WEST COAST
COMMUNITY BANCORP

WEST COAST
COMMUNITY BANK

2024
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

Years Ended December 31, 2024 and 2023

FORMERLY

SANTA CRUZ COUNTY BANK

1ST CAPITAL BANK
A division of Santa Cruz County Bank

WEST COAST COMMUNITY BANCORP

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

CONTENTS

INDEPENDENT AUDITOR'S REPORT

The Shareholders and Board of Directors
West Coast Community Bancorp
Santa Cruz, California

Report on the Audit of the Financial Statements

Opinion

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

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

We also have audited, in accordance with auditing standards generally accepted in the United States of America, West Coast Community Bancorp's internal control over financial reporting as of December 31, 2024, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 28, 2025 expressed an unmodified opinion.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of West Coast Community Bancorp 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 the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

(Continued)

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 West Coast Community Bancorp's ability to continue as a going concern for one year from the date 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about West Coast Community Bancorp's ability to continue as a going concern for a reasonable period of time.

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

Crowe LLP

Crowe LLP

Sacramento, California
March 28, 2025

WEST COAST COMMUNITY BANCORP
CONSOLIDATED BALANCE SHEETS
As of December 31, 2024 and 2023
Dollar amounts in thousands

ASSETS	2024	2023
Cash and cash equivalents	$ 84,758	$ 33,938
Interest-bearing deposits in other financial institutions	249	10,457
Debt securities available for sale (amortized cost $419,237 and $277,570 at December 31, 2024 and 2023, respectively, net of allowance of credit losses of $0)	400,473	262,566
Debt securities held to maturity, net of allowance for credit losses of $0 (fair value $6,805 and $7,342 at December 31, 2024 and 2023, respectively)	7,273	7,585
Loans held for sale	-	33,696
Loans	2,045,215	1,377,597
Less: Allowance for credit losses on loans	(31,622)	(23,943)
Loans, net of allowance	2,013,593	1,353,654
Non-marketable equity investments, at cost	15,355	8,897
Premises and equipment, net	9,397	11,030
Goodwill	40,054	25,762
Core deposit intangible asset, net	28,051	1,671
Bank-owned life insurance	27,550	18,059
Accrued interest receivable and other assets	53,675	27,047
Total assets	$ 2,680,428	$ 1,794,362
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	$ 1,014,263	$ 576,456
Interest-bearing	1,296,220	938,634
Total deposits	2,310,483	1,515,090
Federal Home Loan Bank advances and other borrowings	-	32,500
Subordinated debentures	11,608	-
Accrued interest payable and other liabilities	25,356	16,736
Total liabilities	2,347,447	1,564,326
Commitments and contingencies (see Note 17 - "Loan Commitments and Other Related Activities")		
Shareholders' equity		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, no par value; 30,000,000 shares authorized; 10,556,467 and 8,406,680 shares issued at December 31, 2024 and 2023, respectively	204,787	122,597
Retained earnings	140,672	117,263
Accumulated other comprehensive loss, net of taxes	(12,478)	(9,824)
Total shareholders' equity	332,981	230,036
Total liabilities and shareholder's equity	$ 2,680,428	$ 1,794,362

See accompanying notes.

WEST COAST COMMUNITY BANCORP
CONSOLIDATED STATEMENTS OF INCOME
As of December 31, 2024 and 2023
Dollar amounts in thousands

	2024	2023
Interest income		
Loans, including fees	$ 111,315	$ 88,759
Interest-bearing deposits in other financial institutions	2,018	1,199
Taxable securities	5,381	4,212
Tax-exempt securities	923	223
Federal funds sold	-	10
Total interest income	119,637	94,403
Interest expense		
Deposits	24,142	11,506
Subordinated debentures	237	-
Federal Home Loan Bank advances and other borrowings	130	643
Total interest expense	24,509	12,149
Net interest income before provision for credit losses	95,128	82,254
Provision for credit losses on loans	6,929	554
Provision for credit losses on unfunded loan commitments	110	859
Net interest income after provision for credit losses	88,089	80,841
Noninterest income		
Service charges on deposits	681	471
Loan servicing fees	568	728
ATM fee income	883	885
Earnings on bank-owned life insurance	548	454
Dividends on non-marketable equity securities	844	510
(Loss) gain on sale of assets	(507)	220
Other	1,036	814
Total noninterest income	4,053	4,082
Noninterest expense		
Salaries and employee benefits	24,611	19,699
Occupancy	2,685	2,347
Furniture and equipment	2,688	2,291
Marketing, business development and shareholder-related expense	1,035	834
Data and item processing	2,229	1,939
Regulatory assessments, including federal deposit insurance	1,054	958
Amortization of core deposit intangibles	1,320	363
Professional fees	1,310	1,259
Acquisition-related expense	7,050	-
Other	6,223	5,463
Total noninterest expense	50,205	35,153
Income before income taxes	41,937	49,770
Income tax expense	12,358	14,620
Net income	$ 29,579	$ 35,150
Earnings per share		
Basic	$ 3.32	$ 4.19
Diluted	$ 3.28	$ 4.17

See accompanying notes.

WEST COAST COMMUNITY BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2024 and 2023

Dollar amounts in thousands

	2024	2023
Net income	$ 29,579	$ 35,150
Other comprehensive income		
Unrealized (losses) gains on securities		
Change in unrealized losses on available-for-sale securities	(3,760)	8,959
Amortization of net unrealized losses on securities transferred from available for sale to held to maturity	-	1
Tax effect	1,112	(2,649)
Net of tax	(2,648)	6,311
Defined benefit pension plans		
Actuarial net gain arising during the period	91	158
Reclassification adjustment for amortization of net gain included in net periodic pension cost	(99)	(78)
Tax effect	2	(24)
Net of tax	(6)	56
Total other comprehensive (loss) income	(2,654)	6,367
Comprehensive income	$ 26,925	$ 41,517

See accompanying notes.

WEST COAST COMMUNITY BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
As of December 31, 2024 and 2023

Dollar amounts in thousands

	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2022	8,477,272	$ 124,628	$ 89,239	$ (16,191)	$ 197,676
Cumulative effect of change in accounting principle: adoption of ASU 2016-13 (see Note 1)	-	-	(3,263)	-	(3,263)
Net income	-	-	35,150	-	35,150
Stock repurchased	(121,079)	(2,999)	-	-	(2,999)
Other comprehensive income	-	-	-	6,367	6,367
Cash dividends declared ($0.46 per share)	-	-	(3,863)	-	(3,863)
Stock-based compensation	-	725	-	-	725
Exercise of stock options	22,712	243	-	-	243
Restricted stock awards granted	27,775	-	-	-	-
Balance at December 31, 2023	8,406,680	122,597	117,263	(9,824)	230,036
Net income	-	-	29,579	-	29,579
Issuance of common stock in business combination	2,071,483	80,788	-	-	80,788
Stock repurchased	(254)	(7)	-	-	(7)
Excise tax from stock repurchase	-	(21)	-	-	(21)
Other comprehensive income	-	-	-	(2,654)	(2,654)
Cash dividends declared ($0.69 per share)	-	-	(6,170)	-	(6,170)
Stock-based compensation	-	854	-	-	854
Exercise of stock options	30,847	576	-	-	576
Restricted stock awards granted	47,711	-	-	-	-
Balance at December 31, 2024	10,556,467	$ 204,787	$ 140,672	$ (12,478)	$ 332,981

See accompanying notes.

WEST COAST COMMUNITY BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2024 and 2023
Dollar amounts in thousands

	2024	2023
Cash flows from operating activities		
Net income	$ 29,579	$ 35,150
Adjustments to reconcile net income to net cash from operating activities		
Provision for credit losses on loans	6,929	554
Provision for credit losses on unfunded loan commitments	110	859
Depreciation and amortization of premises and equipment	1,289	1,363
Amortization of core deposit intangibles	1,320	363
Net amortization for interest-bearing deposits in other financial institutions	9	29
Net amortization of securities	129	1,618
Accretion of the discount on acquired loans, net of amortization	(4,085)	(341)
Deferred income tax (benefit) expense	(1,012)	140
Net loss on sale of securities	-	30
Accretion of fair value discount on subordinated debentures	87	-
Accretion of fair value discount on time deposits	99	-
Stock-based compensation expense	854	725
Earnings on bank-owned life insurance	(548)	(454)
Stock dividends from equity investments	(5)	(5)
Originations of loans held for sale	(19,564)	(15,889)
Loss (gain) on sale/disposal of premises and equipment	507	(249)
Non-cash lease (gain) expense	(4)	12
Deferred post-retirement benefit expense	-	322
Decrease in deferred loan fees, net of costs	328	1,153
Decrease (increase) in accrued interest receivable and other assets	7,957	(740)
Decrease in accrued interest payable and other liabilities	(248)	(529)
Net cash provided by operating activities	23,731	24,111
Cash flows from investing activities		
Net cash and cash equivalents acquired in acquisition	43,110	-
Net change in interest-bearing deposits in other financial institutions	10,199	24,204
Available-for-sale securities:		
Sales	28,359	17,195
Maturities, prepayments, calls and principal repayments	94,895	57,340
Purchases	(6,691)	(9,042)
Held-to-maturity securities:		
Maturities, prepayments, calls and principal repayments	338	1,219
Purchases	-	(5,949)
Loan originations and payments, net	(6,790)	(130,643)
Purchases of premises and equipment	(942)	(1,272)
Purchases of non-marketable equity investments	(1,257)	(261)
Proceeds from sale of premises and equipment	1,911	4,154
Net cash used in investing activities	163,132	(43,055)

See accompanying notes.

