

FAMOUS FOUNDERS



~ THE VISIONARIES BEHIND ~ COMMUNITY BANK OF SANTA MARIA



2025 Annual Report

THE FOUNDERS

Our story begins with two visionaries who saw the need for a new bank in the Santa Maria Valley, a community bank that would embody what has become known as “Santa Maria Style Banking.” Two men aligned in values, community mindedness, banking ethics and above all, a sense of humor. Local decision making mirrored their business benchmark and soon became the cornerstone of the new bank’s mission statement.

Jim Glines and Bill Hares. Two iconic businessmen. Two careers rooted in local banking. Two personalities larger than life—yet shaped by very different beginnings. Jim grew up on a ranch outside Cuyama. Bill was raised in New Castle, Pennsylvania.

What they shared, though, was unmistakable: banking was in their blood. Jim began his career with Wells Fargo in Fresno in the early 1960s. Bill was a Security Pacific banker who eventually made his way west. Their paths converged at Bank of Santa Maria, where they hired a young loan processor named Janet Silveria—someone who would later become an important part of their story.

When Bank of Santa Maria was sold to Mid-State Bank in 1998, their journeys briefly diverged. Jim stayed for six months before moving on to another institution. Bill remained on the board. Despite the changes, the two stayed close, speaking almost daily. And neither could ignore what they saw happening around them: the Santa Maria Valley had lost something important—the presence of a true community bank.

So in the spring of 2000, they decided to build one.

Together, they founded Community Bank of Santa Maria, guided by their shared values and their unwavering belief in the power of local banking. Under their leadership, the bank experienced steady, healthy growth rooted in relationships, trust, and the community they loved.

Now, 25 years later, we look back at Jim and Bill—two bankers with extraordinary presence and charisma—and see how their vision became reality. Their legacy lives on in every customer served, every local decision made, and every moment that reflects the spirit of ‘Santa Maria Style’ Banking™.





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TO OUR STAKEHOLDERS

To Our Shareholders, Customers, Staff, and Community,

First and foremost, we extend our sincere appreciation to each of you. The success of Community Bancorp of Santa Maria is built on the trust, support, and dedication you consistently provide. In turn, our strong financial performance enhances our ability to serve and create value for all our stakeholders.

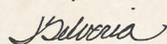
Year-to-date Net Income for 2025 reached \$4.083 million, a 22.9% increase over 2024, with earnings per share rising to \$1.88. This strong earnings performance was driven primarily by a 12.7% increase in Net Loans, complemented by disciplined expense management. Total Deposits increased 4.9%, and Total Assets increased 5.7%. Overall, 2025 was a period of robust, broad-based growth. All the while, we continue to maintain a fortress balance sheet characterized by excellent credit quality and stable core deposits.

Our continued strong financial performance has directly enhanced shareholder value through higher cash dividends, increased book value, and a stronger market price for CYSM shares. In 2025, we executed the company's approved stock repurchase plan, buying back and retiring 90,079 shares. This reduced the number of shares outstanding, which in turn increased the percentage of ownership for our loyal shareholders. At the same time, our Leverage Capital Ratio increased from 9.66% as of December 31, 2024, to 9.80% as of December 31, 2025. Overall, this underscores our commitment to delivering shareholder value while maintaining responsible capital management.

For our other stakeholders, namely, our Customers, Staff, and Community, our strong financial performance reinforces trust and enables us to deliver on our commitments. It allows us to invest in better products, technology, and service for our customers; provide meaningful opportunities, resources, and support for our employees; and, deepens our engagement in the communities we serve through partnerships, support for non-profits, and engagement in community initiatives. In short, our financial strength enhances our ability to create lasting value for all who rely on us.

As we look ahead to 2026, and celebrating our 25th Anniversary, we are reminded of the many lessons that have shaped us: resilience in the face of challenge, tenacity in pursuing our mission, enthusiasm for innovation, and an unwavering commitment to our customers and the communities we serve. These values have guided us for a quarter-century, and they continue to propel us forward. We are well-positioned for the future, and we are energized by the opportunities that lie ahead.

In closing, it is with tremendous sadness we acknowledge the passing of James "Jim" Glines. Together with Bill Hares, Jim founded Community Bank of Santa Maria, originally serving as our President and Chief Executive Officer, and most recently as Chairman of the Board. We pay tribute to Jim and Bill in this annual report as founders whose vision and dedication shaped the institution we are today. Generations of community bankers stand on their shoulders as we carry forward the legacy they built. Though both are deeply missed, their impact remains indelible on Community Bank of Santa Maria.



Janet Silveria
President
Chief Executive Officer
Chair of the Board

OFFICERS, DIRECTORS, AND ASSOCIATES

BOARD OF DIRECTORS



Guadalupe Alvarez



Johannah Bradley



Karen G. Fothergill



Claudia Freitas



John Lizarraga, Jr.



Michael W. Moats, M.D.



Janet Silveria



Jim Stollberg

EXECUTIVE OFFICERS

Janet Silveria
President/ Chief Executive Officer
Chair of the Board

Natalie Barragan
Executive Vice President/ Chief
Administration Officer

Lisa R. Canale
Executive Vice President/ Chief
Credit Officer

Todd Norman
Executive Vice President/ Chief Financial
Officer

DIRECTORS EMERITI

Catherine Buchert
Jim Glines
Dale Hampton
William A. Hares
Royce R. Lewellen
Bill Moffatt
Ernest E. Righetti
Robert Torres

OUR FOUNDERS

Mili & Barbara Acquistapace
Robert E. & Wanda F. Acquistapace
Dr. & Mrs. Mark Adam
Fran Aughtman
Dan & Peggy Blough
Mr. and Mrs. Bill Bogue
John & Brandy Branquinho
James M. & Catherine A. Buchert
Birtice E. Card
Mr. & Mrs. Ross Cutler
Ron & Marcia Edwards
John & Barbara Eggert
Phil F. Fee, D.D.S.

A. Milo & Georganne Ferini
Lon E. & Ruth L. Fletcher
Jon S. & Angela Freitas
Parnell & Sandra Fuhrer
Joe & Chris Gallas
James D. & Kathryn A. Glines
Joni Gray & George Wittenburg
Milt & Angela Guggia
Kathy & Dale Hampton
Bill & Pat Hares
Charles R. & Carol S. Hebard
Wayne & Wilma Hesselbarth
Mr. & Mrs. Jeffrey E. Hoffman

Russ & Susie Johnson
Sandra L. Knotts
Donald E. & Doris T. Lahr
Eloise L. Lanini
Keith V. & Polly M. Lapp
Larry & Donna Lavagnino
Michael Lemos
Royce R. & Maggie Lewellen
Jerry & Delores Luis
Rick Machado
Clarence & Rosalie Minetti
Michael W. Moats, M.D.
William F. & Judy A. Moffatt

Patrick & Pamela Murray
Jim & Elaine Pollard
Ernest E. Righetti, II
Norman & Evelyn Teixeira
R.H. & Myrtle Tesene
Robert & Marlene Torres
Ken & Patti Van Corbach
Berto & Betty van Veen
Robin & Stephanie Ventura
Steve & Marie Will

We are grateful to the individuals listed above who believed in our vision and provided the seed money for the bank to organize. These founders derived no benefit from their investment. With the exception of Jim Glines and Bill Hares, none of them worked for the bank, and although their investment was repaid when the bank opened, regulations prohibited them from collecting interest on their investment. These community minded people simply supported our mission to provide a true community bank to the Santa Maria Valley. Today they remain valued community advisors, and we are grateful for their ongoing support.



