

**SAVI FINANCIAL CORPORATION, INC.
AND SUBSIDIARY
BURLINGTON, WASHINGTON**

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

DECEMBER 31, 2024 AND 2023

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the
Board of Directors
of Savi Financial Corporation, Inc.
Burlington, Washington

Opinion on the Financial Statements

We have audited the accompanying consolidated financial statements of Savi Financial Corporation and Subsidiary (“Corporation”) which comprise the balance sheets as of December 31, 2024 and 2023, the related statements of operations, comprehensive income (loss), changes in shareholders’ equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Savi Financial Corporation and Subsidiary as of December 31, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The other financial information on pages 54-55 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information is fairly stated in all material aspects in relation to the financial statements taken as a whole.

We have served as the Corporation's auditor since 2007.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, LLP
Fort Worth, Texas
April 1, 2025

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2024 AND 2023

	2024	2023
ASSETS		
Cash and due from banks	\$ 6,988,115	\$ 8,744,585
Interest-bearing deposits in other financial institutions maturing in less than three months	41,683,777	25,274,910
Cash and cash equivalents	48,671,892	34,019,495
Investment securities - Note 3	33,910,053	35,451,431
Federal Home Loan Bank stock, at cost - Note 2	2,606,400	2,558,200
Pacific Coast Bankers' Bank stock, at cost - Note 2	190,000	190,000
Loans held-for-sale - Note 4	1,963,982	554,567
Loans receivable, net of allowance for credit losses and deferred loan fees and costs - Note 4	509,555,848	482,423,408
Premises and equipment, net - Note 6	18,688,053	19,632,809
Foreclosed and repossessed assets	545,896	998,017
Accrued interest receivable	2,052,781	1,878,414
Core deposit intangibles, net - Note 7	791,503	916,435
Bank-owned life insurance - Note 8	10,315,711	9,987,760
Deferred tax asset - Note 10	1,842,743	1,716,016
SBA servicing asset - Note 5	1,206,680	1,239,571
Other assets	1,872,316	1,884,045
Total Assets	\$ 634,213,858	\$ 593,450,168
LIABILITIES		
Deposits - Note 9	\$ 526,784,321	\$ 483,833,063
Federal Home Loan Bank borrowings - Note 12	50,000,000	50,000,000
Subordinated debt - Note 14	17,000,000	17,000,000
Note payable - related party - Note 15	1,500,000	2,500,000
Accrued interest payable	1,223,178	1,094,533
Accrued expenses and other liabilities	1,486,635	1,835,169
Total Liabilities	597,994,134	556,262,765
Commitments and contingencies - Notes 6, 12, 13, 16, 17 and 21		
SHAREHOLDERS' EQUITY - Note 19		
Common stock, no par value; authorized: 10,000,000 shares		
Issued and outstanding: 3,476,207 and 3,460,082 at		
December 31, 2024 and 2023, respectively.	28,517,596	28,420,589
Additional paid-in capital	894,252	795,541
Retained earnings	9,773,706	10,972,895
Accumulated other comprehensive loss, net of tax benefit of \$788,385 and \$797,899 at		
December 31, 2024 and 2023, respectively	(2,965,830)	(3,001,622)
Total Shareholders' Equity	36,219,724	37,187,403
Total Liabilities and Shareholders' Equity	\$ 634,213,858	\$ 593,450,168

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

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Interest income		
Interest and fees on loans	\$ 30,415,463	\$ 26,079,419
Interest on investment securities	1,332,641	1,194,670
Interest on federal funds sold and interest-bearing deposits with financial institutions	1,882,986	1,366,921
Total interest income	33,631,090	28,641,010
Interest expense		
On deposits	10,960,077	6,062,673
On borrowed funds	3,118,576	2,802,178
Total interest expense	14,078,653	8,864,851
Net interest income	19,552,437	19,776,159
Provision for credit losses - Note 4	656,957	(251,985)
Net interest income after provision for credit losses	18,895,480	20,028,144
Non-interest income		
Service charges on deposit accounts	1,029,261	995,001
Gain on sales of loans	1,526,277	1,622,649
Loss on sales of premises and equipment	(13,675)	-
Gain on sales of other real estate owned	98,225	-
Earnings on bank-owned life insurance - Note 8	327,951	285,472
Other	612,067	600,630
Total non-interest income	3,580,106	3,503,752
Non-interest expense		
Salaries and employee benefits	14,562,248	13,864,640
Occupancy and equipment	2,745,956	2,611,968
Amortization of core deposit intangibles - Note 7	124,932	124,931
Data processing fees	921,654	810,439
Professional fees	361,739	532,739
FDIC assessment	554,000	450,000
Expenses and writedowns on OREO and repo assets	147,389	192,901
Directors and officers insurance	105,427	131,894
Director fees	297,850	262,200
Regulatory examination fees	56,566	54,924
B & O taxes	663,596	579,592
Merger and acquisition expenses	1,501,916	-
Other expense	2,057,531	3,971,439
Total non-interest expense	24,100,804	23,587,667
Loss before federal income tax benefit	(1,625,218)	(55,771)
Federal income tax benefit - Note 10	(426,029)	(103,566)
Net Income (Loss)	\$ (1,199,189)	\$ 47,795

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

**SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

	2024	2023
Net Income (Loss)	\$ (1,199,189)	\$ 47,795
Other Comprehensive Income		
Securities available-for-sale:		
Reclassification adjustment for net realized gains/losses on sales during the year	-	-
Change in net unrealized gains/losses, net of tax, during the year	35,792	587,394
Other comprehensive income, net of tax	35,792	587,394
Comprehensive Income (Loss)	\$ (1,163,397)	\$ 635,189

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

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>Shares of Common Stock</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance at January 1, 2023	3,441,882	\$ 28,271,839	\$ 668,814	\$ 10,925,100	\$ (3,589,016)	\$ 36,276,737
Stock-based compensation, stock options			118,222			118,222
Restricted stock compensation	1,200		8,505			8,505
Exercise of stock options	17,000	148,750				148,750
Comprehensive income for the year ended December 31, 2023				47,795	587,394	635,189
Balance at December 31, 2023	3,460,082	28,420,589	795,541	10,972,895	(3,001,622)	37,187,403
Stock-based compensation, stock options			95,646			95,646
Restricted stock compensation	400		3,065			3,065
Exercise of stock options	15,725	97,007				97,007
Comprehensive income (loss) for the year ended December 31, 2024				(1,199,189)	35,792	(1,163,397)
Balance at December 31, 2024	<u>3,476,207</u>	<u>\$ 28,517,596</u>	<u>\$ 894,252</u>	<u>\$ 9,773,706</u>	<u>\$ (2,965,830)</u>	<u>\$ 36,219,724</u>

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

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,199,189)	\$ 47,795
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	1,002,549	1,032,104
Provision for credit losses	656,957	(251,985)
Net amortization on investment securities	109,240	117,511
Originations of mortgage loans held-for-sale	(18,195,717)	(40,559,183)
Proceeds from sales of mortgage loans held-for-sale	17,473,655	42,454,997
Gain on sales of mortgage loans held-for-sale	(687,353)	(927,381)
Gain on sales of SBA loans	(838,924)	(695,268)
Gain on sales of other real estate owned	(98,225)	-
Stock-based compensation, stock options	95,646	118,222
Restricted stock compensation	3,065	8,505
Earnings on bank-owned life insurance	(327,951)	(285,472)
Amortization of core deposit intangibles	124,932	124,931
Deferred income tax benefit	(136,241)	(125,778)
(Increase) decrease in other assets	89,328	(148,834)
Increase in other liabilities	106,246	786,948
Total adjustments	(622,793)	1,649,317
Net Cash Provided (Used) by Operating Activities	(1,821,982)	1,697,112
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities:		
Available-for-sale	(3,929,756)	-
Principal payments on investment securities:		
Available-for-sale	3,407,200	3,477,173
Proceeds from maturities and calls of investment securities:		
Available-for-sale	2,000,000	250,000
Purchases of FHLB stock	(4,503,200)	(4,668,400)
Redemptions of FHLB stock	4,455,000	4,085,300
Net increase in loans receivable	(27,276,608)	(54,993,915)
Cash proceeds from sales of other real estate owned	752,720	-
Purchases of premises and equipment	(489,242)	(4,285,527)
Proceeds from sales of premises and equipment	10,000	-
Net Cash Used by Investing Activities	\$ (25,573,886)	\$ (56,135,369)

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

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	\$ 42,951,258	\$ 53,124,537
Proceeds from advances of FHLB borrowings	-	109,450,000
Repayments of FHLB borrowings	-	(94,450,000)
Repayment on note payable - related party	(1,000,000)	-
Proceeds from exercise of stock options	97,007	148,750
Net Cash Provided by Financing Activities	42,048,265	68,273,287
Net increase in cash and cash equivalents	14,652,397	13,835,030
Cash and cash equivalents at beginning of year	34,019,495	20,184,465
Cash and cash equivalents at end of year	\$ 48,671,892	\$ 34,019,495
 SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Cash paid for interest	\$ 13,950,008	\$ 8,165,242
Income taxes paid	-	475,883
Premises transferred to other real estate owned	407,774	-

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 1 Description of Business

SaviBank is a commercial bank chartered in the State of Washington. The Bank began operations April 11, 2005 and has 10 branch locations in Anacortes, Burlington, Bellingham, Concrete, Friday Harbor, Mt. Vernon, Oak Harbor, Sedro-Woolley and Freeland, Washington. During 2021, the Corporation started a mortgage department for the purpose of originating residential 1-4 family loans that are sold in the secondary market. A loan production office was opened in Friday Harbor, Washington in 2021 and was converted to a branch during 2022. A loan production office was opened in Olympia during 2022. This LPO was closed in 2024. The Bank provides loan and deposit services to customers who are predominantly small and middle-market businesses and individuals in and around Skagit, Island and Whatcom counties. The Bank operates under a state bank charter and is subject to regulation by the State of Washington Department of Financial Institutions (DFI) and the Federal Deposit Insurance Corporation (FDIC). The holding company is regulated by the Federal Reserve Board (Fed). Previously, application was filed with the DFI, FDIC and Fed to spin-off the Bellingham branch into a separate bank, Orca Bank, that would be owned by the holding company to service Whatcom County, Washington. During 2024, the decision was made to not pursue this endeavor.

On July 6, 2017, Savi Financial Corporation, Inc. (the Corporation) was formed in the State of Washington as a financial holding company. Effective December 31, 2017, the Corporation and SaviBank entered into a Share Exchange Agreement in order to effect the transfer of 100% of the issued and outstanding common stock of the Bank. Each issued and outstanding share of common stock of the Bank was automatically converted into one share of common stock of the Corporation. As a result of the Share Exchange, the Corporation became the sole shareholder of the common stock of the Bank and the Bank will continue in existence as a wholly-owned subsidiary of the Corporation.

Effective September 10, 2018, the Corporation effected a 1-for-5 reverse stock split of issued and outstanding common shares. The reverse stock split decreased the number of issued shares from 17,113,064 to 3,422,684, including 356 additional shares issued to shareholders with fractional shares. Share and per share amounts included in the consolidated financial statements and notes reflect the effect of this split for all periods presented.

Note 2 Summary of Significant Accounting Policies

Financial Statement Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and practices within the banking industry. The consolidated balance sheets of the Corporation include its accounts and those of its one hundred percent (100%) owned subsidiary, SaviBank. All significant intercompany accounts and transactions have been eliminated upon consolidation.