WEST COAST COMMUNITY BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
As of December 31, 2024 and 2023
Dollar amounts in thousands

	2024	2023
Cash flows from financing activities		
Decrease in deposits	(97,921)	(15,692)
(Repayment of) proceeds of borrowings	(32,500)	32,500
Cash dividends paid	(6,170)	(3,863)
Proceeds from exercise of stock options, including tax benefit	576	243
Cash paid for stock repurchases	(7)	(2,999)
Excise tax from stock repurchase	(21)	-
Net cash from financing activities	(136,043)	10,189
Net change in cash and cash equivalents	50,820	(8,755)
Beginning cash and cash equivalents	33,938	42,693
Ending cash and cash equivalents	$ 84,758	$ 33,938
Supplemental cash flow information		
Interest paid	$ 24,194	$ 11,345
Income taxes paid	$ 13,825	$ 13,820
Supplemental noncash disclosure		
Transfer from loans held for sale to portfolio loans	$ 21,527	$ 25,532
Assets acquired in business combination (see Note 18)		
Fair value of assets acquired, excluding cash and cash equivalents	$ (936,877)	$ -
Fair value of stock consideration	$ 80,788	$ -
Fair value of liabilities assumed	$ 913,491	$ -
Goodwill from acquisition	$ (14,292)	$ -

See accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: West Coast Community Bank, rebranded from Santa Cruz County Bank in 2025, is a California state-chartered bank and was incorporated on September 10, 2003. The Bank commenced banking operations on February 3, 2004, upon receipt of final regulatory approval and is an insured bank by the Federal Deposit Insurance Corporation (“FDIC”). West Coast Community Bancorp (“Bancorp”) was incorporated in the State of California on November 10, 2009. The Bancorp obtained approval from the Board of Governors of the Federal Reserve System on June 2, 2023, to become a bank holding company and became the sole shareholder of the Bank on August 18, 2023, through a reorganization agreement, pursuant to which all the outstanding common stock of the Bank was exchanged for an equal number of shares of common stock of the Bancorp. Upon formation of the holding company, Bancorp became subject to regulation under the Bank Holding Company Act of 1956, as amended, and reporting and examination requirements by the Board of Governors of the Federal Reserve System. The Bank is subject to regulations and undergoes periodic examinations by the Department of Financial Protection and Innovation and the FDIC.

On October 1, 2024, Bancorp acquired 100% of the outstanding common shares of 1st Capital Bancorp, parent company for 1st Capital Bank.

Basis of Presentation: The consolidated financial statements include West Coast Community Bancorp and its wholly owned subsidiary, West Coast Community Bank (formerly Santa Cruz County Bank and its 1st Capital Bank division), together referred to as “the Company”, “we,” “our,” or “us”. Significant intercompany transactions and balances are eliminated in consolidation. Our accounting and reporting policies conform to U.S. generally accepted accounting principles ("GAAP"), general practice, and regulatory guidance within the banking industry.

Virtually all our business is conducted through Bancorp's subsidiary, the Bank, which is headquartered in Santa Cruz, California, and offers a full range of commercial and personal banking services to residents and businesses in Santa Cruz County and adjacent Monterey, San Luis Obispo and Santa Clara counties, through our ten full-service offices located in Aptos, Capitola, Cupertino, King City, Monterey, Salinas, San Luis Obispo, Santa Cruz, Scotts Valley and Watsonville. Our primary deposit products are checking, savings and term certificate accounts, and our primary lending products are commercial, commercial real estate, construction, multifamily, agriculture, single-family home equity loans, municipal loans, asset-backed loans and installment loans. Bank lending products also include various government guarantee programs such as Small Business Administration (“SBA”) 7(a) and 504 programs, as well as US Department of Agriculture (“USDA”) programs. Our largest industry concentration is in hotels and lodging, as commercial real estate loans with hotel-related collateral as well as commercial loans to hotel and related borrowers composed 14% of total outstanding loans as of December 31, 2024. The single largest borrower had combined outstanding and unfunded commitments that represented 3% of total outstanding loans as of December 31, 2024.

Acquisition Accounting: Acquisitions are accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification (“ASC”) 805. Purchased assets, including identifiable intangible assets, and assumed liabilities are recorded at their respective acquisition date fair values. If the fair value of net assets purchased exceeds the consideration given, a bargain purchase gain is recognized. If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Acquisition related costs, such as severance, data processing expenses and change in control agreement payments, are expensed as incurred.

Presentation of Notes 2 to 19: All dollar amounts presented in the tables in Notes 2 to 19 are in thousands, unless otherwise indicated, except per share information. Dollar amounts in paragraphs are in whole dollars, unless otherwise indicated.

Subsequent Events: We have evaluated subsequent events for recognition and disclosure from December 31, 2024, through March 28, 2025, which is the date the financial statements were available to be issued. No subsequent events occurred requiring adjustment or disclosure, except for the investment in two lowincome housing tax credit funds in March 2025 totaling $841,000. Additionally, on January 23, 2025, the Board of Directors declared a cash dividend of $0.19 per common share for shareholders of record as of February 5, 2025, which was paid on February 11, 2025, in the amount of $2,005,000.

Use of Estimates: The preparation of these financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ from those estimates. The allowance for credit losses is a critical accounting estimate reflected in the Company's consolidated financial statements. Other significant accounting estimates include fair value measurements, goodwill impairment, fair value of assets acquired via business combinations, valuation of servicing assets and deferred tax asset valuation.

Cash Flows: For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, federal funds sold and deposits with other financial institutions with maturities at origination fewer than 90 days. Federal funds are sold for a one-day period and are highly liquid investments. Net cash flows are reported for client loan and deposit transactions, interest-bearing deposits in other financial institutions with maturities shorter than 90 days at origination and federal funds purchased.

Interest-bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature beyond 90 days at origination are carried at amortized cost.

Debt Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them 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. At the time of purchase, we designate securities as either held to maturity or available for sale based on its investment objectives, operational needs and intent.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method to prepayment date for mortgage-backed securities where prepayments are anticipated. For callable debt securities purchased at a premium, premiums are amortized to the earliest call date. Realized gains and losses on sales are recorded on the settlement date and determined using the specific identification method.

Securities transferred from the available for sale to held to maturity are recorded at fair value at the date of transfer. Unrealized holding gains or losses on the date of transfer are included in the balance of accumulated other comprehensive income (losses), net of tax. The unrealized gains or losses are amortized over the remaining life of the securities as yield adjustments in a manner consistent with the amortization or accretion of purchase premiums or discounts.

Allowance for Credit Losses on Debt Securities: The allowance for credit losses on held-to-maturity securities is a contra-asset valuation account that is deducted from the amortized cost basis of held-to-maturity securities to present the net amount expected to be collected. Management measures expected credit losses on held-to-maturity debt securities on a collective basis for securities with similar risk characteristics using historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Securities that are determined to be uncollectible are written off against the allowance for credit losses.

For available-for-sale debt securities in an unrealized loss position, we first assess whether we intend 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 these conditions, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, to the extent that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on debt securities is excluded from the estimate of credit losses. A debt security is placed on nonaccrual status at the time any principal or interest payments become contractually past due more than ninety days delinquent, or management does not expect full payment of principal and interest. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income. There were no nonaccrual debt securities recorded in the consolidated financial statements for year ended 2024 or 2023. The Bank did not record an allowance for credit losses on available for sale or held to maturity investment securities upon the adoption of CECL, as the investment portfolio consisted primarily of debt securities backed by the U.S. government and high credit quality obligations of state and political subdivisions as well as corporate bonds. Refer to Note 2, Debt Securities, for more information.

Loans Held for Sale: Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. These loans are generally held for approximately one and a half years from their origination date at which time they are reclassified to loans for held for investment at the lower of cost or fair value.

Loans held for sale are generally sold with servicing rights retained. The carrying value of loans sold is reduced by the amount allocated to the servicing right. If the loans are sold with servicing retained, the fair value of the servicing asset or liability is recorded on the balance sheet. Gains and losses on the sold portion of the loans are recognized at the time of sale based on the difference between the sale proceeds and the carrying value of the related loans sold.

Loans: Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at the amount of unpaid principal balances outstanding, net of deferred loan fees and costs, and an allowance for credit losses. Interest income is accrued on the unpaid principal balance daily and credited to income as it is earned. When a loan pays off or is sold, any unamortized balance of any related premiums, discounts, loan origination fees, and direct loan origination costs is recognized in income. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income over the expected life of the loan using a method that approximates the level yield method without anticipating prepayments.

Interest income on loans is generally discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent or when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful unless the loan is well-secured and in the process of collection. Past-due status is based on the contractual terms of the loan. A loan is moved to nonaccrual status in accordance with the loan policy, typically after 90 days of non-payment. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest received on such loans is accounted for on the cash-basis method and recognized only to the extent that cash is received and where the future collection of principal is probable, until qualifying for return to accrual. Generally, loans will be restored to an accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk: Approximately 60% of business activity is with borrowers using credit within Santa Cruz and Monterey counties. Therefore, exposure to credit risk is significantly affected by changes in the economies of the Santa Cruz County and Monterey County areas.

Purchased Credit Deteriorated ("PCD") Loans: Through bank acquisitions, Company has acquired loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the fair value at acquisition date. An allowance for credit losses is determined using the same methodology as other loans held for investment. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through credit loss expense.

Upon adoption of ASC 326, the Company elected to maintain pools of loans that were previously accounted for under ASC 310-30 and will continue to account for these pools as a unit of account. Loans are only removed from the existing pools if they deteriorate to a substandard loan, are written off, paid off or sold. Upon adoption of ASC 326, the allowance for credit losses was determined for each pool and added to the pool's carrying amount to establish a new amortized cost basis. The difference between the unpaid principal balance of the pool and the new amortized cost basis is the noncredit premium or discount which will be amortized into interest income over the remaining life of the pool. Changes to the allowance for credit losses after adoption are recorded through credit loss expense.

Allowance for Credit Losses on Loans ("ACL"): The ACL is a valuation account that is deducted from the amortized cost basis of the loan portfolio at the balance sheet date to present the net amount of loans expected to be collected. Amortized cost does not include accrued interest, which management elected to exclude from the estimate of expected credit losses. On a quarterly basis, management conducts estimations for the ACL, employing relevant information sourced both internally and externally. This information encompasses data on past events, current conditions and reasonable and supportable forecasts. This process aligns with established financial disclosure practices, ensuring a comprehensive and transparent representation of the allowance determination.

The allowance is established through a provision for credit losses, which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Loan losses are charged against the allowance when management believes a loan balance is uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, forecasted economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The ACL consists of specific and general reserves. The general reserve portion of the allowance is measured on a collective basis for portfolios of loans when similar risk characteristics exist. Loans exhibiting risk characteristics distinct from pooled loans undergo individual credit loss assessments and specific reserves are established when appropriate and are excluded from the general pools. This evaluation typically encompasses nonaccrual loans, collateral-dependent loans, certain restructured loans and loans graded as substandard or worse by management.