INDEPENDENT AUDITORS REPORT

To the Board of Directors
Community Bancorp of Santa Maria and Subsidiary
Santa Maria, California

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OPINION

We have audited the consolidated financial statements of Community Bancorp of Santa Maria and Subsidiary (“Company”), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

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

RESPONSIBILITIES OF MANAGEMENT FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

In performing an audit in accordance with GAAS, we:

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

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

Eide Bailly LLP

Laguna Hills, California
February 17, 2026

CONSOLIDATED BALANCE SHEETS

ASSETS	2025	2024
Cash and Due from Banks	\$ 5,428,000	\$ 5,469,000
Interest Bearing Demand Deposits	25,759,000	14,007,000
Federal Funds Sold	549,000	142,000
Total cash and cash equivalents	31,736,000	19,618,000
Time Deposits in Other Financial Institutions	100,000	100,000
Debt Securities Available for Sale, at fair value (amortized cost of \$101,756,000 and \$124,623,000, net of allowance for credit losses of \$0 and \$0)	96,316,000	114,522,000
Loans, Net of Deferred Fees and Costs	288,128,000	255,750,000
Allowance for Credit Losses	(2,893,000)	(2,561,000)
Net loans	285,235,000	253,189,000
Federal Home Loan Bank Stock, at Cost	2,204,000	2,204,000
Company Owned Life Insurance	3,287,000	4,623,000
Premises and Equipment	4,112,000	4,271,000
Accrued Interest and Other Assets	5,970,000	7,119,000
Total assets	\$ 428,960,000	\$ 405,646,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits		
Noninterest-bearing demand	\$ 158,548,000	\$ 147,013,000
Interest-bearing	225,550,000	219,025,000
Total deposits	384,098,000	366,038,000
Other Borrowings	4,350,000	4,344,000
Accrued Interest and Other Liabilities	2,529,000	2,676,000
Total liabilities	390,977,000	373,058,000

SHAREHOLDERS' EQUITY

Preferred stock - 10,000,000 shares authorized, none outstanding		
Common stock - 10,000,000 shares authorized, no par value;		
2,107,967 shares issued and outstanding in 2025 and,		
2,194,686 shares issued and outstanding in 2024 and,	12,732,000	14,092,000
Additional paid-in capital	708,000	669,000
Retained earnings	28,375,000	24,942,000
Accumulated other comprehensive loss - unrecognized loss on available-for-sale securities, net of taxes		
of \$1,608,000 in 2025 and \$2,986,000 in 2024	(3,832,000)	(7,115,000)
Total shareholders' equity	37,983,000	32,588,000
	\$ 428,960,000	\$ 405,646,000



'SANTA MARIA STYLE' BANKING™

"We're a hometown bank that understands the importance of providing tailored financing solutions specific to your needs. It's our brand of banking."

- The Board

CONSOLIDATED STATEMENTS OF INCOME



'SANTA MARIA STYLE' BANKING™

“It’s a slogan that underscores our commitment to provide superior customer service, to make sure our customers feel heard, understood and appreciated.”

-Janet Silveria

	2025	2024
INTEREST INCOME		
Interest and fees on loans	\$ 16,755,000	\$ 14,672,000
Interest on debt securities available for sale	2,215,000	2,497,000
Other interest income	557,000	523,000
Total interest income	19,527,000	17,692,000
INTEREST EXPENSE		
Interest on savings, now and money market accounts	880,000	929,000
Interest on time deposits	2,227,000	1,935,000
Interest on other borrowings	314,000	363,000
Total interest expense	3,421,000	3,227,000
Net Interest Income	16,106,000	14,465,000
Provision for Credit Losses	325,000	79,000
Net Interest Income After Provision for Credit Losses	15,781,000	14,386,000
NONINTEREST INCOME		
Service charges and fees on deposit accounts	368,000	419,000
Other service charges and fees	170,000	170,000
Interchange fees	505,000	503,000
Unrealized (loss) gain recognized on equity securities	(11,000)	3,000
Earnings on bank owned life insurance	427,000	110,000
Total noninterest income	1,459,000	1,205,000
NONINTEREST EXPENSE		
Salaries and employee benefits	7,261,000	6,922,000
Occupancy expenses	567,000	522,000
Equipment expenses	183,000	215,000
Other expenses	3,803,000	3,578,000
Total noninterest expense	11,814,000	11,237,000
Income Before Provision for Income Taxes	5,426,000	4,354,000
Income Tax Expense	1,343,000	1,032,000
Net Income	\$ 4,083,000	\$ 3,322,000
Net Income per Share - Basic	\$ 1.88	\$ 1.51
Net Income per Share - Diluted	\$ 1.88	\$ 1.51

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2025	2024
Net Income	\$ 4,083,000	\$ 3,322,000
Other Comprehensive Income		
Unrealized gain on debt securities available for sale	4,661,000	1,058,000
Reclassification of losses included in net income	-	-
	4,661,000	1,058,000
Provision for income tax expenses		
Change in net unrealized gain	1,378,000	312,000
Reclassification of losses included in net income	-	-
	1,378,000	312,000
Total other comprehensive income	3,283,000	746,000
Comprehensive Income	7,366,000	4,068,000



'SANTA MARIA STYLE' BANKING™

“When you’re the only locally owned bank headquartered in Santa Maria, the decision on approving and funding your loan is made right here in our lobby.”

-Bill Hares

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock					Total
	Number of Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	
Balance at January 1, 2024	2,167,996	\$ 14,069,000	\$ 604,000	\$ 22,169,000	\$ (7,861,000)	\$ 28,981,000
Net Income	-	-	-	3,322,000	-	3,322,000
Stock-Based Compensation	-	-	88,000	-	-	88,000
Issuance of Restricted Shares, Net of Forfeitures of 1,100 Shares	26,690	-	-	-	-	-
Vesting of Restricted Shares	-	23,000	(23,000)	-	-	-
Cash Dividend \$0.25 Per Share	-	-	-	(549,000)	-	(549,000)
Other Comprehensive Income, Net of Taxes	-	-	-	-	746,000	746,000
Balance at December 31, 2024	2,194,686	14,092,000	669,000	24,942,000	(7,115,000)	32,588,000
Net Income	-	-	-	4,083,000	-	4,083,000
Stock-Based Compensation	-	-	103,000	-	-	103,000
Repurchased Shares	(90,079)	(1,424,000)	-	9,000	-	(1,415,000)
Issuance of Restricted Shares, Net of Forfeitures of 240 Shares	3,360	-	-	-	-	-
Vesting of Restricted Shares	-	64,000	(64,000)	-	-	-
Cash Dividend \$0.30 Per Share	-	-	-	(659,000)	-	(659,000)
Other Comprehensive Income, Net of Taxes	-	-	-	-	3,283,000	3,283,000
Balance at December 31, 2025	2,107,967	\$ 12,732,000	\$ 708,000	\$ 28,375,000	\$ (3,832,000)	\$ 37,983,000

'SANTA MARIA STYLE' BANKING™

"Make darn sure you treat your customers with the utmost respect, always keep the promises you agreed to, and never get too big for your britches."

