Redwood Capital Bancorp

Audited Financial Statements

December 31, 2024

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Redwood Capital Bancorp

April 11, 2025

Dear Shareholders,

2024 was a good year for Redwood Capital Bancorp (“the Company”) and Redwood Capital Bank (“the Bank”). As we acknowledge the Bank’s eighteenth consecutive year of profitability, the Board of Directors and senior management remain encouraged by the Company’s continued success. With shareholder value and community service as core values, the Company’s strong performance and financial position continue to increase our ability to serve all of our stakeholders.

2024 was a milestone year representing two decades of steadfast commitment to you. This past year was particularly meaningful as we celebrated our history while continuing to grow and adapt in an ever-evolving financial landscape. Thanks to the dedication of our employees and the trust of our shareholders and customers, we delivered strong financial performance underscoring the resilience and vitality of our community banking model. As we look ahead, we remain focused on fostering relationships, embracing innovation and ensuring the Bank remains a cornerstone of financial strength and service in Humboldt County.

Last year, the Bank garnered six prestigious awards for its financial performance and customer service. The Bank received the distinction of being one of California’s *Super Premier Performing Banks* by *The Findley Reports* and the *5-Star* designation from Bauer Financial, Inc. These are the highest ratings available from both well-known and respected bank rating firms. Locally, readers of the *Times-Standard* voted Redwood Capital Bank as the “Best Bank”, “Best Place to Get a Loan” and “Best Real Estate Lender/Mortgage” in their annual *Best of the North Coast Reader’s Choice Awards*. In 2024, the Bank was again rated the top SBA Lender in Humboldt County. Additionally, the Bank received the following recognition from the Humboldt County Listeners’ Choice awards this past January: “Gold Medal Best Bank,” “Gold Medal Best Commercial Lender,” “Gold Medal Best Community Partner” and “Silver Medal Best Mortgage Lending.” We are grateful to be recognized by these reputable organizations and these distinctions are another demonstration of our financial strength and security.

At year-end 2024, the Company’s net income after taxes was $5.3 million, or $2.65 per common share, fully diluted. A strong balance sheet and expense control were key drivers for the Company’s earnings. Total loans declined by 1.51%. As a result of longer loan durations in the loan portfolio, the Loan Loss Reserves increased 3.84% year-over-year to $6.4 million. The Loan Loss Reserves as of year-end 2024 equaled 1.66% of total loans compared to 1.58% at year-end 2023. Deposits increased 2.45% for the year. In October of 2024, the Company reduced its holding company loan by $6 million. As a result, the Bank’s Leverage Capital Ratio decreased to 11.49% compared to 12.09% at year-end 2023, still exceeding the regulatory benchmark for well-capitalized institutions of 5.00%. The balance sheet remains very strong and is well positioned.

Maximizing shareholder value continues to be a top priority for the Company. In June of 2012, the Company paid its first quarterly cash dividend of $0.05 per share. As of third quarter 2024, the Company paid its 51st consecutive quarterly cash dividend, of $0.08 per share. As of year-end 2024, the Company’s stock was trading at $21.26 per share with a book value per share of $25.83.

On behalf of our staff, senior management team and Board of Directors, thank you for the trust you have placed in us and the relationships we have developed since 2004. Taking care of our shareholders and customers is paramount to how we do business. We look forward to seeing you in-person at our Annual Shareholder Meeting on Wednesday, May 21, 2025, at 6:00 p.m. at the Sequoia Conference Center, located at 901 Myrtle Avenue in Eureka.

Sincerely,

REDWOOD CAPITAL BANCORP

John E. Dalby
President and CEO

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INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
Redwood Capital Bancorp and Subsidiary
Eureka, California

Opinion

We have audited the accompanying consolidated financial statements of Redwood Capital Bancorp and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2024, and 2023, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Redwood Capital Bancorp and Subsidiary, as of December 31, 2024, and 2023, and the results of their operations, comprehensive income 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Redwood Capital Bancorp and Subsidiary, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 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 Redwood Capital Bancorp and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 judgement made by a reasonable user based on the financial statements.

The Shareholders and
Board of Directors
Redwood Capital Bancorp and Subsidiary

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Redwood Capital Bancorp and Subsidiary's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Redwood Capital Bancorp and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Richardson & Company, LLP

March 24, 2025

REDWOOD CAPITAL BANCORP
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2024 and 2023

	2024	2023
ASSETS		
Cash and due from banks	$ 7,875,809	$ 9,371,495
Federal funds sold	26,748,000	9,930,000
Interest-bearing deposits in other financial institutions	12,094,922	11,039,245
Cash and cash equivalents	46,718,731	30,340,740
Investment securities available-for-sale, at fair value	74,092,633	74,481,931
Mortgages held for sale		
Loans, net of allowance of $6,356,837 and $6,121,650 as of December 31, 2024 and 2023, respectively	376,280,429	382,302,539
Premises and equipment, net	8,216,200	8,464,863
Cash surrender value of life insurance	12,972,974	12,558,634
Mortgage servicing rights, at fair value	1,730,258	1,846,500
Accrued interest receivable and other assets	11,793,151	11,444,876
TOTAL ASSETS	$ 531,804,376	$ 521,440,083
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Non interest-bearing	$ 134,145,934	$ 135,327,613
Interest-bearing	337,562,524	325,106,864
Total deposits	471,708,458	460,434,477
Borrowings	5,000,000	11,000,000
Accrued interest payable and other liabilities	4,523,557	4,296,973
TOTAL LIABILITIES	481,232,015	475,731,450
Commitments and contingencies (see accompanying notes)		
SHAREHOLDERS' EQUITY		
Common stock, no par value; 30,000,000 shares authorized; 1,958,253 and 1,939,192 shares issued and outstanding in 2024 and 2023	13,412,307	13,137,268
Additional paid-in capital	396,723	301,452
Retained earnings	43,226,809	38,578,904
Accumulated other comprehensive loss	(6,463,478)	(6,308,991)
TOTAL SHAREHOLDERS' EQUITY	50,572,361	45,708,633
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 531,804,376	$ 521,440,083

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

REDWOOD CAPITAL BANCORP
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2024 and 2023

	2024	2023
INTEREST INCOME		
Interest and fees on loans	$ 19,646,245	$ 18,367,127
Interest on taxable investment securities	1,943,953	1,813,905
Dividend income	265,260	204,800
Interest on federal funds sold	1,374,066	748,914
Interest on deposits in banks	544,952	506,593
Total interest income	23,774,476	21,641,339
INTEREST EXPENSE		
Interest on deposits	4,523,425	1,450,359
Interest on other borrowings	637,116	651,717
Total interest expense	5,160,541	2,102,076
NET INTEREST INCOME	18,613,935	19,539,263
Credit loss expense	232,933	57,501
NET INTEREST INCOME AFTER CREDIT LOSS EXPENSE	18,381,002	19,481,762
OTHER INCOME		
Service charges and fees on deposit accounts	1,438,431	1,442,689
Mortgage banking revenue, net	390,661	431,059
Other income	1,374,841	2,314,003
Total other income	3,203,933	4,187,751
OTHER EXPENSES		
Salaries and employee benefits	8,132,814	8,100,632
Occupancy and equipment	1,439,786	1,628,168
Other	4,786,368	4,194,445
Total other expenses	14,358,968	13,923,245
INCOME BEFORE PROVISION FOR INCOME TAXES	7,225,967	9,746,268
Provision for income taxes	1,954,131	2,702,470
NET INCOME	$ 5,271,836	$ 7,043,798
NET INCOME PER SHARE	$ 2.70	$ 3.61
NET INCOME PER SHARE – ASSUMING DILUTION	$ 2.65	$ 3.58

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

REDWOOD CAPITAL BANCORP
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2024 and 2023

	2024	2023
NET INCOME	$ 5,271,836	$ 7,043,798
Other comprehensive income, net of tax		
Available for sale securities		
Unrealized (losses) gains arising during the year, net of tax benefit/expense of ($68,830) and $546,062 as of 2024 and 2023, respectively	(154,487)	1,344,138
Total other comprehensive income	(154,487)	1,344,138
COMPREHENSIVE INCOME	$ 5,117,349	$ 8,387,936

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

REDWOOD CAPITAL BANCORP
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2024 and 2023