As of December 31, 2023, the Company utilized the average-charge-off method to measure the estimated lifetime credit losses. As of December 31, 2024, the Company transitioned to a discounted-cash-flow model for determining the estimated lifetime credit losses, which includes, among other things, the following main components: (i) the use of Probability of Default and Loss Given Default assumptions; (ii) a macroeconomic forecast, (iii) an initial, reasonable and supportable forecast period of four quarters for all loan segments; and (iv) a four-quarter reversion to long-run averages for each economic factor then using historical averages beyond that period. To support the macroeconomic forecast, we chose to utilize national gross domestic product ("GDP") and unemployment rates as the economic forecasts. The forecasted GDP and Unemployment Rate are sourced from the Federal Open Market Committee.

When the discounted-cash-flow method is used to determine the allowance for credit losses, management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments.

Expected credit losses are estimated over the contractual term of the loans but are adjusted for expected prepayments and curtailments, when appropriate. The pooled loans' contractual terms exclude extensions, renewals and modifications unless one or more of the following applies: (i) Management has a reasonable expectation at the reporting date that a loan modification will be executed with an individual borrower; (ii) The extension or renewal options are included in the original or modified contract; or (iii) An existing loan modification is within six months of maturity.

The Company has determined that peer data and other external data to support loss history provides the best basis for its assessment of expected credit losses. Peer bank loss data is based on Call Report data since 2004 and is used in lieu of our own data due to limited loss history. Qualitative factors are then evaluated via a scorecard method that assigns scores to different aspects of the portfolio's risk profile.

In determining the quantitative portion of the ACL, management assesses the necessity for adjustments considering differences in risk characteristics specific to the segment. Additionally, adjustments may be made to reflect variations in current conditions and reasonable and supportable forecasts of economic conditions compared to the conditions during the period covered by the historical loss rate calculation. Qualitative factors, both internal and external, are considered in this process. These factors include, but are not limited to, the following:

- Changes in the experience, ability and depth of lending management and other relevant staff
- Changes in the value of underlying collateral for collateral-dependent loans
- The existence and effect of any concentrations of credit and changes in the level of such concentrations
- Changes in international, national, regional and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the loan portfolio
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans and the volume and severity of adversely classified or graded loans
- Changes in the quality of our institution's loan review systems
- Changes in the nature and volume of the loan portfolio and in the terms of loans
- Changes in lending policies and procedures including changes in underwriting standards and collection, charge off, and recovery practices not considered elsewhere in estimating credit losses
- Additional specific qualitative factors to account for model deficiencies

The Company has determined pools based primarily on regulatory reporting codes as the loans within each pool share similar risk characteristics and there is sufficient historical loss data to provide statistically meaningful support in the models developed. The Company has elected to change the grouping for loans. Previously, loans were grouped by call code into the following classes:

- Commercial and Industrial
- Commercial Real Estate
- Land and Construction
- Agricultural Land, Real Estate and Production
- Consumer

Call codes are based on loan collateral. Management determined grouping loans by loan structure and use of funds was more optimal than collateral. Thus, it was decided loans would be grouped by general ledger code. This allows comparison to the figures reported on the earnings release, which are also grouped by general ledger code. The new classes are as follows:

- Commercial and Industrial
- Commercial Real Estate
- Construction and Land
- SBA 7(a) and 504 programs as well as USDA programs including Business and Industry loans ("B&I") and Farm Service Agency loans ("FSA") [collectively "SBA, B&I and FSA"]
- Consumer

Despite four of the new classes holding the same title as the former class, the total amount of loans will not match the previous year's totals due to the different allocation basis.

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

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

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.

SBA, B&I and FSA – The Bank's lending products include various government guarantee programs, such as SBA 7(a) and 504 programs, as well as USDA programs including B&I and FSA. The amount of the government guarantee varies on each loan and at times this guarantee may be sold by the Bank. Note, the pool of loans defined as SBA, B&I and FSA in this section does not include 504 term loans secured by real estate; those loans do not include a government guarantee and are reflected in the commercial real estate category.

Consumer – Comprised of single-family residential real estate, home equity lines of credit and personal lines. 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 according to the contractual terms. 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.

At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. Although management strives to use the most reliable information for determining the ACL and believes it to be adequate, the ultimate sufficiency of the allowance is contingent upon a diverse set of intricate factors, some of which may fall outside of management's direct control. Factors contributing to this assessment include volatility in the real estate market, shifts in interest rates and fluctuations in economic and political environments. Actual losses may vary from its estimates if circumstances deviate substantially from the assumptions used in the allowance determination process. Our ACL model exhibits sensitivity to changes in unemployment rate and GDP forecasts, and the prevailing interest rate environment can lead to substantial fluctuations in the prepayment speeds on our loans and the resulting expected lives of the loans and the related allowance for credit losses. These fluctuations, if significant, have the potential to adversely impact our financial condition and results of operations.

Allowance for Credit Losses on Unfunded Commitments: We engage in commitments to extend credit, both in the form of loans and standby letters of credit, to fulfill the financing needs of our clients. In the event of a deterioration in the credit quality of the borrower, resulting in nonperformance, we are exposed to credit losses over the contractual period of a loan. To account for potential losses on unfunded loan commitments, we record an allowance. The allowance is established based on estimates that consider the probability of these commitments being drawn upon, guided by historical utilization experience across various types of commitments. The loss factors applied in estimating the allowance for unfunded loan commitments align with those used for the funded portion of the loan portfolio. This approach ensures consistency in evaluating credit risk across our entire commitment portfolio, contributing to a comprehensive and uniform assessment of potential credit losses.

The ACL on unfunded commitments is a liability account included in the interest payable and other liabilities on the consolidated balance sheet. Adjustments to the allowance for unfunded commitments are included as a provision for (or reversal of) the ACL. The allowance for unfunded credit commitments totaled $2,183,000 and $1,783,000 at December 31, 2024 and 2023, respectively, and is included in other liabilities on the consolidated balance sheet.

Loan Servicing Rights: When loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable loan servicing contracts when available or, alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method, which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Loan servicing rights were $220,000 and $506,000 at December 31, 2024 and 2023, respectively, and were included in accrued interest receivable and other assets on the consolidated balance sheets.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If we later determine that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with loan servicing fees income on the income statement. The fair values of servicing rights are subject 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 loan servicing fees, is recorded for fees earned on servicing loans. The fees are based on a fixed amount per loan and recorded as income when earned. The amortization of servicing rights is netted against loan servicing fee income. Servicing fees totaled $568,000 and $728,000 for December 31, 2024 and 2023, respectively. Late fees and ancillary fees related to loan servicing are not material.

Non-marketable Equity Investments Carried at Cost: Equity securities without readily determinable fair market values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment. The carrying amount of equity securities without readily determinable fair market values totaled $15,355,000 and $8,897,000 at December 31, 2024 and 2023, respectively, and include the following:

Federal Home Loan Bank ("FHLB") Stock - The Bank, as a member of the FHLB system, is required to maintain an investment in the capital stock of the FHLB of San Francisco based on the Bank's asset size or the level of borrowings and other factors. FHLB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends, if any, are reported as income. The FHLB stock cannot be purchased or sold except between the FHLB and its members and is redeemable at its par value of $100 per share at the discretion of the FHLB of San Francisco and therefore is classified as restricted investment without readily determinable fair values. The FHLB can suspend dividends and redemptions upon notification to its members.

Bankers' Bank Stock - Stock of Pacific Coast Bankers Bank ("PCBB") and The Independent Bankers Bank ("TIB") are classified as restricted securities carried at cost and are periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends, if any, are reported as income.

Clearinghouse Community Development Financial Institution ("CCDFI") Stock - Stock of CCDFI is classified as restricted securities carried at cost and is periodically evaluated for impairment based on ultimate recovery of par value. Cash dividends, if any, are reported as income.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related asset. Building and related components are depreciated over 39.5 years. Furniture, fixtures and equipment are depreciated with useful lives ranging from five to seven years. Leasehold improvements are amortized over the shorter of the estimated useful life of the assets or the initial term of the respective leases. The useful lives of leasehold improvements are estimated to be three to 15 years. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts; and any resulting gain or loss is recognized in income for the period. All other maintenance and repair expenditures are charged to expense as incurred.

Goodwill and Intangible Assets: Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date.

Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. We perform a qualitative impairment analysis as of each quarter end. Management assessed qualitative factors, including performance trends, and noted no factors indicating goodwill impairment. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Core deposit intangibles represent the estimated fair value of the core deposit relationships acquired in a business combination and are being amortized using an accelerated basis based on dollar weighted deposit runoff on an annualized basis over an estimated life of 10 to13 years from the date of acquisition.

Bank-owned Life Insurance ("BOLI"): We purchase life insurance policies on certain key executives and former executives. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet client financing needs. The face amount for these items represents the exposure to loss before considering client collateral or ability to repay. Such financial instruments are recorded when they are funded.

Revenue Recognition: In general, for revenue not associated with financial instruments, guarantees and lease contracts, we apply the following steps when recognizing revenue from contracts with clients: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when a performance obligation is satisfied. Contracts with clients are generally short-term in nature, typically due within one year or less or cancellable by us or our client upon a short notice period. Performance obligations for our client contracts are generally satisfied at a single point in time, typically when the transaction is complete, or over time. For performance obligations satisfied over time, we primarily use the output method, directly measuring the value of the products/services transferred to the client, to determine when performance obligations have been satisfied. We typically receive payment from clients and recognize revenue concurrent with the satisfaction of its performance obligations. In most cases, this occurs within a single financial reporting period. For payments received in advance of the satisfaction of performance obligations, revenue recognition is deferred until such time as the performance obligations have been satisfied. In cases where we have not received payment despite satisfaction of our performance obligations, an estimate of the amount due in the period the performance obligations have been satisfied is accrued. For contracts with variable components, only amounts for which collection is probable are accrued.

We generally act in a principal capacity in most of our contracts with clients. In such transactions, we recognize revenue and the related costs to provide services on a gross basis in the financial statements. These transactions primarily relate to service charges on deposit accounts, which consist of monthly maintenance fees, business accounting analysis fees and business online banking fees that are generally recognized monthly when we satisfy our performance obligation. Certain transaction-based services, such as check order charges and wire transfer fees, are recognized at a point in time typically when the transaction is completed.

We act in an agent capacity, in some cases, deriving revenue through assisting other entities in transactions with our clients. In such transactions, we recognize revenue and the related costs to provide these services on a net basis in the financial statements. These transactions recognized on a net basis primarily relate to fees derived from our clients' use of various interchange and ATM/debit card networks.