-Jim Glines



CONSOLIDATED STATEMENTS OF CASH FLOWS

OPERATING ACTIVITIES	2025	2024
Net income	\$ 4,083,000	\$ 3,322,000
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	303,000	324,000
Amortization of premiums and accretion of discounts on investments	511,000	573,000
Provision for credit losses	325,000	79,000
Change in deferred loan fees, net	(28,000)	78,000
Deferred income taxes	120,000	39,000
Earnings on bank owned life insurance	(427,000)	(110,000)
Stock-based compensation	103,000	88,000
Unrealized loss (gain) recognized on equity securities	11,000	(3,000)
Other items, net	(503,000)	252,000
Net Cash from Operating Activities	<u>4,498,000</u>	<u>4,642,000</u>
INVESTING ACTIVITIES		
Purchases of available-for-sale debt securities	(996,000)	-
Proceeds from bank owned life insurance death benefit	1,763,000	-
Proceeds from maturities and calls of available-for-sale debt securities	23,350,000	12,373,000
Net increase in loans	(32,298,000)	(17,155,000)
Purchases of premises and equipment	(185,000)	(238,000)
Net Cash (used for) from Investing Activities	<u>(8,366,000)</u>	<u>(5,020,000)</u>
FINANCING ACTIVITIES		
Net change in demand deposits and savings accounts	13,873,000	(6,175,000)
Net change in time deposits	4,187,000	16,287,000
Repurchase of common stock	(1,415,000)	-
Cash dividends paid	(659,000)	(549,000)
Net Cash from Financing Activities	<u>15,986,000</u>	<u>9,563,000</u>
Change in Cash and Cash Equivalents	<u>12,118,000</u>	<u>9,185,000</u>
Cash and Cash Equivalents, Beginning of Year	19,618,000	10,433,000
Cash and Cash Equivalents, End of Year	<u>\$ 31,736,000</u>	<u>\$ 19,618,000</u>
Supplemental Disclosures of Cash Flow Information		
Interest paid	\$ 3,433,000	\$ 3,105,000
Taxes paid	\$ 1,565,000	\$ 725,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

NATURE OF OPERATIONS

The Company has been organized as a single operating segment and operates two full-service offices in the Central Coast area of California. The Company's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

SUBSEQUENT EVENTS

The Company has evaluated subsequent events for recognition and disclosure through February 17, 2026, which is the date the consolidated financial statements were available to be issued.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, interest bearing demand deposits, and federal funds sold. Generally, federal funds are sold for one-day periods.

CASH AND DUE FROM BANKS

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. As of December 31, 2025 and 2024, the required reserve percentage is zero. The Company was in compliance with its reserve requirements as of December 31, 2025 and 2024.

The Company maintains amounts due from banks, which exceed federally insured limits. The Company has not experienced any losses in such accounts.

DEBT SECURITIES

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

The Company measures the allowance for credit losses on available-for-sale debt securities by first assessing whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost. If it is determined that the Company intends or will be required to sell the security, it is written down to its fair value through income. For securities issued by government agencies that do not meet the aforementioned criteria, there are no expected credit losses as they are guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. For other debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost 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 on available-for-sale investments is recorded and is limited to the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

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

LOANS

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for the allowance for credit losses and any deferred fees and costs on originated loans as well as unamortized premiums

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. Past due status is based on contractual terms of the loan. Loans are placed on nonaccrual or charged-off at an earlier date if collection of principal and interest is considered doubtful.

When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

Accrued interest receivable on loans totaling \$1,204,000 and \$1,071,000 at December 31, 2025 and 2024, respectively, is included in "Accrued Interest and Other Assets" on the consolidated balance sheets and is excluded from the estimate of credit losses.

ALLOWANCE FOR CREDIT LOSSES - LOANS

The ACL is a valuation allowance for the current expected credit losses in the Company's loan portfolio that is deducted from the loan's amortized cost basis to present the net amount expected to be collected. Loans are charged-off against the allowance when management believes the collectability of the loan balance is unlikely. Subsequent recoveries, if any, are credited to the ACL.

Management estimates the allowance over the loan's entire contractual term and adjusts for expected prepayments when appropriate. The allowance estimate considers relevant, available information from internal and external sources relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for qualitative or environmental factors that cause the estimate for expected losses as of the evaluation date to differ from historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the collateral valuations; concentrations of credit; the effect

of other external factors such as competition and legal and regulatory requirements; and other relevant factors determined by management.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist and on an individual basis when management determines that the loan does not share similar risk characteristics with other loans. The Company has identified the following loan pools: construction and land development, commercial and other real estate, commercial and agricultural, and consumer and other loans. Relevant risk characteristics for these loan pools generally include debt service coverage, loan-to-value ratios and financial performance for non-consumer loans and credit scores, debt-to-income, collateral type and loan-to-value ratios for consumer loans. The Company uses the Discounted Cash Flow method to measure the ACL for all loan pools to calculate the loss rate that combines the pool's risk characteristics, historical loss experience, and reasonable and supportable future economic forecasts to project lifetime losses. The loss rate is then combined with the loan balance and contractual maturity, adjusted for expected prepayments, to determine expected future losses. Future and supportable economic forecasts are based on various economic conditions over a period of one year followed by a reversion back to historical losses.

Loans that do not share similar risk characteristics to their loan pool are evaluated on an individual basis and are excluded from the collective measurement. Loans can be identified for individual evaluation for various reasons including delinquency, nonaccrual status, risk rating and loan modifications. A loan is considered collateral dependent when management determines that foreclosure is probable or when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The ACL on collateral dependent loans is measured using the amortized cost basis of the financial asset less the fair value of the underlying collateral, adjusted for costs to sell, when applicable. If the value of the underlying collateral is determined to be less than the recorded amount of the loan, a specific reserve for that loan is recorded. If the Company determines that the loss represented by the specific reserve is uncollectible it records a charge-off for the uncollectible portion.

ALLOWANCE FOR CREDIT LOSSES - UNFUNDED COMMITMENTS

The Company establishes a liability for estimated expected credit losses on unfunded commitments to originate or fund loans and standby letters of credit, excluding commitments that are unconditionally cancellable. The estimate is included in "Accrued Expenses and Other Liabilities" on the consolidated balance sheets. Expected credit losses are estimated over the contractual period in which the Company is exposed to credit risk through the commitment adjusted for anticipated prepayments when appropriate. The estimate of the liability also considers the likelihood that funding will occur. The ACL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

on unfunded commitments is adjusted through provision for credit losses on consolidated statements of income. The underwriting process and risks associated with unfunded commitments and standby letters of credit are essentially the same as loans and therefore the Company uses the same ACL process as loans to estimate the liability.

FEDERAL HOME LOAN BANK ("FHLB") STOCK AND OTHER BANK STOCK

The Company is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

EQUITY SECURITIES

The Company is accounting for equity securities with readily determinable fair values at fair value, with changes recognized through earnings. The carrying value, in other assets, of equity securities with readily determinable fair values as of December 31, 2025 and 2024 was \$87,000 and \$98,000, respectively. During the year ended December 31, 2025 and 2024 the Company recognized an unrealized loss of \$11,000 and gain of \$3,000, respectively.