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balance at January 01, 2023	1,977,596	$ 13,846,227	$ 291,738	$ 32,159,216	$ (7,653,129)	$ 38,644,052
Cash dividends on common stock ($0.32 per share)				(624,110)		(624,110)
Redemption and retirement of stock	(65,454)	(1,158,994)				(1,158,994)
Restricted stock expense			459,749			459,749
Restricted stock vested	27,050	450,035	(450,035)			
Net income				7,043,798		7,043,798
Other comprehensive gain, net of taxes					1,344,138	1,344,138
Balance at December 31, 2023	1,939,192	13,137,268	301,452	38,578,904	(6,308,991)	45,708,633
Cash dividends on common stock ($0.32 per share)				(623,931)		(623,931)
Redemption and retirement of stock	(8,989)	(193,497)				(193,497)
Restricted stock expense			563,807			563,807
Restricted stock vested	28,050	468,536	(468,536)			
Net income				5,271,836		5,271,836
Other comprehensive loss, net of taxes					(154,487)	(154,487)
Balance at December 31, 2024	1,958,253	$ 13,412,307	$ 396,723	$ 43,226,809	$ (6,463,478)	$ 50,572,361

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

REDWOOD CAPITAL BANCORP
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2024 and 2023

	2024	2023
OPERATING ACTIVITIES		
Net income	$ 5,271,836	$ 7,043,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Credit loss expense	232,933	57,501
Deferred loan origination fees and costs, net	69,485	(85,077)
Depreciation and amortization	502,060	544,625
Loss on sale of assets		373,556
Change in mortgage servicing rights carried at fair value	116,242	85,490
Stock-based compensation expense	563,807	459,749
Earnings on cash surrender value of life insurance	(386,821)	(354,860)
Net change in accrued interest receivable and other assets	98,555	(719,317)
Net change in accrued interest payable and other liabilities	226,584	223,579
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,694,681	7,629,044
INVESTING ACTIVITIES		
Purchase of available-for-sale investment securities	(9,854,696)	(3,968,897)
Proceeds from maturity of available-for-sale investment securities	4,000,000	
Proceeds from paydowns on mortgage-backed securities	5,962,808	5,521,974
Purchase of Federal Home Loan Bank stock	(382,000)	(520,700)
Purchases of life insurance	(27,519)	(27,519)
Loan originations and payments, net	5,719,692	(8,757,686)
Proceeds from sale of premises and equipment		649,682
Purchases of premises and equipment	(191,528)	(3,297,304)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	5,226,757	(10,400,450)
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	11,273,981	(11,000,132)
Repurchase of common stock	(193,497)	(1,158,994)
Repayments of borrowings	(6,000,000)	
Dividends paid on common stock	(623,931)	(624,110)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	4,456,553	(12,783,236)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,377,991	(15,554,642)
Cash and cash equivalents at beginning of year	30,340,740	45,895,382
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 46,718,731	$ 30,340,740

REDWOOD CAPITAL BANCORP
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2024 and 2023

	2024	2023
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 4,857,896	$ 2,002,701
Income taxes	2,116,440	3,360,467
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES		
Net change in unrealized gains/losses on available-for-sale investment securities	$ (219,317)	$ 1,908,202
Net change in deferred income taxes on unrealized gains and losses on securities available-for-sale	64,830	(564,064)

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business: Redwood Capital Bancorp (the Company), formed in 2007, is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Redwood Capital Bank (the Bank). The Bank was incorporated on November 3, 2003, and commenced operations on March 24, 2004. The Bank is subject to regulation, supervision, and regular examination by the California Department of Financial Protection and Innovation (DFPI) and the Federal Deposit Insurance Corporation (FDIC). The regulations of these agencies govern most aspects of the Bank's business. The financial statements of the Company are prepared in conformity with generally accepted accounting principles and general practices within the banking industry. The following is a summary of the significant accounting and reporting policies used in preparing these financial statements.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and the Bank. All material intercompany accounts and transactions have been eliminated.

Nature of Operations: The Bank provides commercial, industrial, agricultural, residential and personal credit and other banking services through its branches located in Eureka, Fortuna, and Arcata, California.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

The determination of the adequacy of the allowance for loan 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 Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company 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. 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.

Debt Securities: Debt securities are classified as held-to-maturity and carried at amortized cost when the Company has both the positive intent and ability to hold those debt securities to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield without anticipated prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A debt security is placed on nonaccrual status at the time principal or interest becomes 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income.

Nearly all the mortgage-backed securities consist of residential securities held by the Company and issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have long history of no credit losses.

Allowance for Credit Losses – Available-For-Sale Securities: For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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

Accrued interest receivable on available-for-sale debt securities totaled $82,681 on December 31, 2024, and 2023, and is excluded from the estimate of credit losses.

Mortgages Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans: Loans are stated at the amount of unpaid principal, including unamortized premiums, reduced by net deferred loan fees. Premiums are recognized over the estimated life of the loan as yield adjustments. Loan origination fees, net of direct origination costs, are deferred and recognized as an adjustment of the yield on the related loan. Amortization of net deferred loan fees is discontinued when the loan is placed on nonaccrual status. Interest on loans is accrued and credited to income based on the principal amount outstanding.

Loans are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well-secured and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is classified as nonaccrual. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms, of interest and principal.

While a loan is classified as nonaccrual and the future collectability of the recorded balance is doubtful, collections of interest and principal are generally applied as a reduction to the principal outstanding. When the future collectability of the recorded balance is expected, interest income may be recognized on a cash basis. In the case where a nonaccrual loan had been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

Allowance for Credit Losses - Loans: The allowance for credit losses is a valuation account that is deducted from or added to the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

are made for the differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rate, property values, or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified portfolio segments and measures the allowance for credit losses using the regression method with analysis of historical loss rates and economic metrics, and qualified look forward.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral as of the reporting date, adjusted for selling costs as appropriate.

When the discounted cash flow method is used to determine the allowance for credit losses, management does not adjust the effective interest rate used to discount expected cash flow to incorporate expected prepayments.

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

<u>Allowance for Credit Losses on Off-Balance Sheet Credit Exposures</u>: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur, and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The credit loss expense for off-balance sheet credit exposures was $9,850 and $9,282 for the years ended December 31, 2024, and 2023, respectively.

<u>Leases</u>: Leases are classified as operating or finance leases as of the lease commencement date. The Company leases certain bank branch buildings, as discussed in Note Q. The Company records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and an impairment of the right-of-use asset, if applicable. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal. The Company does not record leases on the consolidated balance sheets that are classified as short term (less than one year).

At lease inception, the Company determines the lease term by considering the minimum lease term and all optional renewal periods that the Company is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Company's leases do not contain residual value guarantees or material variable lease payments that will impact the Company's ability to pay dividends or cause the Company to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in occupancy and equipment expense on the Company's consolidated statements of operations. The Company's variable lease expense includes rent escalators that are based on market conditions. The amortization of the right-to-use asset arising from financing leases is expensed through occupancy and equipment expense and the interest on the related lease liability is expensed through interest expense on borrowings on the Company's consolidated statements of income. The Company does not currently have any financing leases.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. The provision for depreciation and amortization is computed principally by the straight-line method over estimated useful lives of the related assets.

Investment in Federal Home Loan Bank Stock: As a member of the Federal Home Loan Bank (FHLB) System, the Bank is required to maintain an investment in capital stock of the FHLB. The investment exceeds the minimum requirement at December 31, 2024 and 2023. The investment is stated at cost in the accompanying balance sheets and is reported as part of other assets.

Mortgage Servicing Rights: When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in mortgage banking revenue. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are included with mortgage banking revenue, net on the income statement. The fair values of servicing rights are subjected to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Servicing fee income, which is reported on the income statement as mortgage banking revenue, net, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned.

Retirement Plans: Retirement plan expense is the net of service and interest cost, and amortization of gains and losses not immediately recognized. Employee 401(k) expense is the amount of matching contributions. Retirement plan expense allocates the benefits over years of service.

Income Taxes: Provisions for income taxes are based on amounts reported in the statements of operations (after exclusion of non-taxable income such as interest on state and municipal securities) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Deferred taxes are computed using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized for deductible temporary differences and tax credit carryforwards, and then a valuation allowance is established to reduce that deferred tax asset if it is “more likely than not” that the related tax benefits may not be realized.

Net Income Per Share of Common Stock: Net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year, after giving retroactive effect to stock dividends and splits. Net income per share assuming dilution is computed similar to net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares for restricted stock grants had been issued. Included in the denominator is the dilutive effect of stock options computed under the treasury method for the unrecognized compensation costs for the restricted stock grants.

Advertising: Advertising costs are charged to operations in the year incurred.

Off-Balance-Sheet Financial Instruments: In the ordinary course of business the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation Accounting: Compensation cost is recognized for restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. The market price of the Company's common stock at the date of grant is used as fair value for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize forfeitures as they occur.