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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 Summary of Significant Accounting Policies, continued

Estimates, continued

The determination of the adequacy of the allowance for credit losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Corporation's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Corporation to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Comprehensive Income (Loss)

The Corporation has adopted authoritative guidance issued by the FASB which establishes standards for reporting and display of comprehensive income (loss) and its components. These standards require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investment securities, are reported as a separate component in shareholders' equity. These items, along with net income, are components of comprehensive income (loss). The Corporation reports comprehensive income (loss) in the statement of comprehensive income (loss).

Cash and Cash Equivalents

Cash and due from banks consist of vault cash, cash items in the process of collection, and non-interest-bearing deposits with financial institutions. For purposes of the statements of cash flows, the Corporation considers cash and cash equivalents to include cash, due from banks, interest-bearing deposits, investments with an original maturity of three months or less and federal funds sold.

Investment Securities

The Corporation accounts for investment securities according to authoritative guidance issued by the Financial Accounting Standards Board (FASB). Under the provisions of the FASB authoritative guidance, debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at amortized cost. Accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. Amortization of premiums are recognized in interest income using methods approximating the interest method over the earlier of the period to maturity or the first callable date.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 Summary of Significant Accounting Policies, continued

Investment Securities, continued

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Realized gains (losses) on securities available-for-sale are included in other income, and when applicable, are reported as a reclassification adjustment, in other comprehensive income (loss). Gains and losses on sales of securities are determined on the specific-identification method.

In accordance with Accounting Standards Update (ASU) No. 2016-13, which was adopted during 2022, an allowance for credit losses is established for declines in the fair value of individual held-to-maturity and available-for-sale securities below their amortized cost that are other-than-temporary.

Federal Home Loan Bank and Pacific Coast Bankers' Bank Stock

At December 31, 2024 and 2023, the Corporation held stock in the Federal Home Loan Bank (FHLB) totaling \$2,606,400 and \$2,558,200, respectively. As a member of the FHLB system, the Corporation is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding FHLB advances. The Corporation is required to purchase or redeem shares as the level of outstanding advances increase or decrease. This stock is classified as a restricted investment security, carried at cost and evaluated annually for impairment. No impairment loss was recorded in 2024 or 2023.

The Corporation owns stock in Pacific Coast Bankers' Bank (PCBB). The carrying amount of the PCBB stock was \$190,000 at December 31, 2024 and 2023. The investment in PCBB stock is a restricted investment carried at cost, which reasonably approximates its fair value. As a holder of PCBB stock, the Corporation is allowed to borrow at a lower interest rate than a non-holder and to receive dividends.

Loans Held-for-Sale

Mortgage loans originated for sale in the foreseeable future in the secondary market are carried at the lower of aggregate cost or fair value. Gains and losses on sales of loans are recognized at the settlement date and are determined by the difference between the sales proceeds and the carrying value of the loans. Sales are made without recourse. Net unrealized losses, if any, are recognized through a valuation allowance established by charges to income.

The Corporation issues various representations and warranties associated with the sale of loans. During 2024 and 2023, there were no losses incurred regarding these representations and warranties.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 Summary of Significant Accounting Policies, continued

Loans

Loans that management has the intent and ability to hold for the foreseeable future are stated at the principal amount outstanding, net of allowance for credit losses and deferred loan fees and costs. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method. Interest on loans is calculated using the simple interest method based on the daily balance of principal amount outstanding and is credited to income when earned. Interest is accrued as earned unless management doubts the collectability of interest or principal, at which time the loan is placed on nonaccrual status and accrued but unpaid interest is charged against income in that period. Any loan delinquent 90 days or more is placed on nonaccrual. Accrual of interest income is resumed when the borrower demonstrates the ability to make scheduled payments of both principal and interest. Past due status is determined based on contractual terms.

Management evaluates some loans individually when it is probable that the Corporation will not be able to collect all amounts as scheduled under a loan agreement. These loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Changes in these values will be reflected in income and as adjustments to the allowance for possible credit losses.

The accrual of interest on individually evaluated loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, unless the loan is well secured and in the process of collection. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received, or payment is considered certain.

Allowance for Credit Losses

During 2022, the Corporation adopted ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The current expected credit loss (CECL) model requires the measurement of all expected credit losses for financial assets measured at amortized cost and certain off-balance-sheet exposures based on historical experience, current conditions, and reasonable and supportable forecasts. In connection with the adoption of ASC 326, management revised certain accounting policies and implemented certain accounting policy elections. Management made the election to utilize the Weighted Average Remaining Maturity (WARM) model. This model includes the required components of CECL, including the use of a historical loss rate, current economic condition factors, weighted average remaining maturity of the portfolio and forecasted future economic factors. The revised accounting policies are described on the next page.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 Summary of Significant Accounting Policies, continued

Allowance for Credit Losses, continued

Allowance for Credit Losses – Held-to-Maturity (HTM) Securities: The allowance for credit losses on HTM securities is a contra-asset valuation account, calculated in accordance with ASC 326 that is deducted from the amortized cost basis of HTM securities to present management’s best estimate of the net amount expected to be collected. HTM securities are charged-off against the allowance when deemed to be uncollectible by management. Adjustments to the allowance are reported in the income statement as a component of the provision for credit losses. Management measures expected credit losses on HTM securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management has made the accounting policy election to exclude accrued interest receivable on HTM securities from the estimate of credit losses. Further information regarding the policies and methodology used to estimate the allowance for credit losses on HTM securities is presented in Note 3 – Investment Securities.

Allowance for Credit Losses – Available-for-Sale (AFS) Securities: For AFS securities in an unrealized loss position, management first assesses whether (i) there is an intent to sell or (ii) it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis. If either case is affirmative, any previously recognized allowances are charged-off and the security’s amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which the fair value is less than amortized cost, any changes to the rating of the security by a rating agency and any 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 is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss). Adjustments to the allowance are reported in the income statement as a component of the provision for credit losses. Management has made the accounting policy election to exclude accrued interest receivable on AFS securities from estimates of credit losses. AFS securities are charged against the allowance, or in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met.

Allowance for Credit Losses – Loans: The allowance for credit losses on loans is a contra-asset valuation account, calculated in accordance with ASC 326 that is deducted from the amortized cost basis of loans to present management’s best estimate of the net amount expected to be collected. The allowance is comprised of amounts charged against income in the form of the provision for credit losses, less charged-off loans, net of recoveries. Loans are charged-off against the allowance when management believes that collection of principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for credit losses. Management has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses. Further information regarding the policies and methodology used to estimate the allowance for credit losses is presented in Note 4 – Loans Receivable and Allowance for Credit Losses.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 Summary of Significant Accounting Policies, continued

Allowance for Credit Losses, continued

The allowance for credit losses is maintained at a level sufficient to provide for probable credit losses on loans based on evaluating known and inherent risks in the loan portfolio. The allowance is provided based upon management's continuing analysis of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, delinquency levels, actual loan loss experience, current economic conditions, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and a detailed analysis of individual loans for which full collectability may not be assured. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. A specific reserve is established when, in accordance with authoritative guidance issued by the FASB, it is probable that a creditor will be unable to collect all amounts (principal and interest) due according to the contractual terms of the loan agreement. Smaller balance homogenous loans, such as residential mortgage loans and consumer loans, are collectively evaluated for potential loss. When a loan has been identified for individual evaluation, it is evaluated for impairment by using the discounted cash flows, except when, as a practical expedient, the current fair value of the collateral, reduced by costs to sell, is used. When the measurement of the loan is less than the recorded investment in the loan, impairment is recognized by creating or adjusting an allocation of the allowance for credit losses. The general component relates to allocations for loans that are classified as doubtful, substandard or special mention, as well as a component to cover non-classified loans, and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. The existence of some or all of the following criteria will generally confirm that a loss has been incurred: the loan is significantly delinquent and the borrower has not demonstrated the ability or intent to bring the loan current; the Corporation has no recourse to the borrower, or if it does, the borrower has insufficient assets to pay the debt; the estimated fair value of the loan collateral is significantly below the current loan balance, and there is little or no near-term prospect for improvement.

A provision for credit losses is charged against income and is added to the allowance for credit losses based on regular assessments of the loan portfolio. The allowance for credit losses is allocated to certain loan categories based on the relative risk characteristics, asset classifications and actual loss experience of the loan portfolio. While management has allocated the allowance for credit losses to various loan portfolio segments, the allowance is general in nature and is available for the loan portfolio in its entirety.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 Summary of Significant Accounting Policies, continued

Allowance for Credit Losses, continued

The ultimate recovery of all loans is susceptible to future market factors beyond the Corporation's control. These factors may result in losses or recoveries differing significantly from those provided in the consolidated financial statements. In addition, regulatory agencies periodically review the Corporation's allowance for credit losses as an integral part of their examination process and may require the Corporation to make additions to the allowance based on their judgment about information available to them at the time of their examination.

Allowance for Credit Losses – Off-Balance-Sheet Credit Exposures: The allowance for credit losses on off-balance-sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which the Corporation is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Corporation has the unconditional right to cancel the obligation. The allowance is reported as a component of accrued expenses and other liabilities in the amount of \$84,508 and \$410,642 at December 31, 2024 and 2023, respectively. Adjustments to the allowance are reported in the income statement as a component of the provision for credit losses.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment

Property, equipment and leasehold improvements are recorded at cost, net of accumulated depreciation and amortization. Gains and losses on dispositions are reflected in operations. Expenditures for improvements and major renewals are capitalized, and ordinary maintenance, repairs and small purchases are charged to operations as incurred.

Depreciation and Amortization

Property, equipment and leasehold improvements are depreciated or amortized over the estimated useful life of the related asset, which ranges from three to 50 years. The Corporation uses the straight-line method of recognizing depreciation and amortization expenses. Leasehold improvements are amortized over lease terms or the estimated useful life, whichever is less, on a straight-line basis.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 Summary of Significant Accounting Policies, continued

Other Real Estate Owned

Other real estate owned is foreclosed property held pending disposition and is initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. At foreclosure, if the fair value of the real estate acquired less estimated selling costs is less than the Corporation's recorded investment in the related loan, a writedown is recognized through a charge to the allowance for credit losses. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to income, if necessary, to reduce the carrying value of the property to its fair value less estimated selling costs. Sales of other real estate owned are accounted for according to authoritative guidance issued by the FASB.

Intangibles and Other Long-Lived Assets

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. The Corporation's intangible assets relate to core deposits. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Intangible assets with indefinite useful lives are not amortized until their lives are determined to be definite. Intangible assets, premises and equipment and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. See Note 7 – Other Intangible Assets for additional information.

Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the tax and financial reporting of the allowance for credit losses, accumulated depreciation, organization costs and conversion from accrual to cash basis.

The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Corporation and the Bank file consolidated federal income tax returns. The Corporation and the Bank maintain their records for financial reporting on the accrual basis of accounting and for income tax reporting on the cash basis of accounting.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 Summary of Significant Accounting Policies, continued

Income Taxes, continued

In accordance with authoritative guidance issued by the FASB, the Corporation performed an evaluation to determine if there were any uncertain tax positions that would have an impact on the financial statements. No uncertain tax positions were identified. The December 31, 2021 through December 31, 2024 tax years remain subject to examination by the Internal Revenue Service. The Corporation does not believe that any reasonably possible changes will occur within the next 12 months which will have a material impact on the financial statements. The Corporation records incurred penalties and interest in other non-interest expense. There were no penalties and interest assessed by taxing authorities during 2024 or 2023.