The Company elected the measurement alternative for measuring equity securities without readily determinable fair values at cost less impairment, plus or minus observable price changes in orderly transactions. The carrying amount, in other assets, of equity securities without readily determinable fair values is \$144,000 as of December 31, 2025 and 2024. No unrealized gain (loss) was recognized in income during the years ended December 31, 2025 and 2024. Adjustments to the carrying value of stock are based on observable activity in the stock. All other bankers bank stock without observable activity is recorded at cost.

COMPANY OWNED LIFE INSURANCE

Company owned life insurance is recorded at the amount that can be realized under insurance contracts at the date of the statement of financial condition, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

PREMISES AND EQUIPMENT

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which ranges from three to ten years for furniture and fixtures and fifteen to forty years for buildings and land improvements. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

LEASES

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

OTHER REAL ESTATE OWNED

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value at the date of foreclosure, establishing a new cost basis by a charge to the allowance for credit losses, if necessary. Other real estate owned is carried at the lower of the Company's carrying value of the property or its fair value, less estimated carrying costs and costs of disposition. Fair value is generally based on current appraisals, which are frequently adjusted by management to reflect current conditions and estimated selling costs. Any subsequent write-downs are charged against operating expenses and recognized as a valuation allowance. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses. There were no foreclosures in process of single-family residential property as of December 31, 2025.

LOSS CONTINGENCIES

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

TRANSFERS OF FINANCIAL ASSETS

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

REVENUE RECOGNITION - NONINTEREST INCOME

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligation and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income.

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

SERVICE CHARGES AND FEES ON DEPOSIT ACCOUNTS

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

INTERCHANGE FEES

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

ADVERTISING COSTS

The Company expenses the costs of advertising in the year incurred.

STOCK-BASED COMPENSATION

The Company recognizes the cost of employee services received in exchange for awards of restricted stock shares, stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period, on a straight-line basis.

The Company has elected to account for forfeitures of stock-based awards as they occur. Excess tax benefits and tax deficiencies relating to stock-based compensation are recorded as income tax expense or benefit in the income statement when incurred.

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

INCOME TAXES

Deferred income taxes are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax asset or benefits will be realized.

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

EARNINGS PER SHARE ("EPS")

Earnings per common share is computed under the two-class method. Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period, excluding outstanding participating securities. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Unvested share-based awards that contain non-forfeitable rights to receive dividends when declared or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The Company has determined that its outstanding non-vested restricted share awards are participating securities.

COMPREHENSIVE INCOME

Changes in unrealized gains and losses on available-for-sale debt securities is the only component of accumulated other comprehensive income for the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL INSTRUMENTS

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note 10. Such financial instruments are recorded in the financial statements when they are funded, or related fees are incurred or received.

FAIR VALUE MEASUREMENT

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

The guidance describes three levels of inputs that may be used to measure fair value:

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

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

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

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

OPERATING SEGMENTS

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed, and financial performance is evaluated on a Company-wide basis. Discrete operating results are not reviewed by senior management to make resource allocation or performance decisions. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

The Company's reportable segments are determined by the Chief Executive Officer, who is the designated chief operating decision maker (CODM), based upon information provided about the Company's products and services offered, primarily banking operations. The segment is also distinguished by the level of information provided to the CODM, who uses such information to review performance of various components of the business, which are then aggregated if operating performance, products/services, and customers are similar. The CODM will evaluate the financial performance of the Company's business components such as by evaluating revenue streams, significant expenses, and budget to actual results in assessing the Company's segment and in the determination

of allocating resources. The CODM uses revenue streams to evaluate product pricing and significant expenses to assess performance and evaluate return on assets. The CODM uses consolidated net income to benchmark the Company against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results are used in assessing performance and in establishing compensation. Loans and investments provide the revenues in the banking operation. Interest expense, provisions for credit losses and payroll provide the significant expenses in the banking operation. All operations are domestic. Segment performance is evaluated using consolidated net income. Information reported internally for performance assessment by the CODM is included within the statements of income.

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2025, the Company adopted Accounting Standards Update (ASU) 2023-09, Income taxes (Topic 740): Improvements to Income Tax Disclosures. The implementation of this standard establishes a requirement to disclose differences between the statutory tax rate and the effective tax rate by jurisdiction and disaggregated information about income taxes paid, income (loss) from continuing operations before income tax expense (or benefit) and income tax expense (or benefit) from continuing operations. Management has determined that this standard is preferable in that the reporting will provide users with more useful information and greater transparency about how the Company's operations and related tax risks affect its tax rate and cash flows. The amendments related to the ASU were applied retrospectively.

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

The amendments related to the ASU were applied retrospectively to the segment information disclosed for all prior periods presented in the accompanying financial statements. Adoption of the amendments of the ASU did not impact any of the amounts presented in the basic financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 DEBT SECURITIES

Debt securities have been classified in the balance sheets according to management's intent. The carrying amount of available-for-sale debt securities and their approximate fair values at December 31, 2025 and 2024 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31,				
2025				
Available-for-Sale				
U.S. government and agency securities	\$ 16,998,000	\$ -	\$ (202,000)	\$ 16,796,000
Mortgage-backed securities	57,652,000	2,000	(4,151,000)	53,503,000
Obligations of state and political subdivisions	25,106,000	-	(967,000)	24,139,000
Corporate debt	2,000,000	-	(122,000)	1,878,000
Total available-for-sale	\$ 101,756,000	\$ 2,000	\$ (5,442,000)	\$ 96,316,000
December 31,				
2024				
Available-for-Sale				
U.S. government and agency securities	\$ 27,990,000	\$ -	\$ (1,093,000)	\$ 26,897,000
Mortgage-backed securities	68,014,000	2,000	(7,375,000)	60,641,000
Obligations of state and political subdivisions	26,619,000	1,000	(1,340,000)	25,280,000
Corporate debt	2,000,000	-	(296,000)	1,704,000
Total available-for-sale	\$ 124,623,000	\$ 3,000	\$ (10,104,000)	\$ 114,522,000

The carrying value of debt securities pledged for borrowings and for other purposes as required or permitted by law was approximately \$12,702,000 at December 31, 2025 and \$14,176,000 at December 31, 2024. The Company did not sell debt securities during 2025 or 2024.