Stock-based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. We estimate the fair value of each stock option award as of the date of grant using a Black-Scholes model, while the market price of our common stock at the date of grant is used for restricted stock awards.

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

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred taxes are computed using the asset and liability method, which represents the tax effects for the temporary differences between carrying amounts and tax bases of assets and liabilities, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is “more likely than not” that the tax asset or benefits will be realized. Deferred tax assets and liabilities are calculated by applying current enacted tax rates against future deductible or taxable amounts. Realization of tax benefits of deductible temporary differences and operating loss carry forwards depends on having sufficient taxable income of an appropriate character within the carry forward periods.

Accounting for Uncertainty in Income Taxes: We use a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. There were no uncertain tax positions as of December 31, 2024, or 2023.

We recognize interest and/or penalties related to income tax matters in income tax expense.

Subordinated Debentures: Long-term borrowings are carried at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized in interest expense. Debt issuance costs, if any, are included in the carrying value of the associated borrowings and are subsequently recognized in interest expense using the interest method over the life of the borrowing.

Retirement Plans: Pension expense is the net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized. Employee 401(k) plan expense is the amount of employer matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Earnings Per Common Share: Basic earnings per common share are calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options and unvested restricted stock. There is no adjustment to the number of outstanding shares for potential dilutive instruments, such as stock options, often occurring when market prices of our stock decrease below the stock option exercise prices after grant date, as the conversion of potential common stock is anti-dilutive or when stock options are not in-the-money. Earnings and dividends per share are restated for all stock splits and stock dividends, if any, through the date of issuance of the financial statements.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes the adjustment to fully recognize the liability associated with the Supplemental Executive Retirement Plan (“SERP”), changes in the unrealized gains and losses on securities available for sale and amortization of net unrealized gains and losses on securities transferred from available for sale to held to maturity, net of taxes, which are also recognized as separate components of equity on the consolidated statements of comprehensive income.

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

Restrictions on Cash and Due from Banks: The Federal Reserve Act Regulation D may require banks to maintain average reserve balances with the Federal Reserve Bank. Reserve requirements are offset by usable cash reserves. We had no such regulatory reserve requirement at December 31, 2024, or 2023, as the Federal Reserve Bank reduced the reserve requirement to $0 in 2020 in response to the COVID-19 pandemic.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders.

The California Financial Code and California General Corporation Law also impose restrictions on dividends that may be paid from the Bank and Bancorp, respectively. Refer to Note 16 for further details.

Fair Value of Financial Instruments: The fair value of financial instruments is estimated using relevant market information and other assumptions, as more fully disclosed in Note 4. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Operating Segments: While the chief decisionmakers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications: Certain reclassifications have been made to prior period financial statements to conform to the current year presentation. These reclassifications had no impact on prior year net income or shareholders' equity.

Adoption of New Accounting Standards:

On January 1, 2024, we adopted Financial Accounting Standards Board ("FASB") *Accounting Standard Update ("ASU") No. 2023-07, Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures ("ASU 2023-07"),* which amends disclosure requirements related to segment reporting primarily through enhanced disclosure about significant segment expenses and by requiring disclosure of segment information on an annual and interim basis. ASU 2023-07 is effective January 1, 2024, and for interim periods beginning after December 15, 2024. The key amendments (i) require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker (the "CODM") and included within each reported measure of segment profit or loss; (ii) require that a public entity disclose, on an annual and interim basis, an amount for other segment items by reportable segment and a description of its composition; (iii) require that a public entity provide all annual disclosures about a reportable segment's profit or loss currently required by GAAP in interim periods as well; (iv) clarify that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, an entity may report one or more of those additional measures of segment profit; (v) require that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the reported measure of segment profit or loss in assessing segment performance and deciding how to allocate resources; and (vi) require that a public entity that has a single reportable segment provide all the disclosures required by the amendments in the ASU and all existing segment disclosures. The Company has one reportable segment. The adoption of this standard did not have a material impact on our consolidated financial statements.

On January 1, 2023, we adopted *ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 326")*, as amended, which replaces the incurred loss methodology with an expected loss model that is referred to as the current expected credit loss ("CECL") model. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in certain leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as a valuation allowance rather than as a direct write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

We adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. A one-time cumulative effect adjustment was recorded to the allowance for credit losses of $4,112,000 as well as $521,000 increase to allowance on unfunded credit commitments, with the after-tax effect of $3,263,000 recorded against retained earnings upon adoption. Refer to Note 3 for additional information.

As allowed by ASC 326, we elected to maintain pools of loans accounted for under ASC 310-30. These loan pools are described in detail earlier in this Note and in Note 3. In accordance with the standard, management did not reassess whether modifications to individual acquired financial assets accounted for in pools were troubled debt restructurings as of the date of adoption.

On January 1, 2023, we adopted *ASU No. 2022-02, Financial Instruments - Credit Losses (Topic 326):- Troubled Debt Restructurings and Vintage Disclosures.* In March 2022, the FASB issued an Update to eliminate the recognition and measurement guidance for troubled debt restructurings (“TDRs”) by creditors in ASC 310-40, *Receivables-Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity now applies the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. Additionally, for public business entities, the amendments in this ASU require a public business entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases in the existing disclosures. The adoption of this standard did not have a material impact on our consolidated financial statements.

<u>Newly Issued Accounting Standards Not Yet Effective</u>:

ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, as amended – On March 12, 2020, the FASB issued guidance to ease the potential burden in accounting for reference rate reform. The amendments in Update 2020-04 are elective and apply to all entities that have contracts, hedging relationships and other transactions that reference London Interbank Offered Rate (“LIBOR”) or another reference rate are expected to be discontinued due to reference rate reform. The new guidance provides several optional expedients that reduce costs and complexity of accounting for reference rate reform. Topic 848 was amended in January 2021 with ASU No. 2021-01, which provided additional guidance on certain optional expedients and scope of derivative instruments and further amended in December 2022 with ASU 2022-06 to defer the sunset of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The guidance is effective for annual periods beginning after December 15, 2025. We do not anticipate a material impact on our consolidated financial statements due to lack of contracts that reference LIBOR.

ASU No. 2023-09, Income Taxes (Topic 740): Improvements To Income Tax Disclosures – On December 14, 2023, the FASB issued guidance to enhance the transparency and decision usefulness of income tax disclosures. The amendments require additional information to disclose specific categories in the rate reconciliation and reconciling items that meet a quantitative threshold. In addition, the amendments require that all entities disclose on an annual basis the amount of income taxes paid, net of refunds received on a disaggregated basis. The guidance is effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. We do not anticipate the adoption of this guidance to have a material impact on our consolidated financial statements.

NOTE 2 - DEBT SECURITIES

The fair value of available-for-sale securities reflected net unrealized losses of $18,764,000 and $15,004,000 at December 31, 2024 and 2023, respectively. The unrealized loss recorded is net of $5,548,000 and $4,436,000 tax effect as accumulated other comprehensive income within shareholders' equity at December 31, 2024 and 2023, respectively.

The following table summarizes the carrying value and estimated fair value of securities available for sale at December 31, 2024:

December 31, 2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale				
U.S. treasury bonds	$ 133,386	$ -	$ (7,340)	$ 126,046
U.S. government-sponsored agencies	7,211	-	(406)	6,805
SBA-backed securities	9,273	1	(145)	9,129
Government-guaranteed mortgage-backed securities	80,961	62	(3,956)	77,067
Government-guaranteed collateralized mortgage obligations	59,073	9	(2,797)	56,285
Private label collateralized mortgage obligations	9,575	-	(354)	9,221
Obligations of state and political subdivision	99,286	70	(3,691)	95,665
Asset-backed securities	2,390	2	(22)	2,370
Corporate bonds	18,082	2	(199)	17,885
Total available for sale	$ 419,237	$ 146	$ (18,910)	$ 400,473

The following table summarizes the carrying value, allowance for credit losses and estimated fair value of securities held to maturity at December 31, 2024:

December 31, 2024	Amortized Cost	Allowance for Credit Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held to maturity						
Government-guaranteed mortgage-backed securities	$ 147	$ -	$ 147	$ -	$ (6)	$ 141
Government-guaranteed collateralized mortgage obligations	482	-	482	1	(14)	469
Obligations of state and political subdivision	6,644	-	6,644	11	(460)	6,195
Total held to maturity	$ 7,273	$ -	$ 7,273	$ 12	$ (480)	$ 6,805

The following table summarizes the carrying value and estimated fair value of securities available for sale at December 31, 2023:

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale				
U.S. treasury bonds	$ 210,956	$ -	$ (12,168)	$ 198,788
U.S. government-sponsored agencies	12,901	-	(547)	12,354
SBA-backed securities	10,616	1	(129)	10,488
Government-guaranteed mortgage-backed securities	9,364	149	(556)	8,957
Government-guaranteed collateralized mortgage obligations	28,214	-	(1,382)	26,832
Obligations of state and political subdivision	5,519	126	(498)	5,147
Total available for sale	$ 277,570	$ 276	$ (15,280)	$ 262,566

The following table summarizes the carrying value, allowance for credit losses and estimated fair value of securities held to maturity at December 31, 2023:

December 31, 2023	Amortized Cost	Allowance for Credit Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held to maturity						
Government-guaranteed mortgage-backed securities	$ 190	$ -	$ 190	$ -	$ (4)	$ 186
Government-guaranteed collateralized mortgage obligations	575	-	575	3	(20)	558
Obligations of state and political subdivision	6,820	-	6,820	30	(252)	6,598
Total held to maturity	$ 7,585	$ -	$ 7,585	$ 33	$ (276)	$ 7,342

Majority of the portfolio's unrealized losses are related to U.S. Treasury bonds and securities issued or guaranteed by the U.S. government-sponsored enterprises ("GSEs"). With regard to U.S. Treasury and residential and commercial mortgage-backed securities issued by the GSEs, or debentures issued by its sponsored agencies, it is expected that the securities will not be settled at prices less than the par value bases of the securities, as such securities are backed by the explicit full faith and credit of and/or implicitly guaranteed by the U.S. government. The decline in fair value on these investments is primarily attributable to changes in the market interest rates and or factors other than credit quality. As of December 31, 2024, we neither had the intent to sell these securities nor is more likely than not that we will be required to sell the securities before their anticipated recovery.