Advertising Costs

The Corporation expenses advertising costs as they are incurred. Total advertising expense was \$170,947 and \$277,957 for the years ended December 31, 2024 and 2023, respectively.

Stock-Based Employee Compensation

The Corporation has a stock-based compensation plan described more fully in Note 19. The Corporation has adopted authoritative guidance issued by the FASB regarding stock compensation.

The consolidated statements of operations include \$95,646 and \$118,222 of compensation expense related to stock-based compensation for stock options for the years ended December 31, 2024 and 2023, respectively. The consolidated statements of operations include \$3,065 and \$8,505 of compensation expense related to stock-based compensation for restricted stock for the years ended December 31, 2024 and 2023, respectively.

Financial Instruments

In the ordinary course of business, the Corporation has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded, or related fees are incurred or received.

Fair Values of Financial Instruments

The FASB has issued authoritative guidance which requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. The FASB authoritative guidance excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 Summary of Significant Accounting Policies, continued

Fair Values of Financial Instruments, continued

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

FHLB stock and PCBB stock: These are restricted investments carried at cost which approximates their fair value.

Loans held-for-sale: The carrying amount reported in the balance sheet for loans held-for-sale approximates their fair values.

Loans: In accordance with ASU No. 2016-01, exit level pricing was utilized to determine the fair values for loans.

Bank-owned life insurance: The carrying amount of the bank-owned life insurance approximates its fair value.

SBA Servicing Asset: The carrying amount of the servicing asset approximates its fair value.

Deposits: In accordance with ASU No. 2016-01, exit level pricing was utilized to determine the fair values for deposits.

Long-Term Borrowings: The fair values of the Corporation's long-term borrowings are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Short-Term Borrowings: The carrying amount of short-term borrowings approximates their fair values.

Accrued Interest: The carrying amount of accrued interest approximates its fair value.

Reclassifications

Certain reclassifications have been made to the 2023 financial statements to conform to current year presentations. Such reclassifications have had no effect upon previously reported net income.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 Summary of Significant Accounting Policies, continued

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Corporation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Corporation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued. The Corporation has evaluated subsequent events from December 31, 2024 through April 1, 2025, the date the financial statements were available to be issued. Refer to Note 24 for information regarding subsequent events identified by the Corporation.

Accounting Standards Adopted in 2024 and 2023

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326)*, which relates to Troubled Debt Restructurings (TDRs) for all entities after they have adopted ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measure of Credit Losses on Financial Instruments*. The amendments of this update eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, *Receivables – Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. For public entities, the amendments of this update require that an entity disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, *Financial Instruments – Credit Losses – Measured at Amortized Cost*. For entities that have adopted the amendments in ASU No. 2016-13, the amendments in this update are effective for fiscal years after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted the amendments in ASU No. 2016-13, the effective date for the amendments in this update are the same as the effective dates in ASU No. 2016-13. An entity has the option to apply a modified retrospective transition method relating to the recognition and measurement of TDRs which will result in a cumulative-effect adjustment to retained earnings in the period of adoption. All other provisions of this update are applied prospectively. Implementation of this standard, which was effective as of January 1, 2023, did not have a significant impact on the Corporation's consolidated financial statements.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 Summary of Significant Accounting Policies, continued

Accounting Standards Pending Adoption

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740)*. The purpose of this update is to enhance the transparency and decision usefulness of income tax disclosures to provide information to better assess how an entity's operations and related tax risks and tax planning and operational opportunities affect its tax rate and prospects for future cash flows. The amendments in this update apply to all entities that are subject to Topic 740, *Income Taxes*. Certain of the disclosures that are required by the amendments in this update are not required for entities other than public business entities. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2024. For entities other than public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. Implementation of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

Note 3 Investment Securities

The amortized cost and fair values of investment securities at December 31, 2024 are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available-for-Sale:				
U.S. Treasury bills	\$ 1,000,940	\$ -	\$ (5,784)	\$ 995,156
U. S. Government agency	250,647	-	(6,153)	244,494
Municipal bonds	3,219,309	-	(379,124)	2,840,185
U.S. Government agency mortgage-backed securities	13,442,746	-	(2,330,335)	11,112,411
Collateralized mortgage obligations (CMOs)	7,664,656	-	(984,888)	6,679,768
SBA pools	4,823,801	5,520	(33,169)	4,796,152
Corporate bonds	2,262,169	967	(21,249)	2,241,887
Total available-for-sale	<u>32,664,268</u>	<u>6,487</u>	<u>(3,760,702)</u>	<u>28,910,053</u>
Held-to-Maturity:				
Corporate bonds	<u>5,050,000</u>	<u>-</u>	<u>(589,411)</u>	<u>4,460,589</u>
Total held-to-maturity	<u>5,050,000</u>	<u>-</u>	<u>(589,411)</u>	<u>4,460,589</u>
Total investment securities	<u>\$ 37,714,268</u>	<u>\$ 6,487</u>	<u>\$ (4,350,113)</u>	<u>\$ 33,370,642</u>

The balance sheet as of December 31, 2024 reflects the fair value of available-for-sale securities of \$28,910,053 and the amortized cost of held-to-maturity securities in the amount of \$5,050,000, less the allowance for credit losses on held-to-maturity securities in the amount of \$50,000, for a total of \$33,910,053. A net unrealized loss of \$3,754,215 is included in the available-for-sale investment securities balance. The unrealized loss, net of tax benefit, is included in shareholders' equity.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 3 Investment Securities, continued

The amortized cost and fair values of investment securities at December 31, 2023 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Treasury bills	\$ 2,003,317	\$ -	\$ (33,161)	\$ 1,970,156
U. S. Government agency	251,176	-	(10,867)	240,309
Municipal bonds	3,240,795	-	(358,596)	2,882,199
U.S. Government agency mortgage-backed securities	14,640,674	-	(2,368,011)	12,272,663
Collateralized mortgage obligations (CMOs)	6,374,629	-	(839,447)	5,535,182
SBA pools	4,417,037	10,184	(34,811)	4,392,410
Corporate bonds	<u>3,323,324</u>	<u>890</u>	<u>(165,702)</u>	<u>3,158,512</u>
Total available-for-sale	<u>34,250,952</u>	<u>11,074</u>	<u>(3,810,595)</u>	<u>30,451,431</u>
Held-to-Maturity:				
Corporate bonds	<u>5,050,000</u>	<u>-</u>	<u>(747,217)</u>	<u>4,302,783</u>
Total held-to-maturity	<u>5,050,000</u>	<u>-</u>	<u>(747,217)</u>	<u>4,302,783</u>
Total investment securities	<u>\$ 39,300,952</u>	<u>\$ 11,074</u>	<u>\$ (4,557,812)</u>	<u>\$ 34,754,214</u>

The balance sheet as of December 31, 2023 reflects the fair value of available-for-sale securities of \$30,451,431 and the amortized cost of held-to-maturity securities in the amount of \$5,050,000, less the allowance for credit losses on held-to-maturity securities in the amount of \$50,000, for a total of \$35,451,431. A net unrealized loss of \$3,799,521 is included in the available-for-sale investment securities balance. The unrealized loss, net of tax benefit, is included in shareholders' equity.

The allowance for credit losses on held-to-maturity securities is a contra-asset valuation account that is deducted from the amortized cost basis of held-to-maturity securities to present the net amount expected to be collected. Management measures credit losses on held-to-maturity securities on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. As noted on Page 24, an allowance for credit losses on held-to-maturity securities in the amount of 50,000 was recorded at December 31, 2024 and 2023.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 3 Investment Securities, continued

The amortized cost and estimated fair value of debt securities at December 31, 2024, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities, collateralized mortgage obligations and SBA pools are shown separately, since they are not due at a single maturity date.

	<u>Available-for-Sale</u>		<u>Held-to-Maturity</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Amounts maturing in:				
One year or less	\$ 3,013,164	\$ 2,986,131	\$ -	\$ -
After one year through five years	1,535,390	1,510,386	-	-
After five years through ten years	1,015,227	915,250	5,050,000	4,460,589
After ten years	1,169,284	909,955	-	-
	<u>6,733,065</u>	<u>6,321,722</u>	<u>5,050,000</u>	<u>4,460,589</u>
U.S. Government agency mortgage-backed securities	13,442,746	11,112,411	-	-
Collateralized mortgage obligations	7,664,656	6,679,768	-	-
SBA pools	4,823,801	4,796,152	-	-
Totals	<u>\$ 32,664,268</u>	<u>\$ 28,910,053</u>	<u>\$ 5,050,000</u>	<u>\$ 4,460,589</u>

During 2024 and 2023, there were no sales of investment securities. There were proceeds received from redemptions of FHLB stock totaling \$4,455,000 and \$4,085,300 in 2024 and 2023, respectively. The FHLB stock was redeemed at par value, so there were no realized gains or losses on these redemptions.

Securities with carrying amounts of \$18,384,750 and \$240,309 at December 31, 2024 and 2023, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 3 Investment Securities, continued

Information pertaining to securities with gross unrealized losses at December 31, 2024 and 2023, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2024:						
U.S. Treasury bills	\$ -	\$ -	\$ 995,156	\$ (5,784)	\$ 995,156	\$ (5,784)
U.S. Government agency	-	-	244,494	(6,153)	244,494	(6,153)
Municipal bonds	-	-	2,840,185	(379,124)	2,840,185	(379,124)
U.S. Government agency mortgage-backed securities	-	-	11,112,411	(2,330,335)	11,112,411	(2,330,335)
Collateralized mortgage obligations	-	-	6,679,768	(984,888)	6,679,768	(984,888)
SBA pools	410,704	(1,489)	1,974,049	(31,680)	2,384,753	(33,169)
Corporate bonds	-	-	5,201,564	(610,660)	5,201,564	(610,660)
Totals	<u>\$ 410,704</u>	<u>\$ (1,489)</u>	<u>\$ 29,047,627</u>	<u>\$ (4,348,624)</u>	<u>\$ 29,458,331</u>	<u>\$ (4,350,113)</u>
December 31, 2023:						
U.S. Treasury bills	\$ -	\$ -	\$ 1,970,156	\$ (33,161)	\$ 1,970,156	\$ (33,161)
U.S. Government agency	-	-	240,309	(10,867)	240,309	(10,867)
Municipal bonds	-	-	2,882,199	(358,596)	2,882,199	(358,596)
U.S. Government agency mortgage-backed securities	-	-	12,272,663	(2,368,011)	12,272,663	(2,368,011)
Collateralized mortgage obligations	-	-	5,535,182	(839,447)	5,535,182	(839,447)
SBA pools	1,205,070	(3,228)	1,407,711	(31,583)	2,612,781	(34,811)
Corporate bonds	739,950	(160,050)	5,220,550	(752,869)	5,960,500	(912,919)
Totals	<u>\$ 1,945,020</u>	<u>\$ (163,278)</u>	<u>\$ 29,528,770</u>	<u>\$ (4,394,534)</u>	<u>\$ 31,473,790</u>	<u>\$ (4,557,812)</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 3 Investment Securities, continued

At December 31, 2024, there are 60 investment securities with an unrealized loss of 12.87% from their amortized cost. The Corporation has evaluated these securities and has determined that these unrealized losses relate principally to the change in market interest rates since purchase. The decline in value is not related to any company or industry specific event. At December 31, 2024 and 2023, the balance of held-to-maturity securities are reported on the balance sheet net of an allowance for credit losses totaling \$50,000. At December 31, 2024 and 2023, there was no allowance for credit losses on available-for-sale securities recorded.