The amortized cost and estimated fair value of all debt securities available for sale at December 31, 2025, by contractual maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Due in One Year or Less	\$ 25,309,000	\$ 24,508,000
Due from One Year to Five Years	31,076,000	29,001,000
Due from Five Years to Ten Years	21,215,000	19,665,000
Due after Ten Years	24,156,000	23,142,000
	\$ 101,756,000	\$ 96,316,000

As of December 31, 2025 and 2024, unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position for which an allowance for credit losses has not been recorded, are summarized as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Less than Twelve Months		Over Twelve Months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
December 31, 2025						
Available-for-Sale						
U.S. government and agency securities	\$ -	\$ -	\$ (202,000)	\$ 16,796,000	\$ (202,000)	\$ 16,796,000
Mortgage-backed securities	(6,000)	988,000	(4,145,000)	52,241,000	(4,151,000)	53,229,000
Obligations of state and political subdivisions	(1,000)	987,000	(966,000)	23,152,000	(967,000)	24,139,000
Corporate debt	-	-	(122,000)	1,878,000	(122,000)	1,878,000
	\$ (7,000)	\$ 1,975,000	\$ (5,435,000)	\$ 94,067,000	\$ (5,442,000)	\$ 96,042,000
December 31, 2024						
Available-for-Sale						
U.S. government and agency securities	\$ -	\$ -	\$ (1,093,000)	\$ 26,897,000	\$ (1,093,000)	\$ 26,897,000
Mortgage-backed securities	-	-	(7,375,000)	60,286,000	(7,375,000)	60,286,000
Obligations of state and political subdivisions	(9,000)	706,000	(1,331,000)	23,317,000	(1,340,000)	24,023,000
Corporate debt	-	-	(296,000)	1,704,000	(296,000)	1,704,000
	\$ (9,000)	\$ 706,000	\$ (10,095,000)	\$ 112,204,000	\$ (10,104,000)	\$ 112,910,000

At December 31, 2025 and 2024, the Company's security portfolio consisted of one hundred and eighty-two securities and two hundred and nine securities in an unrealized loss position, respectively. The majority of unrealized losses are primarily composed of securities that are directly or implicitly guaranteed by the U.S. government and are highly rated by major rating agencies with a history of no credit losses. Timely payments of principal and interest are expected. Obligations of states and political subdivisions and corporate debt are of high credit quality (bonds rated AA or higher). All issuers continue to make timely principal and interest payments and financial statements are periodically reviewed as part of post-purchase analysis. The decline in value in any of these securities is deemed to be temporary and not attributable to credit losses. Furthermore, the Company does not intend to sell, and it is likely that management will not be required to sell, these securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. At December 31, 2025 and 2024, no ACL was established for available-for-sale securities.

3 LOANS AND ALLOWANCE FOR CREDIT LOSSES

The Company's loan portfolio consists primarily of loans to borrowers within northern Santa Barbara and southern San Luis Obispo Counties in the central coast area of California. Although the Company seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Company's market area and, as a result, the Company's loan and collateral portfolios are, to some degree, concentrated in those industries.

The Company has pledged loans totaling approximately \$179 million to secure a line of credit with the Federal Home Loan Bank as discussed in Note 7.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, the composition of the loan portfolio is as follows:

	2025		2024	
Construction and Land Development	\$	17,984,000	\$	13,130,000
Commercial and Other Real Estate				
1-4 family residential		19,128,000		19,638,000
Multifamily residential		13,707,000		14,685,000
Commercial real estate		171,554,000		147,801,000
Farmland		17,707,000		18,231,000
Commercial and Agriculture				
Commercial and industrial		28,014,000		23,617,000
Obligations-state and political		16,693,000		14,329,000
Agriculture production		3,458,000		4,355,000
Consumer and Other		358,000		467,000
Total loans		288,603,000		256,253,000
Deferred loan fees, net of costs		(475,000)		(503,000)
Allowance for credit losses		(2,893,000)		(2,561,000)
Net loans	\$	285,235,000	\$	253,189,000

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2025:

	Construction and Land Development	Commercial and Other Real Estate	Commercial and Agriculture	Consumer	Total
Allowance for Credit Losses					
Beginning of year	\$ 83,000	\$ 2,160,000	\$ 312,000	\$ 6,000	\$ 2,561,000
Provision (Benefit)	26,000	213,000	87,000	(1,000)	325,000
Charge-Offs	-	-	-	-	-
Recoveries	-	-	7,000	-	7,000
End of Year	\$ 109,000	\$ 2,373,000	\$ 406,000	\$ 5,000	\$ 2,893,000

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

	Construction and Land Development	Commercial and Other Real Estate	Commercial and Agriculture	Consumer	Total
Allowance for Credit Losses					
Beginning of year	\$ 72,000	\$ 1,987,000	\$ 408,000	\$ 6,000	\$ 2,473,000
Provisions (Benefit)	11,000	173,000	(107,000)	2,000	79,000
Charge-Offs	-	-	-	(2,000)	(2,000)
Recoveries	-	-	11,000	-	11,000
End of Year	\$ 83,000	\$ 2,160,000	\$ 312,000	\$ 6,000	\$ 2,561,000

In addition to the ACL on loans, the Company has established an ACL on unfunded commitments. The following table presents the activity in the ACL on unfunded commitments for the years ended December 31, 2025 and 2024:

	2025		2024	
Beginning of Year	\$	183,000	\$	183,000
Provision (Benefit)		-		-
End of year	\$	183,000	\$	183,000

As of December 31, 2025, there were no collateral dependent loans. As of December 31, 2024, the Company had one collateral dependent loan that was individually evaluated to determine expected credit losses and was included in the agriculture production portfolio segment for a total of \$65,000. The loan was collateralized by a blanket lien on all business assets and the related ACL allocated to this loan was \$3,000.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Based upon the most recent analysis performed, the risk category of loans by class of loans and origination year is as follows as of December 31, 2025:

	December 31, 2025						Revolving Loans Amortized Cost Basis	Total
	Term Loans Amortized Cost Basis by Origination Year							
	2025	2024	2023	2022	2021	Prior		
Construction and Land Development								
Pass	\$ 2,802,000	\$ 6,907,000	\$ 6,859,000	\$ -	\$ 1,181,000	\$ 235,000	\$ -	\$ 17,984,000
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total construction	\$ 2,802,000	\$ 6,907,000	\$ 6,859,000	\$ -	\$ 1,181,000	\$ 235,000	\$ -	\$ 17,984,000
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial and Other Real Estate								
Pass	\$ 28,118,000	\$ 21,271,000	\$ 31,192,000	\$ 34,463,000	\$ 24,741,000	\$ 66,109,000	\$ 14,993,000	\$ 220,887,000
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	1,209,000	1,209,000
Total commercial real estate loans	\$ 28,118,000	\$ 21,271,000	\$ 31,192,000	\$ 34,463,000	\$ 24,741,000	\$ 66,109,000	\$ 16,202,000	\$ 222,096,000
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial and Agriculture								
Pass	\$ 11,969,000	\$ 3,585,000	\$ 5,786,000	\$ 12,654,000	\$ 3,948,000	\$ 8,959,000	\$ -	\$ 46,901,000
Special mention	-	-	-	-	-	-	-	-
Substandard	37,000	246,000	625,000	18,000	157,000	181,000	-	1,264,000
Total commercial agriculture loans	\$ 12,006,000	\$ 3,831,000	\$ 6,411,000	\$ 12,672,000	\$ 4,105,000	\$ 9,140,000	\$ -	\$ 48,165,000
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer								
Pass	\$ 126,000	\$ 77,000	\$ 20,000	\$ 24,000	\$ -	\$ 22,000	\$ 87,000	\$ 356,000
Special mention	-	-	-	-	-	-	-	-
Substandard	2,000	-	-	-	-	-	-	2,000
Total consumer loans	\$ 128,000	\$ 77,000	\$ 20,000	\$ 24,000	\$ -	\$ 22,000	\$ 87,000	\$ 358,000
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

