and 2023, respectively, and other fees of \$264,000 and \$260,000 for the years ended December 31, 2024 and 2023, respectively.

Service charges on asset-based loans are included within other non-interest income on the statements of income and represent fees earned from online services access, controlled receipts processing, collateral audits, administrative services and special accommodations. Service charges on deposit accounts represent fees earned from deposit clients for commercial account and insufficient funds services. Commercial account fees, which include the processing of deposits, payment of checks, wire transfers and electronic transfers and statement rendering, are recognized at both the time the transaction is executed and at the end of the month in which the services are performed. Insufficient funds fees are recognized at the point in time that the insufficient item is processed. Service charges on deposits are withdrawn from the client's account balance.

Other fees are earned when our clients use merchant services and ATM and electronic funds networks or for asset-based lending services. Merchant service and network fees are received from third-parties.