Note 4 Loans Receivable and Allowance for Credit Losses

An analysis of loan categories at December 31, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Commercial and agricultural loans	\$ 70,348,724	\$ 67,621,916
Real estate (RE) loans:		
Construction, land and land development	24,049,870	30,585,244
Residential 1-4 family	95,165,322	78,307,244
Commercial RE	263,754,363	229,579,134
Consumer and other loans	<u>63,981,632</u>	<u>81,836,404</u>
	517,299,911	487,929,942
Adjust: Net deferred loan costs	391,307	815,062
Allowance for credit losses	<u>(6,171,388)</u>	<u>(5,767,029)</u>
Loans, net	<u>\$ 511,519,830</u>	<u>\$ 482,977,975</u>

At December 31, 2024 and 2023, Residential 1-4 family loans shown above include mortgage loans held-for-sale totaling \$1,963,982 and \$554,567, respectively.

Included in total loans above are \$16,101 and \$31,131 in overdrawn accounts at December 31, 2024 and 2023, respectively.

At December 31, 2024 and 2023, there were no Residential 1-4 Family loans in process of foreclosure.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 4 Loans Receivable and Allowance for Credit Losses, continued

Transactions in the allowance for credit losses in 2024 are summarized as follows:

	<u>Commercial and Agricultural</u>	<u>Construction, Land and Land Development</u>	<u>Residential 1-4 Family</u>	<u>Commercial Real Estate</u>	<u>Consumer and Other</u>	<u>Unallocated</u>	<u>2024 Total</u>
<u>Allowance for Credit Losses:</u>							
Balance, beginning of year	\$ 787,493	\$ 613,156	\$ 1,028,867	\$ 2,445,742	\$ 891,628	\$ 143	\$ 5,767,029
Provisions charged (credited) to income	<u>529,389</u>	<u>(178,087)</u>	<u>93,369</u>	<u>203,073</u>	<u>322,715</u>	<u>12,633</u>	<u>983,092</u>
	<u>1,316,882</u>	<u>435,069</u>	<u>1,122,236</u>	<u>2,648,815</u>	<u>1,214,343</u>	<u>12,776</u>	<u>6,750,121</u>
Loans charged-off	(280,526)	-	(1,262)	(4,106)	(409,649)	-	(695,543)
Recoveries of loans previously charged-off	<u>12,433</u>	<u>-</u>	<u>1,262</u>	<u>4,106</u>	<u>99,009</u>	<u>-</u>	<u>116,810</u>
Net charge-offs	<u>(268,093)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(310,640)</u>	<u>-</u>	<u>(578,733)</u>
Balance, end of year	<u>\$ 1,048,789</u>	<u>\$ 435,069</u>	<u>\$ 1,122,236</u>	<u>\$ 2,648,815</u>	<u>\$ 903,703</u>	<u>\$ 12,776</u>	<u>\$ 6,171,388</u>
Amounts allocated to: Individually evaluated for impairment	\$ 126,160	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 126,160
Amounts allocated to: Collectively evaluated for impairment	<u>922,629</u>	<u>435,069</u>	<u>1,122,236</u>	<u>2,648,815</u>	<u>903,703</u>	<u>12,776</u>	<u>6,045,228</u>
Balance, end of year	<u>\$ 1,048,789</u>	<u>\$ 435,069</u>	<u>\$ 1,122,236</u>	<u>\$ 2,648,815</u>	<u>\$ 903,703</u>	<u>\$ 12,776</u>	<u>\$ 6,171,388</u>
<u>Loans:</u>							
Individually evaluated for impairment	\$ 427,106	\$ -	\$ -	\$ -	\$ -		\$ 427,106
Collectively evaluated for impairment	<u>69,921,618</u>	<u>24,049,870</u>	<u>95,165,322</u>	<u>263,754,363</u>	<u>63,981,632</u>		<u>516,872,805</u>
Ending balance total loans	<u>\$ 70,348,724</u>	<u>\$ 24,049,870</u>	<u>\$ 95,165,322</u>	<u>\$ 263,754,363</u>	<u>\$ 63,981,632</u>		<u>\$ 517,299,911</u>

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 4 Loans Receivable and Allowance for Credit Losses, continued

Transactions in the allowance for credit losses in 2023 are summarized as follows:

	<u>Commercial and Agricultural</u>	<u>Construction, Land and Land Development</u>	<u>Residential 1-4 Family</u>	<u>Commercial Real Estate</u>	<u>Consumer and Other</u>	<u>Unallocated</u>	<u>2023 Total</u>
<u>Allowance for Credit Losses:</u>							
Balance, beginning of year	\$ 768,184	\$ 814,646	\$ 995,256	\$ 1,870,359	\$ 1,225,319	\$ 155,491	\$ 5,829,255
Provisions charged (credited) to income	<u>172,589</u>	<u>(201,490)</u>	<u>33,611</u>	<u>575,383</u>	<u>(93,285)</u>	<u>(155,348)</u>	<u>331,460</u>
	<u>940,773</u>	<u>613,156</u>	<u>1,028,867</u>	<u>2,445,742</u>	<u>1,132,034</u>	<u>143</u>	<u>6,160,715</u>
Loans charged-off	(167,398)	-	(102)	-	(271,113)	-	(438,613)
Recoveries of loans previously charged-off	<u>14,118</u>	<u>-</u>	<u>102</u>	<u>-</u>	<u>30,707</u>	<u>-</u>	<u>44,927</u>
Net charge-offs	<u>(153,280)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(240,406)</u>	<u>-</u>	<u>(393,686)</u>
Balance, end of year	<u>\$ 787,493</u>	<u>\$ 613,156</u>	<u>\$ 1,028,867</u>	<u>\$ 2,445,742</u>	<u>\$ 891,628</u>	<u>\$ 143</u>	<u>\$ 5,767,029</u>
Amounts allocated to: Individually evaluated for impairment	\$ 73,131	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,131
Amounts allocated to: Collectively evaluated for impairment	<u>714,362</u>	<u>613,156</u>	<u>1,028,867</u>	<u>2,445,742</u>	<u>891,628</u>	<u>143</u>	<u>5,693,898</u>
Balance, end of year	<u>\$ 787,493</u>	<u>\$ 613,156</u>	<u>\$ 1,028,867</u>	<u>\$ 2,445,742</u>	<u>\$ 891,628</u>	<u>\$ 143</u>	<u>\$ 5,767,029</u>
<u>Loans:</u>							
Individually evaluated for impairment	\$ 246,841	\$ -	\$ -	\$ -	\$ -		\$ 246,841
Collectively evaluated for impairment	<u>67,375,075</u>	<u>30,585,244</u>	<u>78,307,244</u>	<u>229,579,134</u>	<u>81,836,404</u>		<u>487,683,101</u>
Ending balance total loans	<u>\$ 67,621,916</u>	<u>\$ 30,585,244</u>	<u>\$ 78,307,244</u>	<u>229,579,134</u>	<u>\$ 81,836,404</u>		<u>\$ 487,929,942</u>

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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Note 4 Loans Receivable and Allowance for Credit Losses, continued

Federal regulations require that the Corporation periodically evaluate the risks inherent in its loan portfolio. In addition, the Corporation's regulatory agencies have authority to identify problem loans and, if appropriate, require them to be reclassified. There are three classifications for problem loans: Substandard, Doubtful and Loss. Substandard loans have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Doubtful loans have the weaknesses of loans classified as "Substandard," with additional characteristics that suggest the weaknesses make collection or recovery in full after liquidation of collateral questionable on the basis of currently existing facts, conditions and values. There is a high possibility of loss in loans classified as "Doubtful." A loan classified as "Loss" is considered uncollectible and of such little value that continued classification of the credit as a loan is not warranted. If a loan or a portion thereof is classified as "Loss," it must be charged-off, meaning the amount of the loss is charged against the allowance for credit losses, thereby reducing that reserve. The Corporation also classifies some loans as "Watch" or "Other Loans Especially Mentioned" ("OLEM"). Loans classified as Watch are performing assets and classified as pass credits but have elements of risk that require more monitoring than other performing loans. Loans classified as OLEM are assets that continue to perform but have shown deterioration in credit quality and require close monitoring.

Loans by credit quality risk rating at December 31, 2024 are as follows:

	<u>Pass</u>	<u>Other Loans Especially Mentioned</u>	<u>Sub- Standard</u>	<u>Doubtful</u>	<u>Total</u>
December 31, 2024:					
Commercial and agricultural loans	\$ 65,886,984	\$ 571,288	\$ 3,890,452	\$ -	\$ 70,348,724
Real estate (RE) loans:					
Construction, land and land development	24,049,870	-	-	-	24,049,870
Residential 1-4 family	94,379,088	138,992	647,242	-	95,165,322
Commercial RE	258,453,825	4,670,199	630,339	-	263,754,363
Consumer and other loans	63,965,385	-	16,247	-	63,981,632
Subtotal	<u>\$ 506,735,152</u>	<u>\$ 5,380,479</u>	<u>\$ 5,184,280</u>	<u>\$ -</u>	517,299,911
Adjust: Net deferred loan costs					391,307
Total loans					<u>\$ 517,691,218</u>

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 4 Loans Receivable and Allowance for Credit Losses, continued

Loans by credit quality risk rating at December 31, 2023 are as follows:

	<u>Pass</u>	<u>Other Loans Especially Mentioned</u>	<u>Sub- Standard</u>	<u>Doubtful</u>	<u>Total</u>
December 31, 2023:					
Commercial and agricultural loans	\$ 66,080,001	\$ 1,084,831	\$ 457,084	\$ -	\$ 67,621,916
Real estate (RE) loans:					
Construction, land and land development	30,300,741	-	284,503	-	30,585,244
Residential 1-4 family	77,815,183	137,187	354,874	-	78,307,244
Commercial RE	224,334,464	4,370,262	874,408	-	229,579,134
Consumer and other loans	<u>81,836,120</u>	<u>-</u>	<u>284</u>	<u>-</u>	<u>81,836,404</u>
Subtotal	<u>\$ 480,366,509</u>	<u>\$ 5,592,280</u>	<u>\$ 1,971,153</u>	<u>\$ -</u>	<u>487,929,942</u>
Adjust: Net deferred loan costs					<u>815,062</u>
Total loans					<u>\$ 488,745,004</u>

An analysis of nonaccrual loans by category at December 31, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Commercial and agricultural loans	\$ 934,868	\$ 24,087
Real estate (RE) loans:		
Construction, land and land development	-	284,503
Residential 1-4 family	<u>437,252</u>	<u>-</u>
Total nonaccrual loans	<u>\$ 1,372,120</u>	<u>\$ 308,590</u>

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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Note 4 Loans Receivable and Allowance for Credit Losses, continued

At December 31, 2024 and 2023, a summary of information pertaining to loans individually evaluated is as follows:

	<u>Unpaid Contractual Principal Balance</u>	<u>Recorded Investment with No Allowance</u>	<u>Recorded Investment with Allowance</u>	<u>Total Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
December 31, 2024:							
Commercial and agricultural loans	\$ 427,106	\$ -	\$ 427,106	\$ 427,106	\$ 126,160	\$ 246,841	\$ -
Total	<u>\$ 427,106</u>	<u>\$ -</u>	<u>\$ 427,106</u>	<u>\$ 427,106</u>	<u>\$ 126,160</u>	<u>\$ 246,841</u>	<u>\$ -</u>
December 31, 2023:							
Commercial and agricultural loans	\$ 266,004	\$ 132,373	\$ 114,468	\$ 246,841	\$ 73,131	\$ 918,305	\$ -
Real estate (RE) loans:							
Construction, land and land development	-	-	-	-	-	88,211	-
Residential 1-4 family	-	-	-	-	-	92,834	-
Commercial RE	-	-	-	-	-	640,492	-
Consumer and other loans	-	-	-	-	-	162,649	-
Total	<u>\$ 266,004</u>	<u>\$ 132,373</u>	<u>\$ 114,468</u>	<u>\$ 246,841</u>	<u>\$ 73,131</u>	<u>\$ 1,902,491</u>	<u>\$ -</u>

The Corporation has no commitments to loan additional funds to borrowers whose loans are individually evaluated.