	December 31, 2024					Revolving Loans Amortized Cost Basis	Total
	Term Loans Amortized Cost Basis by Origination Year						
	2024	2023	2022	2021	Prior		
Construction and Land Development							
Pass	\$ 2,782,000	\$ 6,644,000	\$ 1,727,000	\$ 1,702,000	\$ 275,000	\$ -	\$ 13,130,000
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total construction	\$ 2,782,000	\$ 6,644,000	\$ 1,727,000	\$ 1,702,000	\$ 275,000	\$ -	\$ 13,130,000
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial and Other Real Estate							
Pass	\$ 21,704,000	\$ 32,242,000	\$ 31,034,000	\$ 26,045,000	\$ 71,230,000	\$ 15,700,000	\$ 197,955,000
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	1,174,000	1,226,000	2,400,000
Total commercial real estate loans	\$ 21,704,000	\$ 32,242,000	\$ 31,034,000	\$ 26,045,000	\$ 72,404,000	\$ 16,926,000	\$ 200,355,000
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial and Agriculture							
Pass	\$ 4,795,000	\$ 6,813,000	\$ 14,002,000	\$ 4,491,000	\$ 11,353,000	\$ -	\$ 41,454,000
Special mention	-	-	-	-	-	-	-
Substandard	117,000	295,000	148,000	179,000	108,000	-	847,000
Total commercial agriculture loans	\$ 4,912,000	\$ 7,108,000	\$ 14,150,000	\$ 4,670,000	\$ 11,461,000	\$ -	\$ 42,301,000
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer							
Pass	\$ 237,000	\$ 66,000	\$ 48,000	\$ -	\$ 39,000	\$ 76,000	\$ 466,000
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	1,000	1,000
Total consumer loans	\$ 237,000	\$ 66,000	\$ 48,000	\$ -	\$ 39,000	\$ 77,000	\$ 467,000
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ 2,000	\$ -	\$ 2,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarize the aging of the past due loans by loan class within the portfolio segments as of December 31, 2025:

December 31, 2025					
	30-89 Days Past Due	Over 89 Days Past Due	Total Past Due	Loans not Past Due	Total
Construction and Land Development	\$ -	\$ -	\$ -	\$ 17,984,000	\$ 17,984,000
Commercial and Other Real Estate					
1-4 family	254,000	-	254,000	18,874,000	19,128,000
Multifamily residential	-	-	-	13,707,000	13,707,000
Commercial real estate	-	-	-	171,554,000	171,554,000
Farmland	-	-	-	17,707,000	17,707,000
Commercial and Agriculture					
Commercial and industrial	-	-	-	28,014,000	28,014,000
Obligations-state & political	-	-	-	16,693,000	16,693,000
Agriculture production	-	-	-	3,458,000	3,458,000
Consumer and Other	-	-	-	358,000	358,000
	<u>\$254,000</u>	<u>\$ -</u>	<u>\$254,000</u>	<u>\$ 288,349,000</u>	<u>\$288,603,000</u>

The following tables present the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2024:

December 31, 2024					
	30-89 Days Past Due	Over 89 Days Past Due	Total Past Due	Loans not Past Due	Total
Construction and Land Development	\$ -	\$ -	\$ -	\$ 13,130,000	\$ 13,130,000
Commercial and Other Real Estate					
1-4 family	532,000	-	532,000	19,106,000	19,638,000
Multifamily residential	-	-	-	14,685,000	14,685,000
Commercial real estate	-	-	-	147,801,000	147,801,000
Farmland	-	-	-	18,231,000	18,231,000
Commercial and Agriculture					
Commercial and industrial	-	-	-	23,617,000	23,617,000

	30-89 Days Past Due	Over 89 Days Past Due	Total Past Due	Loans not Past Due	Total
Obligations-state & political	-	-	-	14,329,000	14,329,000
Agriculture production	-	65,000	65,000	4,290,000	4,355,000
Consumer and Other	-	-	-	467,000	467,000
	<u>\$ 532,000</u>	<u>\$ 65,000</u>	<u>\$ 597,000</u>	<u>\$ 255,656,000</u>	<u>\$ 256,253,000</u>

The following table summarize the aging of the past due loans by loan class within the portfolio segments as of December 31, 2024:

December 31, 2024			
	Nonaccrual	Nonaccrual With No Allowance For Credit Loss	Loans Past Due Over 89 Days Still Accruing
Construction and Land Development	\$ -	\$ -	\$ -
Commercial and Other Real Estate	-	-	-
1-4 family	-	-	-
Multifamily residential	-	-	-
Commercial real estate	-	-	-
Farmland	-	-	-
Commercial and Agriculture			
Commercial and industrial	-	-	-
Obligations-state & political	-	-	-
Agriculture production	65,000	-	-
Consumer and Other	-	-	-
	<u>\$ 65,000</u>	<u>\$ -</u>	<u>\$ -</u>

There were no nonaccrual or loans past due over 89 days still accruing as of December 31, 2025.

During 2025, the Company modified the terms of loans to borrowers experiencing financial difficulty. The modifications included 36 month term extensions on two loans totaling \$179,000 classified in the 1-4 family real estate portfolio segments representing 1.03% of the financing receivable. The loans were not past due at December 31, 2025 and did not have payment defaults since the modifications took place.

During 2024, the Company modified the terms of loans to borrowers experiencing financial difficulty. The modifications included 60 month term extensions on two loans totaling \$41,000 classified in the 1-4 family real estate portfolio segments representing 0.20% of the financing receivable. The loans were not past due at December 31, 2024 and did not have payment defaults since the modifications took place.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 PREMISES AND EQUIPMENT

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

	2025	2024
Land	1,035,000	1,035,000
Bank Premises	3,945,000	3,968,000
Leasehold Improvements	574,000	574,000
Furniture, Fixtures, and Equipment	1,610,000	1,760,000
	<u>7,164,000</u>	<u>7,337,000</u>
Less Accumulated Depreciation and Amortization	(3,052,000)	(3,066,000)
	<u>\$ 4,112,000</u>	<u>\$ 4,271,000</u>

Depreciation expense was \$303,000 and \$324,000 for the years ended December 31, 2025 and 2024, respectively.

5 LEASES

The Company leases a branch under an operating lease that expires on July 31, 2031. The amount of the lease liability and ROU asset is impacted by the lease term and the discount rate applied to determine the present value of future lease payments.

The lease includes two ten-year options to renew, with renewal terms that can extend the lease term by varying amounts. The exercise of renewal options is at the sole discretion of the Company. Renewal option periods were not included in the measurement of ROU assets and lease liabilities as they are not considered reasonably certain of exercise.

The balance of ROU assets and lease liabilities are included in other assets and other liabilities on the consolidated balance sheets.

The Company elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component. Variable lease cost primarily represents variable payments such as common area maintenance and utilities and CPI increases.