Operating Segments: Reportable segments are based on products and services, geography, legal structure, management structure and any other manner in which management desegregates a company for making operating decisions and assessing performance. The Company has determined that its business is comprised of a single operating segment.

Cash and Cash Equivalents: For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and due from banks," "Federal funds sold" and "interest-bearing deposits in other financial institutions."

Reclassifications: Certain amounts reported in previous consolidated financial statements have been reclassified and recalculated to conform to the presentation in this report. These reclassifications did not affect previously reported amounts of net income, total assets, or total shareholders' equity.

Subsequent events: The Company has evaluated subsequent events for recognition and disclosure through March 24, 2025, which is the date the financial statements were available to be issued.

New Pronouncements: ASU 2023-09, *Improvements to Income Tax Disclosures*, is effective for fiscal years beginning after December 15, 2024. This ASU was issued to enhance the transparency and decision usefulness of income tax disclosures, primarily related to the rate reconciliation and income taxes paid information. The adoption of this accounting guidance is not expected to have a material impact on the Company's consolidated financial statements but will result in the expansion of the income tax disclosures.

NOTE B – RESTRICTIONS ON CASH AND DUE FROM BANKS

Cash and due from banks include amount the Bank is required to maintain to meet certain average reserve and compensating balance requirements of the Federal Reserve Bank. The Federal Reserve Bank suspended the reserve requirement during the COVID-19 pandemic. Consequently, the Bank did not have a reserve requirement with the Federal Reserve Bank at December 31, 2024 and 2023.

NOTE C – INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2024				
Securities Available-for-Sale				
U.S. Treasury Notes	$ 18,767,907		$ (1,194,516)	$ 17,573,391
U.S. government agency securities	4,997,050	$ 2,334	(164,819)	4,834,565
Small Business Adminstration Securities	1,907,829		(49,640)	1,858,189
Mortgage-backed securities	24,815,971		(2,255,729)	22,560,242
Municipal securities	10,817,728		(4,384,161)	6,433,567
Collateralized mortgage obligations	21,962,012	33,556	(1,162,889)	20,832,679
Total	$ 83,268,497	$ 35,890	$ (9,211,754)	$ 74,092,633
December 31, 2023				
Securities Available-for-Sale				
U.S. Treasury Notes	$ 22,658,199		$ (1,536,206)	$ 21,121,993
U.S. government agency securities	3,999,822		(233,633)	3,766,189
Small Business Adminstration Securities	2,396,888	$ 1,066	(54,088)	2,343,866
Mortgage-backed securities	27,950,446	4,687	(4,051,165)	23,903,968
Municipal securities	10,835,877		(2,035,536)	8,800,341
Collateralized mortgage obligations	15,597,246	64,599	(1,116,271)	14,545,574
Total	$ 83,438,478	$ 70,352	$ (9,026,899)	$ 74,481,931

The maturities of investment securities at December 31, 2024 were as follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
Due within one year	$ 1,834,114	$ 1,675,601
Due from one year to five years	23,657,047	22,187,829
Due from five years to ten years	9,574,576	8,620,220
Due after ten years	48,202,760	41,608,983
	$ 83,268,497	$ 74,092,633

The amortized cost and fair value of mortgage-backed securities and collateralized mortgage obligations are presented by contractual maturity in the preceding table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

There were no sales of investment securities available-for-sale during 2024 and 2023.

At December 31, 2024 and 2023, there were no holding of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders equity.

Investment securities with an amortized cost of $27,715,262 and a fair value of $25,426,371 as of December 31, 2024, were pledged to secure public deposits. Investment securities with an amortized cost of $20,723,265 and a fair value of $19,038,851 as of December 31, 2023, were pledged to secure public deposits.

NOTE C – INVESTMENT SECURITIES (Continued)

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2024 and 2023.

	2024			
	Less than 12 months		More than 12 Months	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury Notes			$17,573,391	$ (1,194,516)
U.S. government agency securities			3,835,058	(164,819)
Small Business Administration securities	$ 672,896	$ (3,869)	1,154,041	(45,771)
Mortgage-backed securities	671,454	(12,753)	19,760,356	(4,371,408)
Municipal securities			8,561,999	(2,255,729)
Collateralized mortgage obligations	9,155,703	(158,982)	8,273,969	(1,003,907)
	$10,500,053	$ (175,604)	$59,158,814	$ (9,036,150)

	2023			
	Less than 12 months		More than 12 Months	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury Notes			$21,121,992	$ (1,536,206)
U.S. government agency securities			3,766,190	(233,633)
Small Business Administration securities	$ 1,186,200	$ (38,750)	724,795	(15,338)
Mortgage-backed securities			23,059,948	(4,051,165)
Municipal securities	863,615	(5,323)	7,936,726	(2,030,213)
Collateralized mortgage obligations	1,820,725	(18,406)	9,719,934	(1,097,865)
	$ 3,870,540	$ (62,479)	$66,329,584	$ (8,964,420)

As of December 31, 2024, the Company's security portfolio consisted of 134 securities, 127 of which were in an unrealized loss position. As of December 2023, the Company's security portfolio consisted of 126 securities, 118 of which were in an unrealized loss position. The majority of unrealized losses, other than in U.S. Government and its agencies, are related to the Company's mortgage-backed and municipal securities, as discussed below.

At December 31, 2024 and 2023, the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies and the municipal securities held by the Company were of high credit quality (rated AA or higher). Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2024 and 2023.

NOTE D – LOANS, NET

Major classifications of loans at December 31 are summarized as follows:

	2024	2023
Commercial real estate, including unamortized purchase premiums of $75,282 in 2024 and $225,090 in 2023	$ 285,838,219	$ 293,976,692
Commercial loans, including unamortized purchase premiums of $312,425 in 2024 and $469,269 in 2023	40,455,198	41,728,944
Construction and land loans	7,705,585	9,253,312
Residential real estate	20,730,303	18,588,678
Loans to individuals	24,896,291	21,224,056
Agricultural	3,067,084	3,777,406
	382,692,680	388,549,088
Net deferred loan fees and costs	(55,414)	(124,899)
Allowance for loan losses	(6,356,837)	(6,121,650)
	$ 376,280,429	$ 382,302,539

The Company receives fees for servicing retained on loans sold. Loans being serviced by the Company for others totaled approximately $184,437,925 and $191,357,271 for the years ended December 31, 2024, and 2023, respectively.

The maturity and repricing of the loan portfolio is as follows at December 31:

	2024	2023
Fixed rate loan maturities		
Three months or less	$ 123,820	$ 59,840
Over three months to twelve months	3,999,094	223,519
Over one year to five years	9,729,203	10,331,803
Over five years to fifteen years	13,263,633	18,564,704
Over fifteen years	8,473,267	4,217,317
Floating rate loans repricing		
Quarterly or more frequently	137,089,121	157,231,859
Quarterly to annual frequency	27,805,559	19,356,253
One to five years frequency	156,178,313	154,148,474
Five to fifteen years frequency	24,430,340	24,070,186
Non-accrual loans	1,600,330	345,133
	$ 382,692,680	$ 388,549,088

NOTE E – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY

Allowance for Credit Losses: The allowance for credit losses is maintained at a level which, in the opinion of management, is adequate to absorb probable losses in the loan portfolio. The Company’s methodology for assessing the appropriateness of the allowance consists of three key elements, which include historical losses, qualitative adjustments, and forward-looking data. Management determines the adequacy of the allowance upon reviews of individual loans, using relevant available information, from internal and external sources, relating to past events adjusted for current conditions, and reasonable and supportable forecasts.

NOTE E – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (Continued)

The Company has adopted the Average Charge-off method that calculates an estimate of losses primarily based on past experience but applied prospectively over the remaining life of the loan. The Company used an average of quarterly historical loss rates from 2000 to the third quarter of 2024 in the calculation. Qualitative factors are the component of the allowance is management's best estimate of the probable impact that various qualitative factors may have on the loan portfolio. It is not allocated to specific loans or groups of loans, but rather is intended to absorb losses caused by several factors, including changes in the nature and volume of the portfolio, changes in the terms of loans, changes in lending policies and procedures, underwriting collection practices, changes in international, national, regional, and local economic and business conditions, changes in the experience and ability of lending management and staff, changes in the volume and severity of past due loans, changes in the volume of non-accrual loans, changes in the volume and severity of adversely classified or graded loans, changes in the quality of the Company's loan review system, changes in the value of underlying collateral, the existence and effect of any concentrations of credit, changes in the level of concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements. Forward-looking adjustments are calculated based on the Federal Open Market Committee (FOMC) most recent projections of Real Gross Domestic Product and Unemployment Rate. The forward-looking adjustments are applied to future cash flows for four quarters before reverting to historical loss rates. The forward-looking adjustments resulted in a total reduction of 16 basis points for all portfolio segments. Prepayment assumptions were based on the average prepayment speeds during the past 15 years. Prepayment speeds ranged from no prepayment assumption to 25%, depending on the collateral type. These various components are factored into a single allowance analysis.