Loan Modifications – The restructuring of a loan is considered a loan modification if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses.

There was one commercial RE loan totaling \$1,412,141 restructured during 2024. The interest rate was lowered from 10.50% to 6.50% for 12 months on this loan. This loan was paying in accordance with the restructured terms as of December 31, 2024. At December 31, 2024, there were no loans outstanding which had been restructured in prior years.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 4 Loans Receivable and Allowance for Credit Losses, continued

There were no loans restructured during 2023. As of December 31, 2023, there were three commercial loans totaling \$1,298,580 and one residential 1-4 family loan totaling \$157,977 which were restructured prior to 2023. As of December 31, 2023, these loans were paying in accordance with the restructured terms.

The following table illustrates an age analysis of past due loans as of December 31, 2024:

	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Recorded Investment 90 Days or More Past Due and Still Accruing</u>
December 31, 2024:						
Commercial and agricultural loans	\$ 194,991	\$ 934,868	\$ 1,129,859	\$ 69,218,865	\$ 70,348,724	\$ -
Real estate (RE) loans:						
Construction, land and land development	-	-	-	24,049,870	24,049,870	-
Residential 1-4 family	1,943,841	437,251	2,381,092	92,784,230	95,165,322	-
Commercial RE	-	-	-	263,754,363	263,754,363	-
Consumer and other loans	131,400	-	131,400	63,850,232	63,981,632	-
Subtotal	<u>\$ 2,270,232</u>	<u>\$ 1,372,119</u>	<u>\$ 3,642,351</u>	<u>\$ 513,657,560</u>	517,299,911	<u>\$ -</u>
Adjust: Net deferred loan costs					<u>391,307</u>	
Total					<u>\$ 517,691,218</u>	

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 4 Loans Receivable and Allowance for Credit Losses, continued

The following table illustrates an age analysis of past due loans as of December 31, 2023:

	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Recorded Investment 90 Days or More Past Due and Still Accruing</u>
December 31, 2023:						
Commercial and agricultural loans	\$ 244,873	\$ 24,087	\$ 268,960	\$ 67,352,956	\$ 67,621,916	\$ -
Real estate (RE) loans:						
Construction, land and land development	197,578	284,503	482,081	30,103,163	30,585,244	-
Residential 1-4 family	337,488	-	337,488	77,969,756	78,307,244	-
Commercial RE	288,128	-	288,128	229,291,006	229,579,134	-
Consumer and other loans	-	-	-	81,836,404	81,836,404	-
Subtotal	<u>\$ 1,068,067</u>	<u>\$ 308,590</u>	<u>\$ 1,376,657</u>	<u>\$ 486,553,285</u>	487,929,942	<u>\$ -</u>
Adjust: Net deferred loan costs					815,062	
Total					<u>\$ 488,745,004</u>	

Loans totaling approximately \$159,030,000 and \$122,747,000 were pledged to secure borrowings at December 31, 2024 and 2023, respectively. Refer to Note 12 for additional information.

Note 5 SBA Servicing Asset

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others were \$59,931,828 and \$58,793,884 at December 31, 2024 and 2023, respectively. Servicing loans for others generally consists of collecting loan payments and disbursing payments to investors. The guaranteed portion of SBA loans are sold, and the Corporation recognized a net gain on sales of SBA loans of \$838,924 and \$695,268 in 2024 and 2023, respectively.

The Corporation accounts for servicing rights in accordance with provisions of authoritative guidance issued by the FASB. This authoritative guidance requires the Corporation to recognize servicing assets and/or liabilities and to amortize over the period of estimated servicing income or loss.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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Note 5 SBA Servicing Asset, continued

The following summarizes the activity pertaining to SBA servicing rights measured using the amortization method, along with the aggregate activity in related valuation allowances, for the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
SBA servicing rights:		
Balance at beginning of year	\$ 1,239,571	\$ 1,378,032
Additions	96,910	88,504
Amortization	<u>(129,801)</u>	<u>(226,965)</u>
Balance at end of year	<u>1,206,680</u>	<u>1,239,571</u>
Valuation allowances:		
Balance at beginning of year	-	-
Additions	-	-
Reductions	-	-
Writedowns	<u>-</u>	<u>-</u>
Balance at end of year	<u>-</u>	<u>-</u>
SBA servicing assets, net	<u>\$ 1,206,680</u>	<u>\$ 1,239,571</u>

No allowance for impairment in the Corporation's SBA servicing rights was necessary during the years ended December 31, 2024 and 2023.

Note 6 Premises and Equipment

The components of premises and equipment at December 31 are as follows:

	<u>2024</u>	<u>2023</u>
Land	\$ 5,384,508	\$ 4,267,266
Buildings	13,365,413	9,290,998
Leasehold improvements	1,074,220	1,119,481
Equipment, furniture and fixtures	4,572,644	4,203,541
Construction in process	95,574	5,616,646
Lease right-of-use assets	<u>561,946</u>	<u>561,946</u>
Total cost	25,054,305	25,059,878
Less accumulated depreciation	<u>(6,366,252)</u>	<u>(5,427,069)</u>
Total	<u>\$ 18,688,053</u>	<u>\$ 19,632,809</u>

The construction in process listed above as of December 31, 2023 primarily relates to construction for the new Anacortes branch. The construction relating to the new Anacortes branch was completed and the costs were placed in service in January 2024. Depreciation and amortization charged against operations for the years ended December 31, 2024 and 2023 was \$1,002,549 and \$1,032,104, respectively.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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DECEMBER 31, 2024 AND 2023

Note 6 Premises and Equipment, continued

In May 2013, the Corporation opened a loan production center in Anacortes with a 12-month lease term at \$1,050 per month. This lease has since been renewed for three additional two-year terms with current lease payment of \$1,174 per month and a maturity of June 30, 2020. In May 2019, the Corporation entered into a new lease agreement which terminated the previous lease agreement when they opened a branch location in Anacortes. The new agreement is for a 36-month lease term, a maturity date of June 30, 2022 and provides for monthly lease payments of \$8,000. During 2022, this lease was renewed for one year with a new maturity date of June 30, 2023 and provides for monthly lease payments of \$8,600. This lease was not renewed during 2023 and placed on a month-to-month basis due to the branch relocating to its new location once construction was completed in January 2024.

In October 2021, the Corporation entered into a lease agreement for a loan production office in Friday Harbor, Washington. This location was converted into a branch location during 2022. The lease term is 36 months and provides for monthly lease payments of \$3,996. During 2024, this lease was extended through September 30, 2027. During 2022, the Corporation entered into a lease agreement for a loan production office in Olympia, Washington through June 30, 2023. During 2023, this lease was extended through May 31, 2024. This lease was not renewed at maturity. The monthly lease payments under this lease agreement are \$2,350.

On October 17, 2022, the Corporation entered into a lease agreement for a loan production office and the future administration space for the proposed Orca Bank in Bellingham, Washington which was effective January 1, 2023 for a term of 60 months. The initial monthly base rent is \$6,654.08 and is subject to annual increases. On May 17, 2023, the Corporation entered into a lease agreement for office space located in Bellingham, Washington which expires June 30, 2024. During 2024, this lease was extended through December 31, 2027. The monthly lease amount is \$611. On September 30, 2023, the Corporation entered into a lease agreement for office space in Langley, Washington for a term of six years and 9 months. The initial monthly rent is \$3,500. There are two five-year renewal options on this lease.

The Corporation also leases various equipment under operating leases. During 2019, the Corporation adopted ASU No. 2016-02 which required the recognition of certain operating leases on the balance sheet as lease right-of-use assets (reported as a component of premises and equipment) and related lease liabilities (report as a component of accrued expenses and other liabilities).

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 6 Premises and Equipment, continued

The weighted-average discount rate was 5.26%. The following table reconciles future undiscounted lease payments due under non-cancelable operating leases (those amounts subject to recognition) to the aggregate operating lease liability as of December 31, 2024:

	2025		\$	174,128
	2026			177,373
	2027			164,110
	2028			36,000
	2029			36,000
	Thereafter			27,000
Total undiscounted operating lease liability				614,611
Imputed interest				(52,665)
Total operating lease liability included in the balance sheet			\$	561,946

Rental expense was \$273,964 and \$242,117 for 2024 and 2023, respectively, which is included in occupancy and equipment expense.

Note 7 Other Intangible Assets

Effective April 30, 2021, the Corporation purchased certain assets and assumed certain liabilities of the Freeland branch from another financial institution. A premium of \$1,249,316 was paid by the Corporation which was identified as core deposit intangibles. The core deposit intangibles are being amortized using a straight-line method over their estimated useful life of 10 years. The carrying amounts of \$791,503 and \$916,435 at December 31, 2024 and 2023, respectively, are net of accumulated amortization totaling \$457,813 and \$332,881, respectively. Amortization expense on the core deposit intangibles was \$124,932 and \$124,931 during 2024 and 2023, respectively.

As of December 31, 2024, amortization expense for the core deposit intangibles for the next five years and in the aggregate thereafter is as follows:

	2025		\$	124,932
	2026			124,932
	2027			124,932
	2028			124,932
	2029			124,931
	Thereafter			166,844
Total			\$	791,503

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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Note 8 Bank-Owned Life Insurance

During 2021, the Corporation purchased life insurance policies on select key officers. The Corporation is the beneficiary of these policies. In the event of death, the officer's designated beneficiary receives \$50,000 of the death benefit if the officer is still employed by the Corporation at the time of death. The initial premium paid was \$9,300,000. The carrying amount of bank-owned life insurance totaled \$10,315,711 and \$9,987,760 at December 31, 2024 and 2023, respectively. Net earnings on bank-owned life insurance totaling \$327,951 and \$285,472 was recorded through non-interest income during 2024 and 2023, respectively.