The following table represents lease costs and other lease information for the years ended December 31, 2025 and 2024:

	2025	2024
Operating Lease Right-of-Use Assets Classified as Accrued Interest and Other Assets	\$ 1,016,000	\$ 1,175,000
Operating Lease Liabilities Classified as Accrued Interest and Other Liabilities	\$ 1,016,000	\$ 1,175,000
Weighted Average Remaining Lease Term, in Years	5.58	6.58
Weighted Average Discount Rate	4.00%	4.00%

	2025	2024
Operating lease cost	\$ 242,750	\$ 235,000
Variable lease cost	19,000	16,000
Total lease costs	<u>\$ 261,750</u>	<u>\$ 251,000</u>

	2025	2024
Cash Paid for Amounts Included in the Measurement of Lease Liabilities	\$ 203,000	\$ 203,000
Right-of-Use Assets Obtained in Exchange for New Lease Obligations	\$ -	\$ -

Year Ending		
2026	\$	203,000
2027		203,000
2028		203,000
2029		203,000
2030		203,000
Thereafter		<u>119,000</u>
Total lease payments		1,134,000
Less imputed interest		<u>(118,000)</u>
Present value of net future minimum lease payments	\$	<u>1,016,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 DEPOSITS

Deposits consist of the following at December 31:

	2025	2024
Deposits		
Noninterest-bearing demand	\$ 158,548,000	\$ 147,013,000
Savings and NOW accounts	63,423,000	64,186,000
Money market accounts	100,278,000	97,177,000
Time deposits under \$250,000	42,542,000	42,301,000
Time deposits \$250,000 and over	19,307,000	15,361,000
Total deposits	<u>\$ 384,098,000</u>	<u>\$ 366,038,000</u>

At December 31, 2025 the scheduled maturities of time deposits are as follows:

Year Ending	
2026	\$ 60,766,000
2027	829,000
2028	254,000
Total	<u>\$ 61,849,000</u>

7 BORROWING ARRANGEMENTS

The Bank may borrow up to \$22.5 million overnight on an unsecured basis from three of its primary correspondent banks. The Bank also may borrow up to \$80.2 million from the Federal Home Loan Bank of San Francisco under an approved line of credit secured with loans totaling approximately \$179.0 million. There were no borrowings under these lines as of December 31, 2025 and 2024.

The Company has a secured revolving line of credit in the amount of \$6 million from one of its primary correspondent banks. The line calls for semiannual interest payment at 3.85% per annum and all principal and interest is due March 28, 2035. The Company has an outstanding balance of \$4.35 million with unamortized costs of \$0 and \$6,000 as of December 31, 2025 and 2024, respectively. The borrowing facility is secured by the Bank's stock representing 100% of the Company's ownership interest in the Bank.

8 INCOME TAXES

The provision for income taxes charged to income for the years ended December 31, 2025 and 2024, consists of the following:

	2025	2024
Current Provision		
Federal	\$ 825,000	\$ 600,000
State	638,000	471,000
	<u>1,463,000</u>	<u>1,071,000</u>
Deferred Provision		
Federal	(96,000)	(7,000)
State	(24,000)	(32,000)
	<u>(120,000)</u>	<u>(39,000)</u>
	<u>\$ 1,343,000</u>	<u>\$ 1,032,000</u>

State taxes in California for the year ended December 31, 2025 and 2024 made up the majority (greater than 50 percent) of the tax effect in this category.

Deferred tax assets and liabilities consist of the following components as of December 31, 2025 and 2024:

	2025	2024
Deferred Tax Assets		
Allowance for credit losses due to tax limitations	\$ 501,000	\$ 404,000
Deferred compensation	164,000	160,000
Unrecognized loss on debt securities available-for-sale	1,608,000	2,986,000
Lease liability	300,000	347,000
Other items	300,000	268,000
	<u>2,873,000</u>	<u>4,165,000</u>
Deferred Tax Liabilities		
Depreciation differences	(45,000)	(38,000)
Stock-based compensation	(19,000)	(30,000)
Right-of-use asset	(300,000)	(347,000)
Other items	(239,000)	(222,000)
	<u>(603,000)</u>	<u>(637,000)</u>
Net deferred tax assets	<u>\$ 2,270,000</u>	<u>\$ 3,528,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A reconciliation of income taxes computed at the federal statutory rate of 21 percent as of December 31, 2025 and 2024 is as follows:

	2025		2024	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	\$ 1,140,000	21.0 %	\$ 914,000	21.0 %
State Franchise Tax, Net of Federal Benefit	436,000	8.0	364,000	8.4
Tax Free Income	(333,000)	(6.1)	(223,000)	(5.1)
Other Items, Net	100,000	1.9	(23,000)	(0.6)
Actual tax expense	\$ 1,343,000	24.8 %	\$ 1,032,000	23.7 %

Income taxes paid (net of refunds received) disaggregated by federal and state for the years ended December 31, 2025 and 2024 were as follows:

	2025		2024	
Federal	\$ 925,000	\$ 425,000		
California	640,000	300,000		
	\$ 1,565,000	\$ 725,000		

The Company records interest and penalties related to uncertain tax positions as part of income tax expense. There was no penalty or interest expense recorded as of December 31, 2025 and 2024. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease with the next twelve months.

The Company is subject to federal income tax and California franchise tax. Federal income tax returns for the years ended on or after December 31, 2022 are open to audit by the federal authorities and California returns for the years ended on or after December 31, 2021 are open to audit by state authorities.

9 OTHER EXPENSES

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

	2025		2024	
Data Processing	\$ 1,436,000	\$ 1,275,000		
Marketing and Business Promotion	674,000	641,000		
Professional Fees	768,000	730,000		
Office Expenses	124,000	118,000		
Director Fees	190,000	210,000		
Regulatory Fees and Assessments	271,000	253,000		
Other	340,000	351,000		
	\$ 3,803,000	\$ 3,578,000		

10 COMMITMENTS

In the ordinary course of business, the Company enters into financial commitments to meet the financing needs of its customers. These financial commitments include commitments to extend credit and standby letters of credit. Those instruments involve to varying degrees, elements of credit and interest rate risk not recognized in the Company's financial statements.

The Company's exposure to loan loss in the event of nonperformance on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for loans reflected in the financial statements.

As of December 31, 2025 and 2024, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2025		2024	
Commitments to Extend Credit	\$ 66,814,000	\$ 65,402,000		
Standby Letters of Credit	-	-		
	\$ 66,814,000	\$ 65,402,000		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Company evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company is based on management's credit evaluation of the customer. The majority of the Company's commitments to extend credit and standby letters of credit are secured by real estate.

The Company has entered into deferred compensation agreements with certain key officers. Under these agreements, the Company is obligated to provide, upon retirement, a 10-year benefit to the officers. The annual benefits range from \$12,000 to \$36,000. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of the agreements until the expected retirement dates of the participants. The Cash Benefits paid from these agreements was \$24,000 and \$26,000 in 2025 and 2024. The expense (benefit) incurred for these agreements in 2025 and 2024 was \$39,000 and \$36,000, resulting in a deferred compensation liability of \$556,000 and \$541,000 as of December 31, 2025 and 2024, respectively, and is recorded with accrued interest and other liabilities. The Company is a beneficiary of life insurance policies that have been purchased as a method of financing the benefits under these agreements.

11 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to certain executive officers and directors and the companies with which they are associated. The total outstanding balance of these loans at December 31, 2025 and 2024 was approximately \$3.0 million and \$3.0 million, respectively.

Deposits from certain officers and directors and the companies with which they are associated held by the Company at December 31, 2025 and 2024 amounted to approximately \$4.3 million and \$7.7 million, respectively.