The expected loss rates are applied to discounted cash flows over the remaining contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower, or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below:

Commercial Real Estate—These loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except construction loans. Adverse economic developments or an overbuilt market impact commercial real estate project and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

Commercial—Commercial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

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

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

NOTE E – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (Continued)

Installment and other loans to individuals—The installment loan portfolio is comprised of a large number of small loans scheduled to be amortized over a specific period. Most installment loans are made directly for consumer purchases, but business loans granted for purchase of heavy equipment or industrial vehicles may also be included.

Agriculture—Loans secured by agricultural land and production are especially vulnerable to two risk factors that are largely outside the control of the Company and borrowers, commodity prices and weather conditions.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. The Board of Directors review the adequacy of the allowance quarterly, including consideration of current economic conditions, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, or past loan experience and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted.

In addition, the Company's primary regulators, the FDIC and the DFPI, review the adequacy of the allowance as an integral part of their examination process. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

The following table summarizes activity related to the allowance for credit losses by loan portfolio segment and the allocation of the allowance for credit losses by loan portfolio segment and by impairment methodology for the years ended December 31, 2024 and 2023:

	Commercial Real Estate	Commercial	Construction and Land	Residential Real Estate	Individual	Agriculture	Unallocated	Total
2024								
Allowance for credit losses:								
Beginning balance	$ 4,871,272	$ 271,795	$ 188,728	$ 273,984	$ 430,172	$ 85,699		$ 6,121,650
Charge-offs								
Recoveries		12,104						12,104
Credit Loss Expense	138,038	(146,941)	24,387	41,214	172,182	(5,797)		223,083
Ending balance	$ 5,009,310	$ 136,958	$ 213,115	$ 315,198	$ 602,354	$ 79,902	$ -	$ 6,356,837

	Commercial Real Estate	Commercial	Construction and Land	Residential Real Estate	Individual	Agriculture	Unallocated	Total
2023								
Allowance for credit losses:								
Beginning balance, prior to adoption of ASC 326	$ 4,093,786	$ 512,539	$ 171,293	$ 246,681	$ 292,366	$ 59,251	$ 599,836	$ 5,975,752
Impact of adopting ASC 326	663,826	(273,816)	60,721	8,926	121,294	18,885	(599,836)	
Charge-offs								
Recoveries		13,359		66,793	8,245			88,397
Credit Loss Expense	113,660	19,713	(43,286)	(48,416)	8,267	7,563		57,501
Ending balance	$ 4,871,272	$ 271,795	$ 188,728	$ 273,984	$ 430,172	$ 85,699	$ -	$ 6,121,650

NOTE E – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (Continued)

Credit Quality of Loans

The Company assigns a risk rating to loans over a certain threshold and periodically performs detailed reviews of all such loans to identify credit risks and to assess the overall collectability of the portfolio. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. These risk ratings can be grouped into the following major categories, defined as follows:

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

Watch List: A watch list loan has significant weaknesses resulting from performance trends or management concerns.

Special Mention: A special mention loan is currently protected but is weak due to negative trends in the financial statements of the borrower and current cash flow problems, among other criteria. Special mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard: A substandard loan has well-defined weaknesses where a payment default and/or a loss is possible, but not yet probable. Cash flow is insufficient to service the debt, with prospects that the condition is permanent. Loans classified as substandard are inadequately protected by the current net worth and repayment capacity of the borrower and there is a likelihood that collateral will have to be liquidated and/or guarantor called upon to repay the debt.

Doubtful: Loans classified as doubtful have characteristics of those classified as substandard but available information suggests it is unlikely that the loan will be repaid in its entirety. Cash flow is insufficient to service the debt. If the current material adverse trends continue, it is unlikely the borrower will have the ability to meet the terms of the loan agreement. It may be difficult to project the exact amount of loss, but the probability of some loss is greater than 50%.

Loss: Loans classified as loss have characteristics those classified as of doubtful, but the loan will not be repaid in full. Debt service coverage clearly reflects the borrower's inability to service the debt. The borrower cannot generate sufficient cash flow to cover fixed charges. All near-term and long-term trends concerning cash flow and earnings are negative. Collateral and guarantees provide no support.

The following tables show the loan portfolio allocated by the amortized cost basis by origination year as of December 31, 2024 and 2023:

NOTE E – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (Continued)

	Term Loans Amortized Cost Basis by Orginination Year								
As of December 31, 2024	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Commercial Real Estate:									
Risk rating:									
Pass	$ 20,797,563	$ 18,945,905	$ 52,612,889	$ 35,178,955	$ 33,822,280	$ 99,924,135			$ 261,281,727
Watch			10,288,561	6,745,320		2,480,507			19,514,388
Special Mention						-			-
Substandard		3,703,554				1,338,550			5,042,104
Total Commercial Real Estate loans:	$ 20,797,563	$ 22,649,459	$ 62,901,450	$ 41,924,275	$ 33,822,280	$ 103,743,192	$ -	$ -	$ 285,838,219
Commercial Real Estate loans:									
Current Period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial:									
Risk rating:									
Pass	$ 5,743,604	$ 4,713,009	$ 4,565,526	$ 6,073,050	$ 333,970	$ 9,503,687	$ 4,644,214		$ 35,577,060
Watch					92,864		200,000		292,864
Special Mention				1,569,483					1,569,483
Substandard						2,916,041	99,750		3,015,791
Total Commercial:	$ 5,743,604	$ 4,713,009	$ 4,565,526	$ 7,642,533	$ 426,834	$ 12,419,728	$ 4,943,964	$ -	$ 40,455,198
Commercial loans:									
Current Period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction and Land loans:									
Risk rating:									
Pass	$ 2,146,414	$ 1,303,179	$ 1,959,494	$ 327,786	$ 865,050	$ 1,103,662			$ 7,705,585
Watch									
Special Mention									
Substandard									
Total Construction and Land:	$ 2,146,414	$ 1,303,179	$ 1,959,494	$ 327,786	$ 865,050	$ 1,103,662	$ -	$ -	$ 7,705,585
Construction and Land loans:									
Current Period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Residential:									
Risk rating:									
Pass	$ 4,418,020	$ 3,116,229	$ 3,137,376	$ 1,792,774	$ 1,340,715	$ 5,314,282	$ 634,526		$ 19,753,922
Watch									
Special Mention						492,857			492,857
Substandard						483,524			483,524
Total Residential:	$ 4,418,020	$ 3,116,229	$ 3,137,376	$ 1,792,774	$ 1,340,715	$ 6,290,663	$ 634,526	$ -	$ 20,730,303
Residential loans:									
Current Period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans to Individuals:									
Risk rating:									
Pass	$ 511,394	$ 202,508	$ 439,948	$ 36,740	$ 33,050	$ 145,566	$ 22,272,505	$ 1,254,580	$ 24,896,291
Watch									
Special Mention									
Substandard									
Total Loans to Individuals:	$ 511,394	$ 202,508	$ 439,948	$ 36,740	$ 33,050	$ 145,566	$ 22,272,505	$ 1,254,580	$ 24,896,291
Loans to Individuals:									
Current Period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Agriculture:									
Risk rating:									
Pass						$ 2,965,084	$ 102,000		$ 3,067,084
Watch									
Special Mention									
Substandard									
Total Agriculture:	$ -	$ -	$ -	$ -	$ -	$ 2,965,084	$ 102,000	$ -	$ 3,067,084
Agriculture loans:									
Current Period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

NOTE E – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (Continued)