Regarding potential credit exposure on securities issued by states and political subdivisions as well as corporate bonds, management considers (i) issuers' or the underlying bonds' credit ratings, (ii) historical probability of default and loss given default rates for given bond ratings and remaining maturity, (iii) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, (iv) internal and external credit review of the latest financial information of the issuers and/or guarantors and (v) whether or not such securities are guaranteed by insurance or the Texas Permanent School Fund, have other credit enhancements, contain a defeasance clause or pre-refunded by the issuers.

To assess potential credit exposure on private label collateralized mortgage obligations and asset-backed securities, management considers (i) bonds' credit ratings, (ii) the existence and performance of any credit support tranches, (iii) prepayment and delinquency rates of the underlying assets and (iv) whether the issuers continue to make timely principal and interest payments, including any historical probability of default and loss given default rates.

Based on a comprehensive assessment of the portfolio as discussed in the preceding paragraphs, no credit losses are expected. For that reason, no allowance for credit losses has been recognized on available for sale or held-to-maturity securities as of December 31, 2024, or 2023.

There were no transfers between available for sale and held to maturity during 2024 or 2023.

Thirty available-for-sale securities were sold in 2024 with total proceeds of $28,359,000 and combined net losses of $0 recorded. Five available-for-sale securities were sold in 2023 with total proceeds of $17,195,000 and combined net losses of $30,000 recorded.

The amortized cost and estimated fair value of debt securities at December 31, 2024, are shown by contractual maturity for securities due at a single maturity date. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date were allocated into the respective categories based on the expected average life of the security. The expected average life considers principal reductions, prepayments and calls.

	December 31, 2024	
	Amortized Cost	Estimated Fair Value
Available for sale		
Within one year	$ 54,290	$ 53,244
One to five years	176,239	167,170
Five to 10 years	137,544	131,380
Beyond 10 years	51,164	48,679
Total	$ 419,237	$ 400,473
Held to maturity		
Within one year	$ 534	$ 533
One to five years	617	599
Five to 10 years	382	392
Beyond 10 years	5,740	5,281
Total	$ 7,273	$ 6,805

Investment securities pledged at December 31, 2024 and 2023 had a carrying amount of $104,363,000 and $69,176,000, respectively, and were pledged to secure deposits from local public agencies and the State of California. These investment securities had a fair value amount of $99,612,000 and $65,061,000 at December 31, 2024 and 2023, respectively.

At December 31, 2024 and 2023, there were no holdings of securities of any one issuer, other than those issued by U.S. Government and its sponsored agencies, in an amount greater than 10% of shareholders' equity.

The following tables summarize investment securities with unrealized losses at December 31, 2024 and 2023, aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

December 31, 2024	Less than 12 months		12 months or more		Total	
Available for sale	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury bonds	$ -	$ -	$ 126,046	$ (7,340)	$ 126,046	$ (7,340)
U.S. government-sponsored agencies	1,561	(89)	5,243	(317)	6,804	(406)
SBA-backed securities	2,974	(54)	5,932	(91)	8,906	(145)
Government-guaranteed mortgage-backed securities	69,078	(3,526)	4,054	(430)	73,132	(3,956)
Government-guaranteed collateralized mortgage obligations	32,269	(1,405)	18,745	(1,392)	51,014	(2,797)
Private label collateralized mortgage obligations	9,221	(354)	-	-	9,221	(354)
Obligations of state and political subdivision	90,156	(3,180)	3,533	(511)	93,689	(3,691)
Asset-backed securities	913	(22)	-	-	913	(22)
Corporate bonds	16,011	(199)	-	-	16,011	(199)
Total available for sale	$ 222,183	$ (8,829)	$ 163,553	$ (10,081)	$ 385,736	$ (18,910)
Held to maturity						
Government-guaranteed mortgage-backed securities	$ 4	$ -	$ 136	$ (6)	$ 140	$ (6)
Government-guaranteed collateralized mortgage obligations	100	(1)	292	(13)	392	(14)
Obligations of state and political subdivision	5,280	(460)	-	-	5,280	(460)
Total held to maturity	$ 5,384	$ (461)	$ 428	$ (19)	$ 5,812	$ (480)

December 31, 2023	Less than 12 months		12 months or more		Total	
Available for sale	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury bonds	$ -	$ -	$ 198,788	$ (12,168)	$ 198,788	$ (12,168)
U.S. government-sponsored agencies	-	-	12,354	(547)	12,354	(547)
SBA-backed securities	-	-	10,169	(129)	10,169	(129)
Government-guaranteed mortgage-backed securities	-	-	4,969	(556)	4,969	(556)
Government-guaranteed collateralized mortgage obligations	6,971	(255)	19,860	(1,127)	26,831	(1,382)
Obligations of state and political subdivision	-	-	3,551	(498)	3,551	(498)
Total available for sale	$ 6,971	$ (255)	$ 249,691	$ (15,025)	$ 256,662	$ (15,280)
Held to maturity						
Government-guaranteed mortgage-backed securities	$ -	$ -	$ 184	$ (4)	$ 184	$ (4)
Government-guaranteed collateralized mortgage obligations	73	(1)	391	(19)	464	(20)
Obligations of state and political subdivision	5,697	(252)	-	-	5,697	(252)
Total held to maturity	$ 5,770	$ (253)	$ 575	$ (23)	$ 6,345	$ (276)

As of December 31, 2024, our securities portfolio consisted of 287 investment securities, 185 of which were in an unrealized loss position for less than twelve months and 84 were in a loss position and had been in a loss position for 12 months or more. As of December 31, 2023, our securities portfolio consisted of 131 investment securities, six of which were in an unrealized loss position for less than 12 months and 118 were in a loss position and had been in a loss position for twelve months or more.

The following tables summarize the amortized cost of debt securities held to maturity at December 31, 2024 and 2023, aggregated by credit quality indicator:

December 31, 2024	State and Political Subdivisions	Mortgage-Backed Residential	Collateralized Mortgage Obligations	Total
Held to maturity				
Aaa/AAA	$ 904	$ -	$ -	$ 904
Aa/AA	-	147	482	629
Not rated	5,740	-	-	5,740
Total	$ 6,644	$ 147	$ 482	$ 7,273

December 31, 2023	State and Political Subdivisions	Mortgage-Backed Residential	Collateralized Mortgage Obligations	Total
Held to maturity				
Aaa/AAA	$ 871	$ -	$ -	$ 871
Aa/AA	-	190	575	765
Not rated	5,949	-	-	5,949
Total	$ 6,820	$ 190	$ 575	$ 7,585

NOTE 3 - LOANS RECEIVABLE

The outstanding loan portfolio balances at amortized cost at December 31, 2024 and 2023 were as follows:

	2024	2023
Commercial and industrial	$ 299,099	$ 254,320
Commercial real estate	1,333,644	811,864
Land and construction	191,048	137,882
SBA, B&I and FSA	185,739	140,184
Consumer	35,685	33,347
Loans, net of deferred fees and costs	2,045,215	1,377,597
Allowance for credit losses on loans	(31,622)	(23,943)
Loans receivable, net of allowance	$ 2,013,593	$ 1,353,654

Deferred fees at December 31, 2024 and 2023 were $6,610,000 and $6,783,000 respectively. Deferred costs at December 31, 2024 and 2023 were $8,743,000 and $8,942,000 respectively. Fair value marks on loans associated with the acquisition of 1st Capital Bancorp totaled $30,622,000 at December 31, 2024.

At December 31, 2024 and 2023, loans held for sale totaled $0 and $33,696,000, respectively.

Salaries and employee benefits totaling $5,123,000 and $5,031,000 have been deferred as loan origination costs for the years ended December 31, 2024 and 2023, respectively.

The following tables present the activity in the ACL by portfolio segment for each of the years ended December 31, 2024 and 2023:

Allowance for credit losses	Commercial and Industrial	Commercial Real Estate	Land and Construction	SBA, B&I and FSA	Consumer	Unallocated	Total
2024							
Beginning balance	$ 3,692	$ 17,025	$ 486	$ 1,347	$ 504	$ 889	$ 23,943
Provision (reversal)	1,892	(1,388)	8,532	(676)	(531)	(900)	6,929
Initial allowance for acquired PCD loans	-	49	90	179	488	-	806
Loans charged off	(44)	-	-	(11)	(1)	-	(56)
Recoveries	-	-	-	-	-	-	-
Ending balance	$ 5,540	$ 15,686	$ 9,108	$ 839	$ 460	$ (11)	$ 31,622
2023							
Beginning balance	$ 6,192	$ 6,530	$ 7,600	$ 881	$ 241	$ -	$ 21,444
Impact of adopting ASC 326	(563)	10,289	(6,936)	906	416	-	4,112
Provision (reversal)	230	206	(178)	(440)	(153)	889	554
Loans charged off	(2,171)	-	-	-	-	-	(2,171)
Recoveries	4	-	-	-	-	-	4
Ending balance	$ 3,692	$ 17,025	$ 486	$ 1,347	$ 504	$ 889	$ 23,943

The following table presents the recorded investment in nonaccrual loans and loans past due over 89 days by class of loans as of December 31, 2024 and 2023:

	Nonaccrual		Loans Past Due Over 89 Days and Still Accruing	
	2024	2023	2024	2023
Commercial real estate	$ 504	$ 6,526	$ -	$ 2,999
SBA, B&I and FSA	114	-	-	-
Total	$ 618	$ 6,526	$ -	$ 2,999

The following table presents the aging of the recorded investment in past due loans as of December 31, 2024 and 2023 by class of loans:

	Past Due					
December 31, 2024	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Loans Not Past Due	Total Loans Receivable
Commercial and industrial	$ -	$ -	$ -	$ -	$ 299,099	$ 299,099
Commercial real estate	387	504	-	891	1,332,753	1,333,644
Land and construction	-	-	-	-	191,048	191,048
SBA, B&I and FSA	50	-	64	114	185,625	185,739
Consumer	-	-	-	-	35,685	35,685
Total	$ 437	$ 504	$ 64	$ 1,005	$ 2,044,210	$ 2,045,215

	Past Due					
December 31, 2023	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Loans Not Past Due	Total Loans Receivable
Commercial and industrial	$ -	$ -	$ -	$ -	$ 254,320	$ 254,320
Commercial real estate	-	-	9,525	9,525	802,339	811,864
Land and construction	-	-	-	-	137,882	137,882
SBA, B&I and FSA	-	-	-	-	140,184	140,184
Consumer	-	-	-	-	33,347	33,347
Total	$ -	$ -	$ 9,525	$ 9,525	$ 1,368,072	$ 1,377,597

The following table presents the gross charge-offs in 2024 and 2023 by year of origination:

December 31, 2024	2024	2023	2022	2021	2020	Prior Periods	Revolving	Total
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ -	$ 44	$ 44
SBA, B&I and FSA	-	-	-	-	-	11	-	11
Consumer	-	-	-	1	-	-	-	1
Total	$ -	$ -	$ -	$ 1	$ -	$ 11	$ 44	$ 56
December 31, 2023								
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,171	$ 2,171
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,171	$ 2,171

At times, we adjust loan terms for borrowers facing financial hardship by offering principal forgiveness, extending loan terms, deferring payments or reducing interest rates. When principal forgiveness is granted, the forgiven amount is written off against the allowance for credit losses. Prior to the adoption of CECL in 2023, the guidance for such situations fell under ASC 310-40 and were classified as troubled debt restructures (TDR). With the issuance of ASU 2022-02, the TDR classification has been eliminated and loan modifications are now assessed under broader standards of financial difficulty. One loan of $21,000 was carried over from the TDR classification to the new guidance.