12 STOCK-BASED COMPENSATION PLANS

The Company's 2012 Omnibus Stock Incentive Plan ("2012 Plan") was approved by its shareholders in May 2012. Under the terms of the 2012 Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and other consultants, who are not also an officer or employee, may only be granted nonqualified stock options. The 2012 Plan also permits the grant of stock appreciation rights ("SARs"), restricted shares, deferred shares, performance shares and performance unit awards. The 2012 Plan provides for the total number of awards

of common stock that may be issued over the term of the plan not to exceed 711,925 shares, (of which a maximum of 500,000 shares may be granted as incentive stock options). The aggregated number of awards that may be granted to an individual participant may not exceed 100,000 shares per year. Stock options and performance share and unit awards are granted at a price not less than 100% of the fair market value of the stock on the date of grant. The 2012 plan provides for accelerated vesting if there is a change of control as defined in the 2012 Plan. Equity awards generally vest over three to five years. Stock options expire no later than ten years from the date of grant. The 2012 Plan terminated in May 2022.

In May 2023, the Company's shareholders approved the 2023 Omnibus Stock Incentive Plan ("2023 Plan"). Under the terms of the 2023 Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and other consultants, who are not also an officer or employee, may only be granted nonqualified stock options. The 2023 Plan also permits the grant of stock appreciation rights ("SARs"), restricted share awards and units, deferred shares, performance shares and performance unit awards. The 2023 Plan provides for the total number of awards of common stock that may be issued over the term of the plan not to exceed 166,800 shares, (of which a maximum of 80,000 shares may be granted as incentive stock options). The aggregated number of awards that may be granted to an individual participant may not exceed 100,000 shares per year. Stock options and performance share and unit awards are granted at a price not less than 100% of the fair market value of the stock on the date of grant. The 2023 plan provides for accelerated vesting if there is a change of control as defined in the 2023 Plan. Equity awards generally vest over three to five years. Stock options expire no later than ten years from the date of grant.

The Company recognized stock-based compensation cost of \$103,000 and \$88,000 in 2025 and 2024, respectively. The Company also recognized related tax benefits of approximately \$22,000 in 2025 and \$23,000 in 2024. No stock options were granted in 2025 and 2024.

A summary of the Company's outstanding restricted shares under the 2012 Omnibus Plan as of December 31, 2025, and changes during the year then ended are as follows:

	Shares		Weighted-Average Grant Date Shares Fair Value
Nonvested at January 1, 2025	2,850	\$	14.93
New stock grants	-		-
Shares vested	(1,030)		11.60
Shares forfeited	-		-
Nonvested at December 31, 2025	1,820	\$	16.81

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the Company's outstanding restricted shares under the 2023 Omnibus Plan as of December 31, 2025, and changes during the year then ended are as follows:

	Shares		Weighted-Average Grant Date Shares Fair Value
Nonvested at January 1, 2025	26,940	\$	9.57
New stock grants	3,600		11.18
Shares vested	(9,520)		10.18
Shares forfeited	(240)		10.19
Nonvested at December 31, 2025	20,780	\$	9.56

As of December 31, 2025, there was \$180,000 of total unrecognized compensation cost related to the restricted shares that will be recognized over a weighted-average period of 3.05 years. Total intrinsic value of restricted shares vested in 2025 and 2024 was approximately \$118,000 and \$43,000, respectively.

13 EARNINGS PER SHARE ("EPS")

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute EPS under the two-class method:

	2025		2024	
	Income	Shares	Income	Shares
Net income as reported	\$ 4,083,000	-	\$ 3,322,000	-
Less earnings allocated to participating securities	(44,000)	-	(46,000)	-
Shares outstanding at year-end	-	2,107,967	-	2,194,686
Less weighted average shares of participating securities	-	(23,331)	-	(30,430)
Impact of weighting shares issued during the year	-	65,983	-	(1,057)
Used in basic EPS	4,039,000	2,150,619	3,276,000	2,163,199
Dilutive effect of outstanding stock options	-	-	-	-
Used in dilutive EPS	\$ 4,039,000	2,150,619	\$ 3,276,000	2,163,199

14 REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the tables below. Management believes, as of December 31, 2025 and 2024, that the Bank meets all capital adequacy requirements to which it is subject.

Financial institutions under the generally applicable capital rule are required to maintain a capital conservation buffer of greater than 2.5 percent in order to avoid restrictions on capital distributions and other payments. Federal banking regulations require institutions to meet their capital conservation buffer requirement with common equity tier 1 capital. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

The table below presents the Bank's capital ratios as of December 31, 2025 (dollar amounts in thousands):

	Amount of Capital Required					
	For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions			
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)	\$ 48,631	15.6%	\$ 25,007	8.0%	\$ 31,259	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$ 45,555	14.6%	\$ 18,755	6.0%	\$ 25,007	8.0%
CET1 Capital (to Risk-Weighted Assets)	\$ 45,555	14.6%	\$ 14,066	4.5%	\$ 20,318	6.5%
Tier 1 Capital (to Average Assets)	\$ 45,555	10.7%	\$ 17,058	4.0%	\$ 21,322	5.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below presents the Bank's capital ratios as of December 31, 2024 (dollar amounts in thousands):

	Amount of Capital Required					
			For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)	\$ 46,332	16.2%	\$ 22,837	8.0%	\$ 28,546	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$ 43,589	15.3%	\$ 17,128	6.0%	\$ 22,837	8.0%
CET1 Capital (to Risk-Weighted Assets)	\$ 43,589	15.3%	\$ 12,846	4.5%	\$ 18,555	6.5%
Tier 1 Capital (to Average Assets)	\$ 43,589	10.5%	\$ 16,541	4.0%	\$ 20,677	5.0%

The California Financial Code provides that a Company may not make a cash distribution to its shareholders in excess of the lesser of the Company's undivided profits or the Company's net income for its last three fiscal years less the amount of any distribution made to the Company's shareholders during the same period. In addition, the Company and the Bank may not pay dividends that would result in its capital levels being reduced below the minimum requirements shown above.

15 FAIR VALUE MEASUREMENTS

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

DEBT SECURITIES AVAILABLE FOR SALE

The fair values of debt securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities resulting in a level 2 classification.

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value on a recurring basis at December 31, 2025 and 2024:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
December 31, 2025	Assets Measured at Fair Value on a Recurring Basis			
Debt securities available-for-sale	\$ -	\$ 96,316,000	\$ -	\$ 96,316,000
December 31, 2024	Assets Measured at Fair Value on a Recurring Basis			
Debt securities available-for-sale	\$ -	\$ 114,522,000	\$ -	\$ 114,522,000

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

December 31, 2024	Fair Value Amount	Valuation Technique	Unobservable Input	Estimated Selling Costs
Collateral Dependent Loans	\$62,000	Third Party Appraisals	Selling Costs	15-20%

There were no collateral dependent loans at December 31, 2025.

16 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and

losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2025 and 2024, are summarized as follows (dollar amounts in thousands):

	Fair Value	Carrying	Fair Value	Carrying	Fair Value
Financial Assets					
Cash and cash equivalents	Level 1	\$ 31,736	\$ 31,736	\$ 19,618	\$ 19,618
Time deposits in other financial institutions	Level 1	100	100	100	100
Investment securities	Level 2	96,316	96,316	114,522	114,522
Net loans	Level 3	285,235	292,729	253,189	254,049
Federal home loan bank stock	Level 2	2,204	2,204	2,204	2,204
Financial Liabilities					
Deposits	Level 2	\$ 384,098	\$ 384,174	\$ 366,038	\$ 366,045
Borrowings	Level 2	4,350	4,350	4,344	4,344

This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.





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