	Term Loans Amortized Cost Basis by Orgination Year								
As of December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Commercial Real Estate:									
Risk rating:									
Pass	$ 25,177,158	$ 64,497,237	$ 42,121,747	$ 35,277,561	$ 21,426,795	$ 99,687,684			$ 288,188,182
Watch			1,261,431		258,576	1,544,916			3,064,923
Special Mention						1,127,732			1,127,732
Substandard					820,048	775,807			1,595,855
Total Commercial Real Estate loans:	$ 25,177,158	$ 64,497,237	$ 43,383,178	$ 35,277,561	$ 22,505,419	$ 103,136,139	$ -	$ -	$ 293,976,692
Commercial Real Estate loans:									
Current Period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial:									
Risk rating:									
Pass	$ 5,429,391	$ 4,074,946	$ 8,215,509	$ 464,784	$ 735,933	$ 9,958,864	$ 8,958,952		$ 37,838,379
Watch							730,384		730,384
Special Mention									
Substandard					14,724	3,045,457	100,000		3,160,181
Total Commercial:	$ 5,429,391	$ 4,074,946	$ 8,215,509	$ 464,784	$ 750,657	$ 13,004,322	$ 9,789,336	$ -	$ 41,728,944
Commercial loans:									
Current Period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction and Land loans:									
Risk rating:									
Pass	$ 3,673,499	$ 3,115,990	$ 353,746	$ 935,999	$ 679,860	$ 494,218			$ 9,253,312
Watch									
Special Mention									
Substandard									
Total Construction and Land:	$ 3,673,499	$ 3,115,990	$ 353,746	$ 935,999	$ 679,860	$ 494,218	$ -	$ -	$ 9,253,312
Construction and Land loans:									
Current Period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Residential:									
Risk rating:									
Pass	$ 3,167,255	$ 3,331,264	$ 1,859,189	$ 1,396,671	$ 1,233,870	$ 5,812,475	$ 686,338		$ 17,487,061
Watch						786,075			786,075
Special Mention						57,829			57,829
Substandard						257,713			257,713
Total Residential:	$ 3,167,255	$ 3,331,264	$ 1,859,189	$ 1,396,671	$ 1,233,870	$ 6,914,091	$ 686,338	$ -	$ 18,588,678
Residential loans:									
Current Period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans to Individuals:									
Risk rating:									
Pass	$ 255,812	$ 470,507	$ 45,176	$ 92,140	$ 5,380	$ 226,767	$ 18,295,799	$ 1,832,475	$ 21,224,056
Watch									
Special Mention									
Substandard									
Total Loans to Individuals:	$ 255,812	$ 470,507	$ 45,176	$ 92,140	$ 5,380	$ 226,767	$ 18,295,799	$ 1,832,475	$ 21,224,056
Loans to Individuals:									
Current Period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Agriculture:									
Risk rating:									
Pass	$ -	$ -	$ -	$ -	$ -	$ 3,678,094	$ 99,312		$ 3,777,406
Watch									
Special Mention									
Substandard									
Total Agriculture:	$ -	$ -	$ -	$ -	$ -	$ 3,678,094	$ 99,312	$ -	$ 3,777,406
Agriculture loans:									
Current Period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

NOTE E – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (Continued)

The following table summarizes the Company's past due loans and non-accrual loans by loan portfolio segment as of December 31, 2024, and 2023:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Nonaccrual	Current	Total Loans
2024							
Commercial real estate		$ 798,183		$ 798,183	$ 438,380	$ 284,601,656	$ 285,838,219
Commercial	$ 30,000	790,226		820,226		39,634,972	40,455,198
Construction and land						7,705,585	7,705,585
Residential	276,475	217,781		494,256	1,161,950	19,074,097	20,730,303
Individual	174,500			174,500		24,721,791	24,896,291
Agriculture						3,067,084	3,067,084
Total	$ 480,975	$ 1,806,190		$ 2,287,165	$ 1,600,330	$ 378,805,185	$ 382,692,680

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Nonaccrual	Current	Total Loans
2023							
Commercial real estate						$ 293,976,692	$ 293,976,692
Commercial		$ 247,302		$ 247,302		41,481,642	41,728,944
Construction and land						9,253,312	9,253,312
Residential	$ 1,012,070	500,932		1,513,002	$ 345,133	16,730,543	18,588,678
Individual	174,500			174,500		21,049,556	21,224,056
Agriculture						3,777,406	3,777,406
Total	$ 1,186,570	$ 748,234		$ 1,934,804	$ 345,133	$ 386,269,151	$ 388,549,088

There were no accruing loans past due 90 days or more at December 31, 2024 and 2023.

The following table presents the amortized cost basis of collateral-dependent loans by class of loan as of December 31, 2024.

December 31, 2024	Secured by Real Estate
Commercial	$ 230,069
Commercial real estate	232,185
Residential	438,278
Total:	$ 900,532

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. The Bank made no modifications to borrowers in financial distress during 2024 and 2023.

NOTE E – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (Continued)

Purchased and/or sold loans

The Company applies the above risk and review process to loans purchased and sold. The following table presents loans purchased and/or sold during the year by portfolio segment:

		Residential Real Estate	Total
2024			
	Sales	$ 6,779,908	$ 6,779,908
2023			
	Sales	$ 5,151,930	$ 5,151,930

Loans sold in both years 2024 and 2023 are loans sold with servicing retained.

NOTE F – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

	2024	2023
Land	$ 3,002,490	$ 3,002,490
Building and improvements	8,837,640	8,709,448
Furniture, fixtures and equipment	2,304,879	2,266,126
	14,145,009	13,978,064
Less: Accumulated depreciation	(5,928,809)	(5,513,201)
	$ 8,216,200	$ 8,464,863

Depreciation and amortization included in occupancy expense totaled $440,193 and $468,084 in 2024 and 2023, respectively.

NOTE G – MORTGAGE SERVICING RIGHTS

The following table presents the changes in the Bank's mortgage servicing rights for the years ended December 31:

	2024	2023
Fair value, beginning of year	$ 1,846,500	$ 1,931,990
Change for new mortgage servicing rights capitalized	(64,897)	(95,839)
Change in fair value due to changes in model inputs and assumptions	(51,345)	10,349
Fair value, end of year	$ 1,730,258	$ 1,846,500
Balance of mortgage loans serviced for others	$ 184,437,925	$ 191,357,271
Mortgage servicing rights as a percentage of serviced loans	0.938%	0.965%

NOTE G – MORTGAGE SERVICING RIGHTS (Continued)

The amounts of contractually specified servicing fees, late fees and ancillary fees earned, recorded in mortgage banking revenue on the consolidated statements of operations, were $471,970 and $489,142 for the years ended December 31, 2024, and 2023, respectively. Changes in fair value are also included in mortgage banking revenue on the consolidated statements of operations.

The fair value of mortgage servicing rights is determined using a discounted cash flow model. In order to determine the fair value of the mortgage servicing rights, the present value of expected future cash flows is estimated. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income. Key assumptions used in measuring the fair value of mortgage servicing rights include a discount rate of 10.00% and 10.50% for the years ended December 31, 2024 and 2023, respectively. A proprietary market implied prepayment model is used by the independent valuation group.

The expected life of the loans can vary from management's estimates due to prepayments by borrowers, especially when rates fall. Prepayments in excess of management's estimates would negatively impact the recorded value of the mortgage servicing rights. The value of the mortgage servicing rights is also dependent upon the discount rate used in the model, which is based on current market rates. A significant increase in the discount rate would reduce the value of mortgage servicing rights. The sensitivities surrounding mortgage servicing rights are expected to have an immaterial impact on fair value.

NOTE H – INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following at December 31:

	2024	2023
Negotiable order of withdrawal (NOW)	$ 117,608,433	$ 128,946,272
Savings and money markets	149,465,801	174,405,138
Time	70,488,290	21,755,454
	$ 337,562,524	$ 325,106,864

Interest expense on these deposits for the years ended December 31 is as follows:

	2024	2023
Negotiable order of withdrawal (NOW)	$ 218,625	$ 173,998
Savings and money markets	1,895,294	1,008,532
Time	2,409,506	267,829
	$ 4,523,425	$ 1,450,359

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

	2024	2023
Three months or less	$ 38,680,816	$ 5,501,995
Over three months through twelve months	26,183,473	10,367,502
Over one year through three years	5,425,225	5,456,374
Over three years	198,776	429,583
	$ 70,488,290	$ 21,755,454

NOTE H – INTEREST-BEARING DEPOSITS (Continued)

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2024 and 2023 were $32,121,538 and $3,423,135, respectively.

In addition to the Company's on-balance sheet deposits, the Company belongs to special networks that offer reciprocal deposit products to its customers. As of December 31, 2024, and 2023 these deposits total $66,511,738 and $95,366,351 respectively. These products provide the Company's customers a safe and convenient way to safeguard their funds in increments below the standard FDIC insurance maximum of $250,000 so that both principal and interest are eligible for FDIC insurance. Although these deposits are not reflected on the balance sheet, the Bank maintains the client relationship and the funds remain available to the Bank if needed.