Note 9 Deposits

The composition of consolidated deposits at December 31 is as follows:

	<u>2024</u>	<u>2023</u>
Non-interest checking	\$ 120,866,517	\$ 102,601,047
Interest-bearing checking and money market	147,728,565	157,480,553
Savings deposits	52,164,723	54,215,520
Time deposits, less than \$250,000	111,889,195	125,176,334
Time deposits, \$250,000 or more	<u>94,135,321</u>	<u>44,359,609</u>
Total deposits	<u>\$ 526,784,321</u>	<u>\$ 483,833,063</u>

The scheduled maturities of time deposits at December 31, 2024 are as follows:

2025	\$ 184,313,591
2026	11,249,103
2027	10,105,217
2028	187,804
2029	<u>168,801</u>
Total	<u>\$ 206,024,516</u>

There were no institutional deposits obtained from institutions outside of the Corporation's primary market area as of December 31, 2024 and 2023. The Corporation held brokered deposits of \$59,534,511 and \$50,080,701 at December 31, 2024 and 2023, respectively.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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Note 10 Federal Income Taxes

The principal factors causing a variation from the statutory tax rate of 21% are as follows:

	<u>2024</u>	<u>2023</u>
Income tax benefit at statutory rate	\$ (341,296)	\$ (118,219)
Tax-exempt interest income	(92,627)	(107,591)
Earnings on bank-owned life insurance	(68,870)	(59,949)
Nondeductible expenses	65,028	67,217
Stock-based compensation	7,882	8,486
Other	3,854	106,490
Federal income tax benefit	<u>\$ (426,029)</u>	<u>\$ (103,566)</u>

The components of the income tax benefit were as follows:

	<u>2024</u>	<u>2023</u>
Current tax (benefit)	\$ (289,788)	\$ 22,212
Deferred tax benefit	<u>(136,241)</u>	<u>(125,778)</u>
Federal income tax benefit	<u>\$ (426,029)</u>	<u>\$ (103,566)</u>

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 10 Federal Income Taxes, continued

The tax effects of temporary differences that give rise to significant portions of consolidated deferred tax assets and liabilities are:

	<u>2024</u>	<u>2023</u>
Deferred tax assets:		
Organization expenditures	\$ 1,960	\$ 1,960
Allowance for credit losses on off-balance-sheet	17,747	86,235
Allowance for credit losses on loans	1,183,318	1,042,066
Allowance for credit losses on HTM securities	10,500	10,500
Nonqualified stock options	70,804	58,601
Nonaccrual loan interest	5,812	3,753
Restricted stock	1,329	1,949
Amortization of core deposit intangibles	30,551	21,806
Carryover of contributions	27,579	-
Writedown on repo assets	26,883	-
Unrealized loss on available-for-sale securities	788,385	797,899
Deferred compensation	-	41,017
	<u>2,164,868</u>	<u>2,065,786</u>
Deferred tax liabilities:		
Accrual to cash adjustment	(114,465)	(139,705)
Depreciation	(198,079)	(205,866)
Other	(9,581)	(4,199)
	<u>(322,125)</u>	<u>(349,770)</u>
Net deferred tax asset	<u>\$ 1,842,743</u>	<u>\$ 1,716,016</u>

The Corporation has a consolidated tax net operating loss for 2024 totaling \$1,415,940 which is available to offset taxable income in future years.

Note 11 Related Party Transactions

During 2024 and 2023, the Corporation had transactions made in the ordinary course of business with related parties. All loans included in such transactions were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

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Note 11 Related Party Transactions, continued

A summary of these transactions are as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Amounts Collected</u>	<u>Balance End of Year</u>
For the year ended:				
December 31, 2024	\$ 8,263,621	\$ 587,415	\$ (919,309)	\$ 7,931,727
For the year ended:				
December 31, 2023	\$ 7,985,816	\$ 912,676	\$ (634,871)	\$ 8,263,621

The Corporation also had unfunded commitments to related parties of approximately \$671,000 and \$791,000 at December 31, 2024 and 2023, respectively.

At December 31, 2024 and 2023, the Corporation held related party deposits of approximately \$6,843,000 and \$6,654,000, respectively.

During 2021, the Corporation borrowed \$2,500,000 from a director. At December 31, 2024 and 2023, the total outstanding balance was \$1,500,000 and \$2,500,000, respectively. Total interest expense of \$171,597 and \$162,671 was recognized on this loan during 2024 and 2023, respectively. Refer to Note 15 for additional information.

Note 12 Federal Home Loan Bank Borrowings

The Bank is a member of the Federal Home Loan Bank (FHLB) of Des Moines which entitles it to certain benefits including a variety of borrowing options such as overnight advances or long-term advances at fixed or variable rates. Credit capacity is primarily determined by the value of assets collateralized at the FHLB, funds on deposit at the FHLB and stock owned by the Bank. Credit is limited to 35% of the Bank's total assets at December 31, 2024 assuming collateral is pledged accordingly.

Advances on these lines at December 31 were as follows:

	<u>2024</u>	<u>2023</u>
Long-term advances	\$ 50,000,000	\$ 50,000,000
Overnight advances	-	-
Total	<u>\$ 50,000,000</u>	<u>\$ 50,000,000</u>

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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Note 12 Federal Home Loan Bank Borrowings, continued

During 2020, a long-term advance was obtained in the amount of \$5,000,000 which has a maturity date of March 4, 2025. The interest rate on this advance was 0.98%. During 2022, a long-term advance totaling \$20,000,000 was obtained which has a maturity date of November 22, 2027. The interest rate on this long-term advance was 4.34%. During 2023, a long-term advance totaling \$25,000,000 was obtained which has a maturity date of May 4, 2028. The interest rate on this long-term advance was 3.69%. At December 31, 2024 and 2023, the outstanding balance on this line of credit was \$50,000,000. Collateral pledged to the FHLB as of December 31, 2024 and 2023 included loans with outstanding balances of approximately \$159,030,000 and \$122,747,000, respectively.

At December 31, 2024, the Corporation had an unfunded letter of credit totaling \$724,050 from the FHLB. The Bank has available borrowing capacity of approximately \$44,491,000 based on pledged collateral at December 31, 2024.

Note 13 Lines of Credit

At December 31, 2024 and 2023, the Corporation has a \$10,000,000 unsecured line of credit with Pacific Coast Bankers' Bank (PCBB). There were no borrowings on this line at December 31, 2024 or 2023.

The Corporation also has a line of credit with Federal Home Loan Bank as discussed in Note 12.

Note 14 Subordinated Debt

On February 25, 2022, the Corporation received proceeds totaling \$17,000,000 from issuance of subordinated debt. The maturity date of the subordinated debt is March 31, 2032. The initial interest rate is 4.25% computed on a 360-day year consisting of twelve 30-day months and payable semi-annually in arrears on September 30 and March 31 of each year beginning on September 30, 2022. The interest rate is fixed through March 31, 2027. After March 31, 2027, the interest rate is the higher of (a) the rate of 3.75% or (b) the rate reset quarterly based on the Three-Month Term SOFR Conventions. On or after the fifth anniversary date, the Corporation can redeem the debt in whole or in part at any time. The indebtedness is subordinate and junior in right to payment to the prior payment in full of all claims of creditors of the Corporation and depositors of SaviBank, whether now outstanding or subsequently created, assumed, guaranteed or incurred. The Corporation used \$2,000,000 of these proceeds to inject capital into SaviBank during 2024 and 2023, respectively. No principal payments are due on this debt for the next five years. The outstanding balance at December 31, 2024 and 2023 is \$17,000,000.

Note 15 Note Payable – Related Party

During 2021, the Corporation borrowed \$2,500,000 from a director. The interest rate on this note is 5%. Interest only payments are due quarterly beginning June 30, 2021 and the remaining interest and principal were originally due at maturity on March 31, 2023. During 2023, this note was renewed through March 31, 2026 at a fixed interest rate of 7%. At December 31, 2024 and 2023, the total outstanding balance was \$1,500,000 and \$2,500,000, respectively. This note is secured by the Bank stock held by the Corporation. Refer to Note 11 for additional information.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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Note 16 Commitments and Contingent Liabilities

In the normal course of business, the Corporation has outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the accompanying financial statements. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Corporation uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet.

Commitments to extend credit and possible credit risk were approximately as follows:

	<u>2024</u>	<u>2023</u>
Commitments to extend credit	\$ 61,336,000	\$ 70,306,000
Standby letters of credit	2,070,000	4,903,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties. The Corporation has not been required to perform on any financial guarantees nor incurred any losses on its commitments during 2024 or 2023.

The Corporation is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Corporation.

The Corporation issues various representations and warranties associated with the sale of loans. The Corporation has not experienced any significant losses in the years ended December 31, 2024 and 2023 regarding these representations and warranties.

The Corporation sells the guaranteed portion of SBA loans. In the event that the SBA guarantee is deemed invalid, the Corporation is liable to the purchaser of these guaranteed portions in the event that the loan is deemed uncollectible. At December 31, 2024 and 2023, the guaranteed portions totaled \$59,931,828 and \$58,793,884, respectively.

The Corporation participates in the Washington State Public Depository program which requires institutions to collateralize uninsured public deposits at 50% effective July 1, 2016 (previously 100%). At December 31, 2024 and 2023, the Corporation had pledged \$18,384,750 and \$240,309, respectively, to secure public deposits. Refer to Note 3 – Investment Securities for additional information.

The Corporation has entered into employment agreements with certain officers. These employment agreements contain certain provisions which require payments ranging from less than one year to two years of annual salary if there is a change in control. As of December 31, 2024 and 2023, there are no accruals for these payments included on the consolidated balance sheets since a change in control has not occurred.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 17 Concentrations of Credit Risk

The Corporation maintains its cash accounts with several correspondent banks. Generally, amounts placed or invested in bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. There were uninsured deposits in bank accounts of \$751,111 and \$754,186 at December 31, 2024 and 2023, respectively. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Corporation is not exposed to any significant credit risks on cash and cash equivalents.

The Corporation grants agribusiness, commercial, consumer and real estate loans to customers within Skagit, Island and Whatcom counties, Washington and the surrounding areas. Concentrations of credit by loan type are set forth in Note 4 – Loans Receivable and Allowance for Credit Losses.

Note 18 Regulatory Capital

Banks are subject to various regulatory capital requirements administered by the state and federal regulatory agencies. Failure to meet 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 financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy 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 under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table on the following page) of total Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2024 and 2023, that the Bank met all capital adequacy requirements to which it was subject.

Effective January 1, 2019, the Bank was required to establish a capital conservation buffer of 2.50%, increasing the minimum required total risk-based capital, Tier 1 risk-based and common equity Tier 1 capital to risk-weighted assets it must maintain to avoid limits on capital distributions and certain bonus payments to executive officers and similar employees.

As of December 31, 2024, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, the Bank must maintain minimum common equity risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table on the next page. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's Tier 1 capital consists of shareholder's equity excluding unrealized gains and losses on securities available-for-sale and other intangible assets.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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Note 18 Regulatory Capital, continued

To be categorized as well capitalized in 2024 and 2023, the Bank must maintain minimum common equity risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	<u>Actual</u>		<u>Minimum Required for Capital Adequacy Purposes</u>		<u>Required to be Well Capitalized Under the Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2024:						
Total Risk-based Capital (to Risk-weighted Assets)	\$ 58,978	10.86%	\$ 43,441	8.00%	\$ 54,302	10.00%
Tier 1 Capital (to Risk- weighted Assets)	\$ 52,671	9.70%	\$ 32,581	6.00%	\$ 43,441	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	\$ 52,671	9.70%	\$ 24,436	4.50%	\$ 35,296	6.50%
Leverage Capital (to adjusted Total Average Assets)	\$ 52,671	8.27%	\$ 25,477	4.00%	\$ 31,846	5.00%
As of December 31, 2023:						
Total Risk-based Capital (to Risk-weighted Assets)	\$ 54,105	10.12%	\$ 42,774	8.00%	\$ 53,468	10.00%
Tier 1 Capital (to Risk- weighted Assets)	\$ 47,877	8.95%	\$ 32,081	6.00%	\$ 42,774	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	\$ 47,877	8.95%	\$ 24,061	4.50%	\$ 34,754	6.50%
Leverage Capital (to adjusted Total Average Assets)	\$ 47,877	8.11%	\$ 23,623	4.00%	\$ 29,528	5.00%

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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Note 19 Stock-Based Compensation

Long-Term Equity Incentive Plan

Effective May 23, 2019, the shareholders approved the adoption of the 2019 Long-Term Equity Incentive Plan (2019 Plan) which provides for the grant of stock awards to eligible employees, officers and non-employee directors. The 2019 Plan replaced the 2013 Long-Term Equity Incentive Plan (2013 Plan), which provided for the grant of up to 100,000 shares. Effective July 25, 2013, the shareholders approved the adoption of the 2013 Long-Term Equity Incentive Plan (2013 Plan) which provided for the grant of stock awards to eligible employees, officers and non-employee directors. The 2013 Plan replaced the 2005 Stock Option Plan (2005 Plan) which provided for the grant of up to 50,000 shares. The 2019 Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Restricted Stock and Restricted Stock Unit Awards. The maximum number of shares of Common Stock which may be issued under all awards granted to participants under the 2019 Plan shall be 250,000 shares. No more than 50,000 shares of the 250,000 shares may be issued as Restricted Stock Grants or Restricted Stock Unit Awards. Shares of Common Stock issued under the Plan shall be authorized but unissued shares. At December 31, 2024, there were 127,740 shares available for future grants under the 2019 Plan.