The following table presents the recorded investment of loan modifications, segregated by type of modification, to borrowers experiencing financial difficulty during 2024 and 2023:

December 31, 2024	Payment Delay	Percent of Total Class of Loans
Modifications:		
Commercial and industrial	$ 269	0.09%
Land and construction	10,003	5.24%
SBA, B&I and FSA	82	0.04%
Consumer	14	0.04%
Total	$ 10,369	0.51%

December 31, 2023	Payment Delay	Percent of Total Class of Loans
Modifications:		
Commercial and industrial	$ 188	0.07%
SBA, B&I and FSA	111	0.08%
Consumer	21	0.06%
Total	$ 320	0.02%

Credit Quality Indicators: We assign loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial condition of borrowers and guarantors, historical payment experience, credit documentation, public information and current economic trends, among other factors. We analyze all loans individually by classifying the loans according to credit risk. This analysis includes loans with an outstanding balance greater than $25,000 and non-homogeneous loans, such as commercial and commercial real estate loans. The loans are evaluated and rated at the time of underwriting, at renewal, if payment becomes past due or if an event of default occurs. These risk ratings are also subject to examination by independent specialists we engage and our regulators. The risk categories are grouped into four major categories defined as follows:

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

Special Mention – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in our credit position at some future date. Special mention loans are not adversely classified and do not expose us to sufficient risk to warrant adverse classification.

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

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

Overdraft lines of credit and loans that do not meet the criteria above are considered to be pass-rated loans.

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

December 31, 2024	2024	2023	2022	2021	2020	Prior	Revolving	Total
Commercial and industrial								
Pass	$ 22,179	$ 23,974	$ 38,703	$ 20,459	$ 12,353	$ 26,875	$ 125,036	$ 269,579
Special mention	-	-	34	2,948	3,674	3,913	17,646	28,215
Substandard	482	-	51	-	-	772	-	1,305
Substandard - Nonaccrual	-	-	-	-	-	-	-	-
Total	$ 22,661	$ 23,974	$ 38,788	$ 23,407	$ 16,027	$ 31,560	$ 142,682	$ 299,099
Commercial real estate								
Pass	$ 166,623	$ 272,781	$ 198,991	$ 166,132	$ 185,072	$ 292,840	$ -	$ 1,282,439
Special mention	8,738	14,965	-	3,141	7,547	16,310	-	50,701
Substandard	-	-	-	-	-	-	-	-
Substandard - Nonaccrual	-	504	-	-	-	-	-	504
Total	$ 175,361	$ 288,250	$ 198,991	$ 169,273	$ 192,619	$ 309,150	$ -	$ 1,333,644
Land and construction								
Pass	$ 47,779	$ 55,811	$ 34,051	$ 22,248	$ 12,678	$ -	$ -	$ 172,567
Special mention	-	-	6,810	-	-	1,668	-	8,478
Substandard	-	-	-	10,003	-	-	-	10,003
Substandard - Nonaccrual	-	-	-	-	-	-	-	-
Total	$ 47,779	$ 55,811	$ 40,861	$ 32,251	$ 12,678	$ 1,668	$ -	$ 191,048
SBA, B&I and FSA								
Pass	$ 31,484	$ 22,581	$ 41,144	$ 24,740	$ 13,155	$ 48,362	$ -	$ 181,466
Special mention	-	217	-	1,124	114	2,539	-	3,994
Substandard	-	-	-	-	-	165	-	165
Substandard - Nonaccrual	-	-	-	-	-	114	-	114
Total	$ 31,484	$ 22,798	$ 41,144	$ 25,864	$ 13,269	$ 51,180	$ -	$ 185,739
Consumer								
Pass	$ 6,010	$ 5,210	$ 6,641	$ 4,197	$ 1,349	$ 11,066	$ 2	$ 34,475
Special mention	-	-	-	1,103	-	93	-	1,196
Substandard	-	-	-	-	-	14	-	14
Substandard - Nonaccrual	-	-	-	-	-	-	-	-
Total	$ 6,010	$ 5,210	$ 6,641	$ 5,300	$ 1,349	$ 11,173	$ 2	$ 35,685
Total								
Pass	$ 274,075	$ 380,357	$ 319,530	$ 237,776	$ 224,607	$ 379,143	$ 125,038	$ 1,940,526
Special mention	8,738	15,182	6,844	8,316	11,335	24,523	17,646	92,584
Substandard	482	-	51	10,003	-	951	-	11,487
Substandard - Nonaccrual	-	504	-	-	-	114	-	618
Total	$ 283,295	$ 396,043	$ 326,425	$ 256,095	$ 235,942	$ 404,731	$ 142,684	$ 2,045,215

The following table presents the risk category of loans by class and year of origination of loans as of December 31, 2023:

December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving	Total
Commercial and industrial								
Pass	$ 17,323	$ 38,142	$ 19,590	$ 12,493	$ 10,011	$ 20,077	$ 117,996	$ 235,632
Special mention	-	675	3,800	1,428	215	664	11,718	18,500
Substandard	-	-	-	-	188	-	-	188
Substandard - Nonaccrual	-	-	-	-	-	-	-	-
Total	$ 17,323	$ 38,817	$ 23,390	$ 13,921	$ 10,414	$ 20,741	$ 129,714	$ 254,320
Commercial real estate								
Pass	$ 211,812	$ 146,640	$ 110,104	$ 131,890	$ 32,403	$ 161,151	$ -	$ 794,000
Special mention	-	-	2,268	-	-	3,668	-	5,936
Substandard	-	-	-	2,999	-	2,403	-	5,402
Substandard - Nonaccrual	-	-	-	6,526	-	-	-	6,526
Total	$ 211,812	$ 146,640	$ 112,372	$ 141,415	$ 32,403	$ 167,222	$ -	$ 811,864
Land and construction								
Pass	$ 17,098	$ 51,950	$ 40,791	$ 16,286	$ 1,668	$ 101	$ -	$ 127,894
Special mention	-	-	9,988	-	-	-	-	9,988
Substandard	-	-	-	-	-	-	-	-
Substandard - Nonaccrual	-	-	-	-	-	-	-	-
Total	$ 17,098	$ 51,950	$ 50,779	$ 16,286	$ 1,668	$ 101	$ -	$ 137,882
SBA, B&I and FSA								
Pass	$ 8,774	$ 25,699	$ 31,380	$ 17,785	$ 12,589	$ 40,963	$ -	$ 137,190
Special mention	-	-	-	-	-	689	-	689
Substandard	-	-	-	-	78	2,227	-	2,305
Substandard - Nonaccrual	-	-	-	-	-	-	-	-
Total	$ 8,774	$ 25,699	$ 31,380	$ 17,785	$ 12,667	$ 43,879	$ -	$ 140,184
Consumer								
Pass	$ 7,549	$ 7,691	$ 5,383	$ 1,009	$ 1,948	$ 9,719	$ 2	$ 33,301
Special mention	-	-	-	-	-	25	-	25
Substandard	-	-	-	-	-	21	-	21
Substandard - Nonaccrual	-	-	-	-	-	-	-	-
Total	$ 7,549	$ 7,691	$ 5,383	$ 1,009	$ 1,948	$ 9,765	$ 2	$ 33,347
Total								
Pass	$ 262,556	$ 270,122	$ 207,248	$ 179,463	$ 58,619	$ 232,011	$ 117,998	$ 1,328,017
Special mention	-	675	16,056	1,428	215	5,046	11,718	35,138
Substandard	-	-	-	2,999	266	4,651	-	7,916
Substandard - Nonaccrual	-	-	-	6,526	-	-	-	6,526
Total	$ 262,556	$ 270,797	$ 223,304	$ 190,416	$ 59,100	$ 241,708	$ 129,716	$ 1,377,597

Individual Evaluation of Loans: In accordance with 326-20-30-2, we will evaluate individual instruments for expected credit losses when those instruments do not share similar risk characteristics with instruments evaluated using a collective (pooled) basis. In contrast to legacy accounting standards (310-10 / FAS 114), this criterion is broader than the “impairment” concept; management may evaluate assets individually even when no specific expectation of collectability is in place. Instruments will not be included in both collective and individual analysis. Individual analysis will establish a specific reserve for instruments in scope. Methods of individual evaluation permitted by our policy include the collateral value method, the cash flow method and the loan pricing method.