NOTE I – LENDING AGREEMENTS

The Company has federal funds line of credit agreements with other banks. The maximum borrowings available under these lines amount to $36,500,000, and $36,500,000 at December 31, 2024 and 2023, respectively. There were no borrowings outstanding under these agreements at December 31, 2024 and 2023.

The Company has an agreement to borrow from the Federal Home Loan Bank to the extent of pledged assets, up to 25% of total assets as of December 31, 2024, and 2023. Assets pledged under the agreement at December 31, 2024 totaled $531,727,105, resulting in a limit on borrowings of $132,931,776. Assets pledged under the agreement at December 31, 2023 totaled $521,364,469, resulting in a limit on borrowings of $130,341,117. The Company also maintains a letter of credit with the Federal Home Loan Bank of $14,000,000, as of December 31, 2024, which serves as collateral for public and other deposits and is collateralized by a portion of the loans discussed above, that expires on July 09, 2027. No amounts were outstanding under this agreement as of December 31, 2024, and 2023.

The Company has an agreement to borrow from the Federal Reserve Bank by obtaining advances or discounting eligible paper to the extent of pledged collateral. Promissory notes and deeds of trust on the Bank's loans totaling $3,354,660 and $3,534,957 for 2024 and 2023, respectively, were held by the Federal Reserve Bank as collateral. There were no borrowings outstanding under this agreement at December 31, 2024 and 2023.

In September 2019, the Company obtained a $9 million unsecured, subordinate loan from a commercial bank which was used to pay off the remaining balance of the loan received to finance the redemption of Series C Preferred Stock issued to the U.S. Treasury. The Company obtained a $2 million principal increase in March 2021 under the same terms as the original loan, bringing the loan balance to $11 million. In September 2024 the interest rate on the loan moved from fixed to variable with a quarterly adjust based on the three-month term Secured Overnight Financing Rate (SOFR) rate for US dollars plus 312 basis points. In October 2024 the Company made a principal payment to bring the remaining principal balance to $5 million. The principal is due September 25, 2029, and interest is due quarterly. A different benchmark rate may be substituted if the SOFR rate is not available.

NOTE J – OTHER EXPENSES

Other expenses consisted of the following for the years ended December 31:

	2024	2023
Data processing	$ 1,531,277	$ 1,261,304
Professional fees	434,848	352,082
Marketing and promotion	615,854	538,501
Director and shareholder	500,275	464,614
Loan and collection expense	249,335	248,237
Insurance expense	355,977	315,357
Operating expense	429,004	369,124
Miscellaneous employee expense	247,483	191,835
Telephone expense	96,198	100,754
Postage and delivery	117,684	117,786
Stationery and forms	87,064	106,586
Operational losses	40,985	52,699
Dues and memberships	49,798	45,890
Security expense	25,073	27,001
Subscriptions	1,560	1,518
Other non-interest expense	3,953	1,157
	$ 4,786,368	$ 4,194,445

NOTE K – RETIREMENT PLANS

The Company has a defined contribution retirement plan covering substantially all of the Company's employees. Employees may elect to have a portion of their compensation contributed to the plan in conformity with the requirements of Section 401(k) of the Internal Revenue Code. The Company will make contributions equal to 100% of the effective deferral made by the employees, up to a maximum of 4% of the employees' eligible earnings. Salaries and employee benefits expense includes the Company's contributions to the plan of $206,377 and $204,000 during 2024 and 2023, respectively.

The Company has single premium life insurance policies in connection with the retirement plans for sixteen key officers. The policies provide protection against the adverse financial effects from the death of key officers and to provide income to offset expenses associated with the plan. The officers are insured under the policies, but the Company is the primary owner and beneficiary. At December 31, 2024 and 2023, the cash surrender value of these policies totaled $12,972,974 and $12,558,634, respectively.

The Company has a deferred compensation plan that is unfunded, which allows the Directors to defer a portion of current compensation in exchange for the Company's commitment to pay a deferred benefit at retirement. If death occurs prior to or during retirement, the Company will pay the Director's beneficiary or estate the benefits set forth in the plan. Deferred compensation is vested as to the amounts deferred. At December 31, 2024 and 2023, the liability recorded for the deferred compensation plan totaled $688,750 and $610,066, respectively.

The Company has unfunded noncontributory defined benefit retirement plans that cover certain officers. The plan provides defined benefits that are typically a fixed amount over a ten-year period after retirement. The officers typically need to work ten years, or until the age of 65, from the plan date to be fully vested. The Company uses December 31 as the measurement date for its pension plans. The ending benefit obligation was $2,094,464 and $1,979,451 at December 31, 2024 and 2023, respectively. There were no employer contributions or benefits paid for 2024 and 2023. The plan is unfunded so there were no plan assets at December 31, 2024 and 2023.

NOTE K – RETIREMENT PLANS (Continued)

The weighted average discount rate assumptions used to determine the retirement benefit obligations for the years ended December 31, 2024, and 2023 were 5.22% and 5.21%, respectively. The weighted average discount rate assumptions used to determine the net periodic retirement cost for the years ended December 31, 2024, and 2023 was 5.24% and 4.95%, respectively.

The Company had no contributions to its noncontributory defined benefit retirement plan in 2024 or 2023. Benefit payments, which reflect expected future service, are expected to be $6,250 in 2025, $25,000 in 2026, $25,000 in 2027, $109,040 in 2028, $342,278 in 2029, and $1,846,807 in the following five years.

NOTE L – INCOME TAXES

The provision for income taxes was comprised of the following at December 31:

	2024	2023
Current		
Federal	$ 1,827,010	$ 2,428,215
State	871,958	1,123,574
	2,698,968	3,551,789
Deferred		
Federal	(583,734)	(708,966)
State	(161,103)	(140,353)
	(744,837)	(849,319)
Provision for income taxes	$ 1,954,131	$ 2,702,470

The following is a reconciliation of income taxes computed at the Federal statutory rate of 21% in 2024 and 2023 to the effective rate used for the provision for income taxes for the years ended December 31:

	2024	2023
Income benefit at the Federal statutory rate	$ 1,517,452	$ 2,046,718
State franchise tax benefit, less Federal income tax effect	618,802	834,632
Earnings on cash surrender value of life insurance	(114,358)	(104,909)
Tax exempt municipal securities	(46,918)	(46,120)
Vesting of restricted stock grants	(39,360)	(14,897)
Nondeductible expenses and other	18,513	(12,954)
Net provision for income taxes	$ 1,954,131	$ 2,702,470

NOTE L – INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to the components of the net deferred tax assets as of December 31 were as follows:

	2024	2023
Deferred tax assets:		
Available-for-sale securities	$ 2,712,385	$ 2,647,555
Allowance for loan losses	1,879,310	1,621,976
Salary continuation accrual	619,199	585,197
State taxes	185,683	241,655
Depreciation	205,326	196,284
Deferred compensation	203,619	180,357
Non-qualified restricted stock	136,840	76,300
Lease liability	57,881	70,078
Accrued vacation	72,841	72,841
Prepaid rent	80,561	89,430
Other	60,133	49,134
Total deferred tax assets	6,213,778	5,830,807
Deferred tax liabilities:		
Federal Home Loan Bank dividends	(17,916)	(17,916)
Right of use asset	(144,644)	(159,508)
Mortgage servicing rights	(511,527)	(545,892)
Total deferred tax liabilities	(674,087)	(723,316)
Net deferred tax assets	$ 5,539,691	$ 5,107,491

Amounts presented for the tax effects of temporary differences are based upon estimates and assumptions and could vary from amounts ultimately reflected on the Company's tax returns. Accordingly, the variances from amounts reported in prior years are primarily adjustments to conform to the tax returns as filed. As of December 31, 2024, and 2023, the Company had income taxes receivable of $307,634 and $510,836, respectively.

The Company and its subsidiary file an income tax return in the U.S. federal jurisdiction and a franchise tax return in the State of California jurisdiction. The Company is no longer subject to U.S. federal income tax examinations and State franchise tax examinations by taxing authorities for years prior to 2021 and 2020, respectively.

There have been no adjustments identified for unrecognized tax benefits requiring an adjustment to the income statement. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. The Company has recognized no interest or penalties since this pronouncement was implemented.

NOTE M– EARNINGS PER SHARE

The following is a computation of basic and diluted earnings per share for the years ended December 31, 2024 and 2023.