During 2024, there were no stock options granted. During 2023, there were 40,000 stock options granted at an exercise price of \$7.60. These options vest over five years and have a term of 10 years. During 2024 and 2023, there were no restricted stock awards granted.

The compensation cost that has been charged against income for stock options under these Plans was \$95,646 and \$118,222 for the years ended December 31, 2024 and 2023, respectively.

The Corporation uses the Black-Scholes option pricing model to estimate the fair value of each option grant on the date of grant or modification. The Corporation amortizes the estimated fair value to stock compensation expense using the straight-line method over the vesting period of the option. Following is a description of the significant assumptions used in the option-pricing model:

Expected Term: The expected term is the period of time that granted options are expected to be outstanding. The Corporation estimates the expected term based on historical patterns of option exercises, as well as potential future events that may increase liquidity. These factors are believed to reflect future exercise behavior.

Expected Volatility: Volatility is calculated based on trading of the Corporation's stock over the last three years, which is comparable to historical stock prices of similar banks going back over the estimated life of the option and averaging the volatilities of these banks.

Risk-Free Interest Rate: The Corporation bases the risk-free interest rate used in the Black-Scholes option valuation model on the market yield in effect at the time of the option grant provided from the Federal Reserve Board's Statistical Releases and Historical publications from the Treasury constant maturities rates for the equivalent remaining terms.

Dividends: The Corporation does not have plans to pay cash dividends in the future. Therefore, the Corporation uses an expected dividend yield of zero in the Black-Scholes option valuation model.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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Note 19 Stock-Based Compensation, continued

Long-Term Equity Incentive Plan, continued

The following assumptions were used to estimate the value of options granted for the year ended December 31, 2023:

	<u>2023</u>
Weighted-average expected term	7.00 years
Expected stock price volatility	35.36%
Risk-free interest rate	3.34%
Weighted-average risk-free interest rate	3.34%
Expected dividends	0%

Option activity under the Plans for the years ended December 31, 2024 and 2023 is summarized as follows:

<u>Options</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term</u>
Outstanding at January 1, 2023	197,986	8.48	
Granted	40,000	7.60	
Exercised	(17,000)	8.75	
Forfeited or cancelled	(31,086)	8.86	
Outstanding at December 31, 2023	<u>189,900</u>	<u>\$ 8.21</u>	<u>5.76</u>
Vested or expected to vest at December 31, 2023	<u>189,900</u>	<u>\$ 8.21</u>	<u>5.76</u>
Exercisable at December 31, 2023	<u>109,358</u>	<u>\$ 7.72</u>	<u>3.70</u>
Outstanding at January 1, 2024	189,900	\$ 8.21	
Granted	-	-	
Exercised	(15,725)	6.17	
Forfeited or cancelled	(4,980)	8.92	
Outstanding at December 31, 2024	<u>169,195</u>	<u>\$ 8.38</u>	<u>5.19</u>
Vested or expected to vest at December 31, 2024	<u>169,195</u>	<u>\$ 8.38</u>	<u>5.19</u>
Exercisable at December 31, 2024	<u>122,305</u>	<u>\$ 8.27</u>	<u>4.23</u>

There were 15,725 and 17,000 options exercised during the year ended December 31, 2024 and 2023, respectively, for total proceeds of \$97,007 and \$148,750.

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Note 19 Stock-Based Compensation, continued

Long-Term Equity Incentive Plan, continued

A summary of the status of the Corporation's nonvested shares as of December 31, 2024, and changes during the year ended December 31, 2024, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2024	80,542	\$ 3.94
Granted	-	-
Vested	(29,872)	4.07
Forfeited	(3,780)	3.92
Nonvested at December 31, 2024	46,890	\$ 3.86

As of December 31, 2024, there was \$128,608 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. Total unrecognized compensation costs will be adjusted for future changes in estimated forfeitures. The Corporation expects to recognize that cost over a period of approximately 3.25 years.

During 2024 and 2023, there were no restricted stock awards granted. As of December 31, 2024, there were 400 nonvested restricted stock awards outstanding. Stock compensation totaling \$3,065 and \$8,505 was recorded during 2024 and 2023, respectively, relating to restricted stock awards. At December 31, 2024, there was unrecognized compensation expense relating to these awards totaling \$2.881. The Corporation expects to recognize that cost over a period of one year.

Stock Warrants

On June 21, 2018, a stock warrant was issued which entitles the warrant holder to purchase 334,004 shares of the Corporation's common stock at a price of \$8.00 per share on or before March 31, 2022. In July 2021, the expiration date was extended to March 31, 2027. This stock warrant remains outstanding as of December 31, 2024 and 2023.

On October 2, 2014, a stock warrant was issued which entitles the warrant holder to purchase 310,000 shares of common stock of the Corporation at a price of \$6.25 per share on or before October 2, 2019. In December 2017, the expiration date was extended to March 31, 2022. In July 2021, the expiration date was extended to March 31, 2027. This stock warrant remains outstanding as of December 31, 2024 and 2023.

During 2012, a total of 115,553 stock warrants were issued in conjunction with the March 2012 Stock Offering. One stock warrant to purchase one share of common stock was issued to each person who purchased two shares of common stock through this offering. The warrants entitle the warrant holder the right to purchase Corporation stock at a price of \$10.00 per share on or before June 29, 2015. On March 12, 2015, the expiration date was extended for three years to June 29, 2018. In December 2017, the expiration date was extended to March 31, 2022. In July 2021, the expiration date was extended to March 31, 2027. These warrants remain outstanding as of December 31, 2024 and 2023.

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Note 19 Stock-Based Compensation, continued

Stock Warrants, continued

In June 2005, the Board of Directors authorized the granting of stock warrants to the Corporation's organizers in exchange for providing \$700,000 in seed capital which funded the organizational expenses of the Corporation. Each Director (eight) received 1,750 warrants that entitles the holder to purchase one share of common stock at a price of \$50.00 per share on or before May 31, 2015. On March 12, 2015, the existing warrants were allowed to expire and were replaced with new warrants for the same amount of shares, (1,750 per Director) to expire on October 2, 2019 at a price of \$6.25 per share for those Directors (four) who are on the Board as of the date of this action and who provided seed capital which funded the organization expenses of the Corporation. In December 2017, the expiration date was extended to March 31, 2022. In July 2021, the expiration date was extended to March 31, 2027. At December 31, 2024 and 2023, there were 7,000 stock warrants outstanding for the Corporation's organizing Directors.

Note 20 Employee Benefit Plans

The Corporation has a 401(k) profit sharing plan (the "Plan") covering substantially all of its employees. Employees are eligible to participate in the Plan if they are 18 years of age and have completed three months of service. Eligible employees may contribute through payroll deductions and are 100% vested at all times in their deferral contributions account. The Corporation is allowed to make annual matching contributions and/or employer "non-elective" contributions at its discretion. Participants are 100% vested in employer contributions after five years of service. During 2024 and 2023, employer matching contributions to the 401(k) Plan totaled \$392,097 and \$406,186, respectively.

During 2021, the Corporation's Board of Directors approved a Supplemental Executive Retirement Plan (SERP) for the CEO which provides annual benefits of \$60,000 paid in equal monthly payments upon retirement for a period of 10 years. During 2024, the decision to escalate these payments was made which resulted in payments totaling \$450,000 being paid to the CEO which included the \$262,131 accrued for the SERP. At December 31, 2024 and 2023, accruals totaling \$-0- and \$195,319, respectively, relating to the SERP were included in accrued expenses and other liabilities on the consolidated balance sheets. During 2024 and 2023, \$66,812 and \$68,867, respectively, was expensed relating to the SERP and is included in salaries and employee benefits on the consolidated statements of operations.

Note 21 Compensated Absences

Employees of the Corporation are entitled to paid time off (PTO), depending on job classification, length of service and other factors. The Corporation has determined that it was impracticable to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the accompanying financial statements. It is the Corporation's policy to recognize the costs of compensated absences when actually paid to employees.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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Note 22 Fair Values of Financial Instruments

As discussed in Note 2, current accounting guidance (ASU 2016-01) requires that fair value disclosures use exit pricing. Fair values disclosed in the table below are based on the methods used in prior years and do not comply with current guidance, with the exception of the fair value for loans and deposits for 2024 and 2023 which were calculated in accordance with the current guidance. In addition, new guidance requires that financial assets and liabilities be presented by measurement category which has not been provided. The estimated fair values of the Corporation's financial instruments as of December 31, 2024 and 2023 are as follows (in thousands):

	2024		2023	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	\$ 6,988	\$ 6,988	\$ 8,745	\$ 8,745
Interest-bearing deposits with financial institutions	41,684	41,684	25,275	25,275
Investment securities	33,910	33,371	35,451	34,754
Federal Home Loan Bank stock	2,606	2,606	2,558	2,558
Pacific Coast Bankers'				
Bank stock	190	190	190	190
Loans held-for-sale	1,964	1,964	555	555
Loans, net	509,556	496,558	482,423	459,308
Bank-owned life insurance	10,316	10,316	9,988	9,988
Interest receivable	2,053	2,053	1,878	1,878
SBA servicing asset	1,207	1,207	1,240	1,240
Financial liabilities:				
Deposits	526,784	527,553	483,833	483,128
FHLB borrowings	50,000	49,398	50,000	49,611
Subordinated debt	17,000	17,000	17,000	17,000
Note payable	1,500	1,500	2,500	2,500
Interest payable	1,223	1,223	1,095	1,095

The carrying amounts in the preceding table are included in the consolidated balance sheets under the applicable captions.

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Note 23 Fair Value Measurements

The Corporation previously adopted authoritative guidance issued by the FASB regarding fair value measurements for financial assets and financial liabilities. The authoritative guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. However, the Corporation has not fully adopted the most recent guidance issued by the FASB (ASU 2016-01). As discussed in Note 2, the new guidance requires that exit price notion be used when measuring the fair value of financial instruments for disclosure purposes. The Corporation has determined that the cost to fully implement exit pricing is prohibitive and there is no material impact to the financial statements.