The following table presents the loans that were individually evaluated as of December 31, 2024 and 2023 by class of loans:

December 31, 2024	Unpaid Principal Balance	Recored Investment	Allowance for Credit Losses Allocated	Average Recored Investment	Interest Income Recognized
With no related allowance recorded					
Commercial and industrial	$ 1,348	$ 1,359	$ -	$ 1,572	$ 109
Commercial real estate	-	-	-	-	-
Land and construction	-	-	-	-	-
SBA, B&I and FSA	464	316	-	368	51
Consumer	-	-	-	-	-
Total	$ 1,812	$ 1,675	$ -	$ 1,940	$ 160
With an allowance recorded					
Commercial and industrial	$ 47	$ 51	$ 4	$ 27	$ 5
Commercial real estate	504	504	19	504	24
Land and construction	10,000	10,003	211	9,995	1,059
SBA, B&I and FSA	-	-	-	-	-
Consumer	12	14	2	18	1
Total	$ 10,563	$ 10,572	$ 235	$ 10,543	$ 1,089
Total individually analyzed loans					
Commercial and industrial	$ 1,395	$ 1,410	$ 4	$ 1,599	$ 113
Commercial real estate	504	504	19	504	24
Land and construction	10,000	10,003	211	9,995	1,059
SBA, B&I and FSA	464	316	-	368	51
Consumer	12	14	2	18	1
Total	$ 12,375	$ 12,247	$ 235	$ 12,484	$ 1,249

December 31, 2023	Unpaid Principal Balance	Recored Investment	Allowance for Credit Losses Allocated	Average Recored Investment	Interest Income Recognized
With no related allowance recorded					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Land and construction	11,955	11,928	-	11,959	449
SBA, B&I and FSA	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 11,955	$ 11,928	$ -	$ 11,959	$ 449
With an allowance recorded					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	185	188	185	236	24
Land and construction	-	-	-	-	-
SBA, B&I and FSA	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 185	$ 188	$ 185	$ 236	$ 24
Total individually analyzed loans					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	185	188	185	236	24
Land and construction	11,955	11,928	-	11,959	449
SBA, B&I and FSA	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 12,140	$ 12,116	$ 185	$ 12,195	$ 473

NOTE 4 - FAIR VALUE

Fair Value Hierarchy: 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. We group our assets and liabilities measured at fair value into three levels. Valuations within these levels are based upon:

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

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

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

We use the following methods and significant assumptions to estimate fair value:

Cash and Cash Equivalents: The carrying amount of cash and cash equivalents is a reasonable estimate of fair value and are classified as Level 1.

Interest-bearing Deposits in Other Financial Institutions: The fair values were calculated using discounted cash flow models based on market rates resulting in a Level 2 classification.

Debt Securities: The fair values of debt securities classified as available for sale and held to maturity are based on quoted market prices, if available (Level 1) at the reporting date. For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded and values debt securities without relying exclusively on quoted prices for the specific securities but rather relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows based on unobservable inputs or assumptions (Level 3).

Loans Held for sale: Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third-party investors (Level 2).

Loans: The fair value of loans is determined as the present value of expected future cash flows discounted at the rate that represents current market rates for new origination of comparable loans and included adjustments for interest rate, credit, equity return, servicing and liquidity risk factors, resulting in a Level 3 classification. Loans are grouped according to similar characteristics such as loan type, risk classification, past due status, fixed or variable terms, repricing frequency, amortization and terms. The estimated fair values of financial instruments disclosed below follow the guidance in ASU 2016-01, which prescribes an "exit price" approach in estimating and disclosing fair value of financial instruments.

Accrued Interest Receivable/Payable: The respective carrying values of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include accrued interest receivable and accrued interest payable. Carrying values were assumed to approximate fair values for these financial instruments as they are short term in nature and their recorded amounts approximate fair values or are receivable or payable on demand. We do not use derivative financial instruments. The carrying amounts of accrued interest approximate their fair value resulting in a Level 2 or Level 3 classification.

Deposits: The fair values of demand deposits, savings deposits and money market deposits without defined maturities were the amounts payable on demand at the reporting date resulting in a Level 1 classification. For variable rate deposits where we have the contractual right to change rates, carrying value was assumed to approximate fair value resulting in a Level 1 classification. For certificates of deposit with defined maturities, the fair values were calculated using discounted cash flow models based on market interest rates for different product types and maturity dates. The discount rates used were based on rates for comparable deposits resulting in a Level 2 classification.

Subordinated Debentures: The fair value of subordinated debentures is estimated using a discounted cash flow approach by discounting the future expected cash flows to their present values using current market rates at which similar bonds would be issued with similar credit worthiness and remaining lives or payment structure. The discount rate is developed using assumptions including (i) yield and credit spreads to the Secured Overnight Finance Rate ("SOFR") spot curve based on recent issuances and trades of subordinated debentures and preferred stock by similar banks and bank holding companies, (ii) a credit risk spread based on the performance and condition of the issuer and (iii) and a liquidity adjustment based on the illiquid nature of the subordinated debentures. The unobservable nature of the inputs and assumptions used in developing the discount rate results in a Level 3 classification.

Assets Recorded at Fair Value: Our assets measured at fair value on a recurring basis as of December 31, 2024 and 2023 are summarized below:

	Fair Value Measurements at December 31, 2024 Using:			
Securities available for sale	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
U.S. treasury bonds	$ -	$ 126,046	$ -	$ 126,046
U.S. government-sponsored agencies	-	6,805	-	6,805
SBA-backed securities	-	9,129	-	9,129
Government-guaranteed mortgage-backed securities	-	77,067	-	77,067
Government-guaranteed collateralized mortgage obligations	-	56,285	-	56,285
Private label collateralized mortgage-backed securities	-	9,221	-	9,221
Obligations of state and political subdivision	-	95,665	-	95,665
Asset-backed securities		2,370		2,370
Corporate bonds	-	17,285	600	17,885
	$ -	$ 399,873	$ 600	$ 400,473

One of our securities acquired through the merger with 1st Capital Bancorp is classified as Level 3 because of a lack of observable market data. The table below presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31:

	Corporate Bonds 2024	Corporate Bonds 2023
Balance of recurring Level 3 assets at January 1	$ -	$ -
Acquired assets	608	-
Total gains or losses for the period included in other comprehensive income	(8)	-
Ending balance of recurring Level 3 assets	$ 600	$ -

Securities available for sale	Fair Value Measurements at December 31, 2023 Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
U.S. treasury bonds	$ -	$ 198,788	$ -	$ 198,788
U.S. government-sponsored agencies	-	12,354	-	12,354
SBA-backed securities	-	10,488	-	10,488
Government-guaranteed mortgage-backed securities	-	8,957	-	8,957
Government-guaranteed collateralized mortgage obligations	-	26,832	-	26,832
Obligations of state and political subdivision	-	5,147	-	5,147
	$ -	$ 262,566	$ -	$ 262,566

There were no transfers between Level 1, Level 2 and Level 3 during 2024 or 2023. There were no recurring Level 3 assets or liabilities measured at fair value during 2024 or 2023.

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

The fair value of collateral-dependent loans individually evaluated with specific allocations of the allowance for credit losses on loans is generally based on real estate appraisals received after origination. There were two individually analyzed loans that were deemed collateral dependent at year-end 2024. No assets measured at fair value on a non-recurring basis at year-end 2023.

Fair Value of Financial Instruments: The carrying amounts and estimated fair values of financial instruments not carried at fair value, at December 31, 2024 and 2023, are summarized in the table below. Financial instruments specifically excluded from disclosure requirements such as bank-owned life insurance policies, lease obligations and non-maturity deposit liabilities are not included below:

	Fair Value Measurements at December 31, 2024 Using:				
	Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Financial Assets					
Cash and cash equivalents	$ 84,758	$ 84,758	$ -	$ -	$ 84,758
Interest-bearing deposits in other financial institutions	249	-	249	-	249
Debt securities held to maturity	7,273	-	1,525	5,280	6,805
Loans held for sale	-	-	-	-	-
Loans, net of allowance	2,013,593	-	-	1,984,270	1,984,270
Accrued interest receivable	10,699	-	2,256	8,443	10,699
Financial Liabilities					
Time deposits	$ 173,875	$ -	$ 173,151	$ -	$ 173,151
Overnight borrowings	-	-	-	-	-
Subordinated debentures	11,608	-	-	11,894	11,894
Accrued interest payable	1,359	294	1,065	-	1,359

	Fair Value Measurements at December 31, 2023 Using:				
	Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Financial Assets					
Cash and cash equivalents	$ 33,938	$ 33,938	$ -	$ -	$ 33,938
Interest-bearing deposits in other financial institutions	10,457	-	10,123	-	10,123
Debt securities held to maturity	7,585	-	1,645	5,697	7,342
Loans held for sale	33,696	-	36,264	-	36,264
Loans, net of allowance	1,353,654	-	-	1,330,952	1,330,952
Accrued interest receivable	8,140	-	1,263	6,877	8,140
Financial Liabilities					
Time deposits	$ 179,612	$ -	$ 178,191	$ -	$ 178,191
Overnight borrowings	32,500	32,500	-	-	32,500
Accrued interest payable	1,044	108	936	-	1,044

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

NOTE 5 - PREMISES AND EQUIPMENT

The following presents the cost of premises and equipment, including leasehold improvements and the related accumulated depreciation and amortization at December 31, 2024 and 2023:

	2024	2023
Land and construction	$ 1,082	$ 1,682
Building	4,131	6,390
Furniture, fixtures and equipment	3,964	3,688
Software and capitalized data and item processing	361	350
Computer equipment	1,831	1,378
Leasehold improvements	4,057	3,221
Construction-in-progress	666	254
Total premises and equipment	16,092	16,963
Less: accumulated depreciation and amortization	(6,695)	(5,933)
Premises and equipment	$ 9,397	$ 11,030

Depreciation expense was $1,289,000 and $1,363,000 for 2024 and 2023, respectively. During the third quarter of 2023, we sold our vacant property with the associated furniture and equipment and recognized a $255,000 gain.

Due to the geographic branch overlap resulting from the acquisition discussed in Note 18, the Company sold a branch facility in Monterey, California, on December 27, 2024, with sales proceeds of $1,892,000 and recorded a loss on sale of $509,000 in 2024.

NOTE 6 - LEASES

Lessee Arrangements: We enter into leases in the normal course of business primarily for branches, back-office operations and loan production offices. Our leases have remaining terms ranging from one to 10 years, some of which include renewal options to extend the lease for up to five years. The weighted average lease term at December 31, 2024, is 5.16 years, and the weighted average discount rate used in the calculations is 1.85%. Our leases do not include residual value guarantees or covenants.

We lease certain branch properties and equipment under long-term operating lease agreements. These leases expire on various dates through 2033 and have various renewal options of five years each. Some leases may include a free rent period or have net operating costs associated with them.

We include lease extension options in the lease term if, after considering relevant economic factors, it is reasonably certain we 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. We have elected the practical expedient under ASC 842-20-25-2, *Short-Term Leases*, to not recognize leases with original lease terms of 12 months or less (short-term leases) on our balance sheet. We have elected the practical expedient under ASC 842-20-25-37, *Lessee*, to not separate non-lease components from lease components and instead to account for each separate lease component and the non-lease components associated with that lease component as a single lease component.

Leases are classified as operating or finance leases at 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 our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. Adjustments to the required minimum future lease payments that are variable and will not be determinable until a future period are immaterial and not included in the determination of the right of use assets and lease liabilities.