	2024	2023
Basic:		
Net income	$ 5,271,836	$ 7,043,798
Weighted-average common shares outstanding	1,949,739	1,952,750
Earnings per share	$ 2.70	$ 3.61
Diluted:		
Net income	$ 5,271,836	$ 7,043,798
Weighted-average common shares outstanding	1,949,739	1,952,750
Net effect of dilutive securities - based on the Treasury stock method using average market price		
Dilutive restricted stock	42,680	15,430
Weighted-average common shares outstanding and common stock equivalents	1,992,419	1,968,180
Earnings per share - assuming dilution	$ 2.65	$ 3.58

NOTE N – RESTRICTED STOCK GRANT PLAN

The Company has a restricted stock grant plan established in 2024 under which restricted stock may be granted. This plan replaces the restricted stock plan established in 2019 that expired June 19, 2024. The Company's Restricted Stock Grant Plan provides for the granting of a maximum of 400,000 shares of the Company's authorized but unissued common stock to directors or officers through June 19, 2034, unless terminated earlier by the Board of Directors. The terms of the grants are set by the Board of Directors. Grants vest equally each year over the life of the grant from the date the restricted stock is granted. Generally, if a grantee's continuous status as a director or officer is terminated for various reasons, the non-vested grants expire. The Board of Directors have established a policy for the acceleration of the lessor of two years of vesting or the current unvested shares if certain conditions are met and Board of Director approval is obtained. The Bank estimates the number of awards that are expected to vest when determining the compensation costs. A summary of restricted stock activity follows for the years ended December 31:

	Restricted Stock					
	2024			2023		
	Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value	Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value
Nonvested at beginning of year	28,050	$ 16.70		54,100	$ 16.64	
Granted	150,750	21.48		1,000	18.50	
Shares vested and issued	(28,050)	16.70		(27,050)	16.64	
Forfeited						
Nonvested at end of year	150,750	21.48	$ 3,238,110	28,050	16.70	$ 632,528

NOTE N – RESTRICTED STOCK GRANT PLAN (Continued)

As of December 31, 2024, and 2023, there was $2,895,310 and $218,006 of total unrecognized compensation cost related to non-vested restricted stock. That cost is expected to be recognized over a weighted-average period of 4.14 and .47 years, respectively.

Total compensation cost for all share-based payments recognized in net income for 2024 and 2023 totaled $563,806 and $459,749, respectively. A tax benefit of $166,661 and $135,901 was recognized during 2024 and 2023, respectively, related to this compensation cost.

NOTE O – RELATED PARTY TRANSACTIONS

During the normal course of business, the Company has entered into transactions with its directors, executive officers, significant shareholders and their affiliates (related parties). The aggregate amount of loans to such related parties totaled $9,497,312 and $10,687,698 at December 31, 2024 and 2023, respectively. At December 31, 2024 and 2032, commitments to related parties of $2,216,649 and $2,039,798, respectively, were undisbursed. The Company has received deposits from directors and officers and their related interests totaling $5,546,966 and $5,876,518 at December 31, 2024 and 2023, respectively.

NOTE P – CONTINGENT LIABILITIES AND COMMITMENTS

Financial Instruments with Off-Balance-Sheet Risk: The Company's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business, and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit, standby letters of credit and credit card arrangements. A summary of the Company's commitments and contingent liabilities at December 31, 2024 and 2023 are as follows:

	Contractual Amounts	
	2024	2023
Commitments to extend credit	$ 95,148,959	$ 76,303,293
Standby letters of credit	150,000	102,255

Commitments to extend credit, standby letters of credit and credit card arrangements include exposure to some credit loss in the event of nonperformance of the customer. The Company's credit policies and procedures for credit commitments and financial guarantees are the same as those for extension of credit that are recorded on the balance sheet. Because most of these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Company. 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. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, deeds of trust on residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending facilities to customers.

The Company did not incur any losses on its commitments in 2024 and 2023.

NOTE Q –LEASES

Lease arrangement: On February 1, 2014, the Company entered into an agreement with Humboldt State University, now Cal Poly Humboldt (University) for the transfer of a Company-owned building to the University in exchange for a reduced lease rate on a building owned by the University that the Company is leasing from the University. The initial term of the lease was five years with an option to extend the lease for seven periods of five years. The lease was extended automatically the first five periods unless the Bank elects to decline the lease option. The original monthly rental rate is $5,840 per month, but the rent is reduced by $3,327 per month for the first twenty years of the lease as consideration for the transfer of the Bank building valued at $505,000 and the Bank paying for $95,000 of renovation costs at the Bank-owned building. The gross rental rate will increase at the beginning of each five-year renewal period based on CPI index for the month three months prior to the commencement date. The lease does not include residual value guarantees or covenants.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company’s balance sheet.

Leases are classified as operating or finance leases as of the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease in not known. The Company’s incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications, are as follows for the years ended December 31:

	Balance Sheet Classification	December 31, 2024	December 31, 2023
Right-of-use assets:			
Operating leases	Accrued interest receivable and other assets	$ 489,265	$ 539,542
Total right-of-use assets		$ 489,265	$ 539,542
Lease liabilities:			
Operating leases	Accrued interest payable and other liabilities	$ 195,785	$ 237,042
Total lease liabilities		$ 195,785	$ 237,042

Lease Expense: The operating lease cost for the years ended December 31, 2024, and 2023 were $62,914 and $180,848, respectively.

NOTE Q –LEASES (Continued)

Lease Obligations: Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2024, are as follows:

	Operating Leases
2025	$ 52,317
2026	52,317
2027	52,317
2028	52,317
2029	52,317
Thereafter	261,585
Total undiscounted lease payments	523,170
Less: imputed interest	(327,385)
Net lease liabilities	$ 195,785

Supplemental Lease Information	December 31, 2024	December 31, 2023
Operating lease weighted average remaining lease term (years)	9.08	10.08
Operating lease weighted average discount rate	4.30%	4.30%
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 52,317	$ 30,156

NOTE R – CONCENTRATIONS OF CREDIT RISK

Most of the Company’s business activity is with customers located within the State of California, primarily in and around the counties of Humboldt, Del Norte, Mendocino, and Trinity. Most of the Company’s loans have been granted to customers in the Company’s market area. General economic conditions or natural disasters affecting the primary market area could affect the ability of customers to repay loans and the value of real property used as collateral. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers. The Company requires that all loans have adequate collateral to secure the loan or that the borrower has evidence of sufficient cash flows to repay loans when the loans are made. All collateral must have an appraisal, if applicable, and collateral is generally secured by liens. The Company’s access to this collateral is through judicial procedures.

NOTE S – REGULATORY MATTERS

The Bank is subject to the dividend restrictions set forth by the FDIC. Under such restrictions, the Bank may not, without the prior approval of the FDIC, declare dividends in excess of the sum of the current year’s net income plus the retained earnings from the prior two years. As of December 31, 2024, $11,029,680 was available for cash dividend distribution without prior approval.

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the FDIC. 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 U.S. GAAP, regulatory reporting requirements and regulatory capital

NOTE S – REGULATORY MATTERS (Continued)

standards. 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 (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2024, that the Bank meets all capital adequacy requirements to which it is subject.

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 well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, Common Equity Tier 1 risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios are also presented in the table. There are no conditions or events since that notification that management believes have changed the institution's category (amounts and ratios for capital adequacy purposes below do not include capital conservation buffer).

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2024						
Total Capital (to Risk Weighted Assets)	$ 67,020	16.61%	≥ $ 32,285	≥ 8.00%	≥ $ 40,357	≥ 10.00%
Tier I Capital (to Risk Weighted Assets)	$ 61,957	15.35%	≥ $ 24,414	≥ 6.00%	≥ $ 32,285	≥ 8.00%
Common Equity Tier I Capital (to Risk Weighted Assets)	$ 61,957	15.35%	≥ $ 18,160	≥ 4.50%	≥ $ 26,232	≥ 6.50%
Tier I Capital (to Average Assets)	$ 61,957	11.49%	≥ $ 21,568	≥ 4.00%	≥ $ 26,960	≥ 5.00%
As of December 31, 2023						
Total Capital (to Risk Weighted Assets)	$ 68,096	16.69%	≥ $ 32,631	≥ 8.00%	≥ $ 40,789	≥ 10.00%
Tier I Capital (to Risk Weighted Assets)	$ 62,983	15.44%	≥ $ 24,473	≥ 6.00%	≥ $ 32,631	≥ 8.00%
Common Equity Tier I Capital (to Risk Weighted Assets)	$ 62,983	15.44%	≥ $ 18,355	≥ 4.50%	≥ $ 26,513	≥ 6.50%
Tier I Capital (to Average Assets)	$ 62,983	12.09%	≥ $ 20,830	≥ 4.00%	≥ $ 26,038	≥ 5.00%

Under the Basel III Capital Rules, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity tier 1 capital above its minimum risk-based capital requirements. The effects of accumulated other comprehensive income items are not excluded from common equity tier 1 capital; however, the Bank made a one-time permanent election to exclude these items in order to avoid significant variations in the level of capital depending on the impact of interest rate fluctuations on the fair value of the Bank's investments portfolio. A banking organization with a buffer greater than 2.5 percent would not be subject to limits on capital distributions or discretionary bonus payments. The Bank does not expect to be subject to limits on capital distributions or discretionary bonus payments due to these requirements.