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

The authoritative guidance issued by the FASB requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- **Level 1 Inputs:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- **Level 2 Inputs:** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from, or corroborated by, market data by correlation or other means.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
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Note 23 Fair Value Measurements, continued

- **Level 3 Inputs:** Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Corporation's creditworthiness, among other things, as well as parameters. Any such valuation adjustments are applied consistently over time. The Corporation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale: U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Corporation obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Individually Evaluated Loans: Certain loans are individually evaluated and reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

Other Real Estate Owned: Other real estate owned represents foreclosed assets that are reported at the fair value less estimated selling costs of the underlying property. The fair values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on information obtained from customized discounting criteria.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 23 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2024 and 2023, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value. At December 31, 2024 and 2023, there were no financial liabilities measured at fair value on a recurring basis.

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
December 31, 2024				
Available-for-Sale				
U.S. Treasury bills	\$ 995,156	\$ -	\$ -	\$ 995,156
U. S. Government agency	-	244,494	-	244,494
Municipal bonds	-	2,840,185	-	2,840,185
U.S. Government agency mortgage-backed securities	-	11,112,411	-	11,112,411
Collateralized mortgage obligations	-	6,679,768	-	6,679,768
SBA pools	-	4,796,152	-	4,796,152
Corporate bonds	-	2,241,887	-	2,241,887
Totals	<u>\$ 995,156</u>	<u>\$ 27,914,897</u>	<u>\$ -</u>	<u>\$ 28,910,053</u>
December 31, 2023				
Available-for-Sale				
U.S. Treasury bills	\$ 1,970,156	\$ -	\$ -	\$ 1,970,156
U. S. Government agency	-	240,309	-	240,309
Municipal bonds	-	2,882,199	-	2,882,199
U.S. Government agency mortgage-backed securities	-	12,272,663	-	12,272,663
Collateralized mortgage obligations	-	5,535,182	-	5,535,182
SBA pools	-	4,392,410	-	4,392,410
Corporate bonds	-	3,158,512	-	3,158,512
Totals	<u>\$ 1,970,156</u>	<u>\$ 28,481,275</u>	<u>\$ -</u>	<u>\$ 30,451,431</u>

Certain financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis include certain loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data (current appraisals) or Level 3 inputs based on customized discounting criteria.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 23 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a non-recurring basis as of December 31, 2024 and 2023, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value:

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
December 31, 2024:				
Individually evaluated loans	\$ -	\$ 427,106	\$ -	\$ 427,106
Less specific valuation allowance for possible loan losses	-	(126,160)	-	(126,160)
Impaired loans, net	<u>\$ -</u>	<u>\$ 300,946</u>	<u>\$ -</u>	<u>\$ 300,946</u>
December 31, 2023:				
Individually evaluated loans	\$ -	\$ 246,841	\$ -	\$ 246,841
Less specific valuation allowance for possible loan losses	-	(73,131)	-	(73,131)
Impaired loans, net	<u>\$ -</u>	<u>\$ 173,710</u>	<u>\$ -</u>	<u>\$ 73,710</u>

A reconciliation of assets measured using Level 3 inputs for the years ended December 31, 2023 is provided below:

	<u>December 31, 2023</u>
Opening Balance	\$ 2,496,325
(a) Transfers into Level 3	-
(b) Transfers out of Level 3	-
Settlements/payments	(2,496,325)
Ending Balance	<u>\$ -</u>

- (a) Transfer from Level 2 to Level 3; loans are no longer collateral dependent, and impairment is based on discounted cash flows.
- (b) Transferred from Level 3 to Level 2 because loan is now considered to be collateral dependent. Impairment based on current appraisal.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 23 Fair Value Measurements, continued

Certain nonfinancial assets are measured at fair value on a non-recurring basis. Nonfinancial assets measured at fair value on a non-recurring basis include other real estate owned which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for credit losses and certain other real estate owned, which subsequent to their initial recognition, were remeasured at fair value through a writedown included in other non-interest expense. The fair value of other real estate owned is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2024 and 2023, the Corporation had other real estate owned totaling \$407,774 and \$654,595, respectively. Fair values were determined using Level 2 measurements.

The following tables presents foreclosed assets that were remeasured and reported at fair value:

	<u>2024</u>	<u>2023</u>
Foreclosed assets remeasured at initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	\$ -	\$ -
Charge-offs recognized in the allowance for credit losses	-	-
Fair Value	<u>\$ -</u>	<u>\$ -</u>
Foreclosed assets remeasured subsequent to initial recognition:		
Carrying value of foreclosed assets prior to remeasurement	\$ -	\$ -
Writedowns included in other non-interest expense	-	-
Fair Value	<u>\$ -</u>	<u>\$ -</u>

Charge-offs recognized upon loan foreclosures are generally offset by general or specific allocations of the allowance for credit losses and generally do not significantly impact the Corporation's provision for credit losses. Regulatory guidelines require the Corporation to reevaluate the fair value of other real estate owned on at least an annual basis.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 24 Subsequent Events

On March 21, 2024, the Corporation entered into a purchase and assumption agreement with Harborstone Credit Union which allows Harborstone to purchase substantially all assets and assume substantially all liabilities of SaviBank. The purchase price is \$70,000,000 and is dependent on certain thresholds being met including minimum Bank equity at the time of acquisition. Following the completion of the transaction, Savi Financial Corporation, Inc. will liquidate, dissolve and distribute its remaining assets to its shareholders. Regulatory approval from the Washington Department of Financial Institutions, Federal Deposit Insurance Agency, Federal Reserve Bank and National Credit Union Administration are required before this acquisition can take place. Approvals have not been received from all of these regulatory agencies at this time.

The Corporation has entered into employment agreements with certain officers which include provisions for payments ranging from less than one year to two years of annual salary if there is a change in control. These payments will be expensed and paid at the time of acquisition. Refer to Note 16 for additional information.

OTHER FINANCIAL INFORMATION

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2024

	<u>SAVI FINANCIAL</u>	<u>SAVI BANK</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED BALANCES 2024</u>
ASSETS				
Cash and due from banks	\$ 468,813	\$ 6,988,115	\$ (468,813)	\$ 6,988,115
Interest-bearing deposits in other financial institutions maturing in less than three months	1,400,000	41,683,777	(1,400,000)	41,683,777
Investment securities	-	33,910,053	-	33,910,053
Federal Home Loan Bank stock	-	2,606,400	-	2,606,400
Pacific Coast Bankers' Bank stock	-	190,000	-	190,000
Investment in subsidiary	51,703,115	-	(51,703,115)	-
Loans held-for-sale	-	1,963,982	-	1,963,982
Loans receivable, net of allowance for credit losses and deferred loan fees and costs	-	509,555,848	-	509,555,848
Premises and equipment, net	1,463	18,686,590	-	18,688,053
Foreclosed and repossessed assets	-	545,896	-	545,896
Accrued interest receivable	9,434	2,052,781	(9,434)	2,052,781
Core deposit intangibles, net	-	791,503	-	791,503
Bank-owned life insurance	-	10,315,711	-	10,315,711
Deferred tax asset	47,461	1,795,282	-	1,842,743
SBA servicing asset	-	1,206,680	-	1,206,680
Other assets	1,314,855	865,706	(308,245)	1,872,316
Total Assets	<u>\$ 54,945,141</u>	<u>\$ 633,158,324</u>	<u>\$ (53,889,607)</u>	<u>\$ 634,213,858</u>
LIABILITIES				
Deposits	\$ -	\$ 528,653,134	\$ (1,868,813)	\$ 526,784,321
Federal Home Loan Bank borrowings	-	50,000,000	-	50,000,000
Subordinated debt	17,000,000	-	-	17,000,000
Note payable - related party	1,500,000	-	-	1,500,000
Accrued interest payable	223,561	1,009,051	(9,434)	1,223,178
Accrued expenses and other liabilities	1,856	1,793,024	(308,245)	1,486,635
Total Liabilities	<u>18,725,417</u>	<u>581,455,209</u>	<u>(2,186,492)</u>	<u>597,994,134</u>
Shareholders' Equity				
Common stock-voting, No par value 10,000,000 shares authorized; 3,460,082 issued and outstanding	28,517,596	37,465,526	(37,465,526)	28,517,596
Additional paid in capital	894,252	9,872,709	(9,872,709)	894,252
Retained earnings	9,773,706	7,330,710	(7,330,710)	9,773,706
Accumulated other comprehensive loss	(2,965,830)	(2,965,830)	2,965,830	(2,965,830)
Total Shareholders' Equity	<u>36,219,724</u>	<u>51,703,115</u>	<u>(51,703,115)</u>	<u>36,219,724</u>
Total Liabilities and Shareholders' Equity	<u>\$ 54,945,141</u>	<u>\$ 633,158,324</u>	<u>\$ (53,889,607)</u>	<u>\$ 634,213,858</u>

Refer to Report of Independent Registered Public Accounting Firm.

SAVI FINANCIAL CORPORATION, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2024

	SAVI FINANCIAL	SAVI BANK	ELIMINATIONS	CONSOLIDATED BALANCES 2024
Interest income				
Interest and fees on loans	\$ -	\$ 30,415,463	\$ -	\$ 30,415,463
Interest on investment securities	-	1,332,641	-	1,332,641
Interest on federal funds sold and interest-bearing deposits with financial institutions	272,896	1,882,986	(272,896)	1,882,986
Total interest income	272,896	33,631,090	(272,896)	33,631,090
Interest expense				
On deposits	-	11,232,973	(272,896)	10,960,077
On borrowed funds	894,097	2,224,479	-	3,118,576
Total interest expense	894,097	13,457,452	(272,896)	14,078,653
Net interest income (expense)	(621,201)	20,173,638	-	19,552,437
Provision for credit losses	-	656,957	-	656,957
Net interest income (expense) after provision for credit losses	(621,201)	19,516,681	-	18,895,480
Non-interest income				
Service charges on deposit accounts	-	1,029,261	-	1,029,261
Undistributed income of subsidiary	2,547,272	-	(2,547,272)	-
Gain on sales of loans	-	1,526,277	-	1,526,277
Loss on sales of premises and equipment	-	(13,675)	-	(13,675)
Gain on sales of other real estate owned	-	98,225	-	98,225
Earnings on bank-owned life insurance	-	327,951	-	327,951
Other	-	612,067	-	612,067
Total non-interest income	2,547,272	3,580,106	(2,547,272)	3,580,106
Non-interest expense				
Salaries and employee benefits	2,382,233	12,180,015	-	14,562,248
Occupancy and equipment	688	2,745,268	-	2,745,956
Amortization of core deposit intangibles	-	124,932	-	124,932
Data processing fees	-	921,654	-	921,654
Professional fees	70,775	290,964	-	361,739
FDIC assessment	-	554,000	-	554,000
Expenses and writedowns on OREO and repo assets	-	147,389	-	147,389
Directors and officers insurance	-	105,427	-	105,427
Director fees	115,976	181,874	-	297,850
Regulatory examination fees	-	56,566	-	56,566
B & O taxes	4,155	659,441	-	663,596
Merger and acquisition expenses	1,501,916	-	-	1,501,916
Other expense	42,591	2,014,940	-	2,057,531
Total non-interest expense	4,118,334	19,982,470	-	24,100,804
Income (loss) before federal income tax (benefit)	(2,192,263)	3,114,317	(2,547,272)	(1,625,218)
Federal income tax (benefit)	(993,074)	567,045	-	(426,029)
Net Income (Loss)	\$ (1,199,189)	\$ 2,547,272	\$ (2,547,272)	\$ (1,199,189)

Refer to Report of Independent Registered Public Accounting Firm.