NOTE T – FAIR VALUE MEASUREMENT

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The following tables present information about financial instruments, whether or not recognized or recorded at fair value in the balance sheet. In general, fair values are determined by:

> Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
>
> Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
>
> Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any market activity for the asset or liability.

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.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3.

The carrying amount and estimated fair values of the Company's financial instruments are as follows:

	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
December 31, 2024					
Financial assets:					
Cash and due from banks	$ 7,875,809	$ 7,875,809			$ 7,875,809
Federal funds sold	26,748,000	26,748,000			26,748,000
Interest-bearing deposits in other banks	12,094,922		$ 12,145,922		12,145,922
Investment securities available-for-sale	74,092,633		74,092,633		74,092,633
Loans, net	376,280,429			$ 356,426,429	356,426,429
Cash surrender value of life insurance	12,972,974	12,972,974			12,972,974
Federal Home Loan Bank and correspondent bank stock	3,307,470	3,307,470			3,307,470
Accrued interest receivable	1,654,599	1,654,599			1,654,599
Mortgage servicing rights	1,730,258			1,730,258	1,730,258
Financial liabilities:					
Deposits					
Non interest-bearing	134,145,934	134,145,934			134,145,934
Interest-bearing	337,562,524		339,321,700		339,321,700
Borrowings	5,000,000		5,000,000		5,000,000
Accrued interest payable	186,074	186,074			186,074

NOTE T – FAIR VALUE MEASUREMENT (Continued)

	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
December 31, 2023					
Financial assets:					
Cash and due from banks	$ 9,371,495	$ 9,371,495			$ 9,371,495
Federal funds sold	9,930,000	9,930,000			9,930,000
Interest-bearing deposits in other banks	11,039,245	11,039,245			11,039,245
Investment securities available-for-sale	74,481,931		$ 74,481,931		74,481,931
Loans, net	382,302,539			$ 361,934,539	632,214,246
Cash surrender value of life insurance	12,558,634	12,558,634			12,558,634
Federal Home Loan Bank and correspondent bank stock	3,269,270	3,269,270			3,269,270
Accrued interest receivable	1,621,764	1,621,764			1,621,764
Mortgage servicing rights	1,846,500			1,846,500	1,846,500
Financial liabilities:					
Deposits					
Non interest-bearing	135,327,613	135,634,613			135,634,613
Interest-bearing	325,106,864	303,351,410	21,259,454		324,610,864
Borrowings	11,000,000		10,619,804		10,619,804
Accrued interest payable	41,356	41,356			41,356

The carrying amounts in the preceding table are included in the balance sheet under the applicable captions. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and due from banks, and federal funds sold: The carrying amount approximates fair value and is classified as level 1.

Interest-bearing deposits in other banks: This consists mainly of certificates of deposits. Fair values for interest bearing deposits are estimated using a discounted cash flow calculation based on the current interest rate for similar certificates of deposits, resulting in a level 2 classification.

Investment securities: Fair values for investment securities are based on quoted market prices, where available, and are classified as level 1. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments and indications of value provided by brokers and are classified as level 2. The carrying amount of accrued interest receivable approximates its fair value and is classified as level 1.

Loans, net: For variable-rate loans that reprice frequently and fixed rate loans that mature in the near future, with no significant change in credit risk, fair values are based on carrying amounts, resulting in a level 3 classification. The fair values for other fixed rate loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality, resulting in a level 3 classification. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics and are adjusted for the allowance for loan losses. The carrying amount of accrued interest receivable approximates its fair value and is classified as level 1.

Cash surrender value of life insurance: The carrying amount approximates fair value and is classified as level 1.

FHLB and correspondent bank stock: For FHLB and correspondent bank stock, the carrying amount is equal to the par value at which the stock may be sold back to FHLB or the correspondent bank, which approximates fair value and is classified as level 1.

NOTE T – FAIR VALUE MEASUREMENT (Continued)

Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts), resulting in a level 1 classification. The fair value for interest bearing deposits (for example, interest-bearing checking, money market and saving accounts) are estimated using a discounted cash flow based on current interest rates for similar deposits and the expected length of time the deposits are expected to remain at the bank. The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on the certificates to a schedule of aggregated contractual maturities on such time deposits, resulting in a level 2 classification. The carrying amount of accrued interest payable approximates fair value and is classified as level 1.

Borrowings: The fair value is estimated using a discounted cash flow calculation that applies interest rates on similar borrowings.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2024, and 2023, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

	Fair Value	Level 1	Level 2	Level 3	Net Gains (Losses)
December 31, 2024:					
Measured at fair value on a recurring basis					
Investment securities	$ 74,092,633		$ 74,092,633		$ (9,175,864)
Mortgage servicing rights	1,730,258			$ 1,730,258	(51,345)
Total recurring	$ 75,822,892	$ -	$ 74,092,634	$ 1,730,258	$ (9,227,209)
December 31, 2023:					
Measured at fair value on a recurring basis					
Investment securities	$ 74,481,931		$ 74,481,931		$ (8,956,547)
Mortgage servicing rights	1,846,500			$ 1,846,500	10,349
Total recurring	$ 76,328,431	$ -	$ 74,481,931	$ 1,846,500	$ (8,946,198)
Measured at fair value on a nonrecurring basis					
Impaired loans	$ 278,921			$ 278,921	
Total nonrecurring	$ 278,921	$ -	$ -	$ 278,921	$ -

The following methods were used to estimate the fair value of each class of financial instrument above:

Securities Available-for-Sale: To value securities available-for-sale, the Company obtains fair value measurements from an independent pricing service. The fair value measurement considers 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.

NOTE T – FAIR VALUE MEASUREMENT (Continued)

Mortgage Servicing Rights: Mortgage servicing rights do not trade in an active market with readily observable prices. Accordingly, the Company determines the fair value of mortgage servicing rights using a valuation model that calculates the present value of estimated future net servicing income. Fair value measurements of the mortgage servicing rights use significant unobservable inputs and, accordingly, are classified as Level 3. Total gains (losses) recognized in earnings during 2024 and 2023 were ($51,345) and $10,349, respectively, which are reflected in mortgage banking revenue, on the consolidated statements of operations.

Impaired Loans: The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraisal value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3. Management typically reduces the appraisal value by 10% or more to determine the fair value of the collateral.

No amounts were transferred among level 1, level 2 or level 3 during 2024 or 2023.

The following table presents quantitative information about level 3 fair value measurement for assets measured at fair value at December 31, 2024 and 2023:

	Fair Value	Valuation Techniques	Unobservable Inputs	Range	Weighted Average
December 31, 2024:					
Recurring:					
Mortgage servicing rights	$ 1,730,258	Discounted cash flow approach	Conditional prepayment rate	6.80% to 7.11%	7.07%
			Discount rate	10.00%	10.00%
December 31, 2023:					
Nonrecurring:					
Impaired loans	$ 278,921	Discounted cash flow approach	Discount rate		6.88%
Recurring:					
Mortgage servicing rights	1,846,500	Discounted cash flow approach	Conditional prepayment rate	6.45% to 6.59%	6.56%
			Discount rate	10.50%	10.50%

NOTE U – REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers under the scope of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers,* (ASC 606) is recognized within Other Income reported in the Consolidated Statements of Operations. Service charges and fees on deposit accounts of $1,438,431 and $1,442,689 for the years ended December 31, 2024, and 2023, respectively, and are within the scope of ASC 606.

A description of the Company's revenue streams accounted for under ASC 606 follows:

Service charges and fees on deposit accounts: The Company earns service charges and fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based based fees consist primarily of ATM usage charges and wire transfer fees and are recognized at the time the transaction is fulfilled. Account maintenance fees, which are mainly monthly maintenance fees on deposit accounts, are earned over the course of a month, representing the period the Company satisfies the performance obligation. Overdraft fees are recognized at the point the overdraft occurs. Services charges and fees on deposit accounts are generally withdrawn from the customer's account.

NOTE V – SUBSEQUENT EVENTS

In January 2025, the Company declared a cash dividend of $.08 per share, or approximately $156,382, to shareholders of record on January 27, 2025, that was paid on February 11, 2025.

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