We use the incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. Our 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:

	Balance Sheet Classification	2024	2023
Right-of-use assets:			
Operating leases	Accrued interest receivable and other assets	$ 6,787	$ 4,192
Lease liabilities:			
Operating leases	Accrued interest payable and other liabilities	$ 7,157	$ 4,424

Lease Expense: The components of total lease cost were as follows for the periods ending:

	December 31, 2024	December 31, 2023
Operating lease cost	$ 1,083	$ 850
Short-term lease cost	-	-
Total lease cost, net	$ 1,083	$ 850

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	$ 1,511
2026	1,399
2027	1,128
2028	960
2029	920
Thereafter	2,062
Total undiscounted lease payments	7,980
Less: imputed interest	(823)
Net lease liabilities	$ 7,157

NOTE 7 - GOODWILL AND INTANGIBLE ASSETS

Business combinations involving our acquisition of the equity interests or net assets of another enterprise give rise to goodwill.

Goodwill: The change in goodwill during the year is as follows:

	2024	2023
Balance at beginning of year	$ 25,762	$ 25,762
Acquired goodwill	14,292	-
Impairment	-	-
Balance at end of year	$ 40,054	$ 25,762

Total goodwill represents the excess of the purchase consideration over the fair value of assets acquired net of fair value of liabilities assumed in the business combinations accounted under the purchase method accounting for 1st Capital Bancorp in 2024 and Lighthouse Bank in 2019. The value of goodwill is dependent on our ability to generate net earnings after the acquisition and is not deductible for tax purposes.

Impairment for goodwill exists when a reporting unit's carrying value exceeds its fair value. At December 31, 2024, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

Other Acquired Intangible Assets: The other acquired intangible assets at December 31, 2024, included the core deposit relationships from the acquisitions of 1st Capital Bancorp in 2024 of $27,700,000 and Lighthouse Bank in 2019 of $3,707,000. Core deposit intangibles are being amortized using dollar weighted deposit runoff on an annualized basis over an estimated life of 13 years and 10 years from the date of acquisition with 1st Capital Bancorp and Lighthouse Bank, respectively. At December 31, 2024, the weighted average remaining amortization period for 1st Capital Bank is 12.75 years and for Lighthouse Bank is 4.75 years. The carrying value of intangible assets at December 31, 2024 and 2023 was $28,051,000 and $1,671,000, respectively, net of accumulated amortization expense as shown in the following table:

	2024		2023	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Core deposit intangibles	$ 31,407	$ 3,356	$ 3,707	$ 2,036

Impairment indicators for core deposit intangibles exist when interest rates of the wholesale funding sources fall significantly and core deposit outflows are more than expected, often resulting from sudden change in deposit behaviors due to alarming market events or economic conditions, or there is intense market competition for core deposits. At December 31, 2024, the Company determined that there have been no changes in the acquired deposit portfolios or market conditions that would indicate an impairment of the core deposit intangibles, resulting in no impairment recorded in 2024 or 2023.

Amortization expense recognized was $1,320,000 for 2024 and $363,000 for 2023.

The following table summarizes our estimated core deposit intangible amortization expense for each of the next five years:

Year ending December 31,	Estimated Future Amortization Expense of Core Deposit Intangible
2025	$ 4,193
2026	3,870
2027	3,548
2028	3,228
2029	2,863
Thereafter	10,349
Total	$ 28,051

NOTE 8 - DEPOSITS

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

	2024	2023
Demand deposit	$ 270,254	$ 219,641
Money market	668,584	434,369
Time deposits $250,000 or more	70,597	66,211
Time deposits less than $250,000	103,278	113,401
Savings	183,507	105,012
Total interest-bearing deposits	$ 1,296,220	$ 938,634

Aggregate annual maturities of time deposits are as follows:

	2024
2025	$ 170,745
2026	2,823
2027	222
2028	85
2029	-
Thereafter	-
	$ 173,875

NOTE 9 - BORROWED FUNDS

We have established a secured borrowing arrangement, secured by loans totaling approximately $985,125,000 and $727,489,000, with the FHLB as of December 31, 2024 and 2023, respectively. Overnight and term advances are available under the FHLB borrowing arrangement and the credit limit varies according to the amount and composition of the investments and loan portfolios pledged to FHLB as collateral. We had no overnight advances nor any term advances through the FHLB as of December 31, 2024, or 2023.

We also have an available line of credit with the FRB secured by certain loans totaling approximately $399,884,000 and $322,052,000 as of December 31, 2024 and 2023, respectively. No borrowings were outstanding from the FRB's discount window or its Bank Term Funding Program at December 31, 2024 or 2023.

At December 31, 2024 and 2023, we had unsecured lines of credit with our correspondent banks in an aggregate amount of $95,000,000 and $80,000,000, respectively. At year-end, correspondent banks offered overnight advances at fixed rates above the federal funds rate ranging from 4.90% to 5.81%, averaging 5.48%. As of December 31, 2024, there was no outstanding amount of overnight borrowing under these lines. As of December 31, 2023, outstanding total of overnight borrowing under these lines was $32,500,000.

The following table summarizes our borrowing capacity under various lines of credit and the outstanding borrowings as of December 31, 2024 and 2023:

	2024	2023
Line of credit from the FHLB – collateralized	$ 645,716	$ 434,961
Line of credit from the FRB – collateralized	322,258	251,641
Lines at correspondent banks – unsecured	95,000	80,000
Total external contingency liquidity capacity	1,062,974	766,602
Less: overnight borrowings	-	(32,500)
Net available borrowing capacity	$ 1,062,974	$ 734,102

NOTE 10 – SUBORDINATED DEBENTURES

In June 2021, 1st Capital Bancorp issued $15,000,000 aggregate principal amount of its 4.00% fixed-to-floating rate subordinated notes due 2036 in a private placement transaction to certain qualified buyers and accredited investors. As part of the merger discussed in Note 18, the Company assumed the subordinated debentures and recorded the subordinated debentures at a fair value discount at the merger date. The discount is accreted over the remaining life of the subordinated debentures. The notes bear contractual interest at an annual fixed rate of 4.00% with the first interest payment on the notes made December 30, 2021, and interest payable semiannually each June 30 and December 30 through June 2026. At December 31, 2024, the carrying value of the notes was $11,608,000, net of unaccreted fair value discounts of $3,392,000. From and including June 30, 2026, to but excluding the maturity date or the date of earlier redemption, the debt will bear contractual interest at a floating rate equal to the then-current three-month SOFR plus a spread of 3.39% per annum, payable quarterly in arrears. The Company may, at its option, begin with the interest payment on June 30, 2026, but not prior thereto redeem the subordinated notes, in whole or in part at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest to but excluding the date of redemption.

NOTE 11 - PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

We established the Supplemental Executive Retirement Plan, an unfunded noncontributory defined benefit pension plan, to provide supplemental retirement benefits to a select group of key executives and senior officers. We use December 31 as the measurement date for this plan.

The following table reflects the changes in obligations and plan assets of the defined benefit pension plan as of December 31, 2024 and 2023:

	2024	2023
Change in benefit obligation		
Beginning benefit obligation	$ 3,654	$ 3,573
Service cost	210	258
Interest cost	183	166
Actuarial losses	(211)	(158)
Benefits paid	(91)	(186)
Ending benefit obligation	3,745	3,653
Change in plan assets		
Beginning plan assets	-	-
Employer contributions	211	186
Benefits paid	(211)	(186)
Ending plan assets	-	-
Funded status at end of year	$ (3,745)	$ (3,653)

Amounts recognized in accumulated other comprehensive income at December 31 consist of:

	2024	2023
Change in benefit obligation		
Unrecognized net actuarial gains	$ (1,050)	$ (1,058)
Unrecognized prior service cost	-	-
Unrecognized net transition obligation (assets)	-	-
	$ (1,050)	$ (1,058)

The following components of net periodic benefit cost, other than the service cost component, are included in the line item “other noninterest expense” in the income statement:

	2024	2023
Components of net periodic benefit cost		
Service cost	$ 210	$ 258
Interest cost	183	166
Amortization of actuarial gains	(99)	(78)
Net periodic benefit cost	294	346
Net gains	(91)	(158)
Prior service cost (credit)	-	-
Amortization of gains	99	78
Amortization of prior service cost	-	-
Total recognized in other comprehensive income (loss)	8	(80)
Total recognized in net periodic benefit cost and other comprehensive income	$ 302	$ 266

Assumptions: Weighted average assumptions used to determine pension benefit obligations and net periodic pension cost at December 31:

	2024	2023
Discount rate used to determine net periodic benefit cost	5.18%	4.78%
Discount rate used to determine benefit obligations	4.96%	5.18%
Future salary increases	N/A	N/A

NOTE 12 - EMPLOYEE BENEFIT PLANS

401(k) Plan: All employees are eligible to participate in our 401(k) benefit plan, which is a tax-deferred savings plan designed to assist employees in preparing for their retirement years. The 401(k) Plan allows employees to contribute to the plan up to certain limits prescribed by the Internal Revenue Service. We match 30% of contributions up to 6% of compensation. Total expense for the years ended December 31, 2024 and 2023 was $429,000 and $368,000, respectively.

Split-dollar Life Insurance: We account for split-dollar life insurance in accordance with *ASC 715-60, Compensation – Non-retirement Post-employment Benefits*, which requires that endorsement split-dollar life insurance arrangements which provide a post-retirement benefit to an employee be recorded based on the substance of the agreement with the employee. When we effectively agree to maintain a life insurance policy during the covered employee's retirement, the present value of the cost of future premiums of insurance policy during post-retirement is accrued. The total liability recorded as of December 31, 2024 and 2023 was $1,349,000 and $1,311,000, respectively. Total expense recognized for the year ended December 31, 2024, was $38,000 and total gain recognized for the year ended December 31, 2023, was $25,000.

Nonqualified Deferred Compensation Plan: As part of the merger discussed in Note 18, we assumed the Nonqualified Deferred Compensation Plan ("Plan") of 1st Capital Bank established in 2012. The Plan is a defined contribution program. Participants in the Plan are general unsecured creditors of the Company. The Plan was established for the purpose of providing the executive officers and certain other highly compensated employees an opportunity to defer compensation. Participants in the Plan may elect to defer annually any bonus or incentive compensation and any amount of base salary in excess of $3,000 per month. At the time of election to defer compensation, the participants must also elect a distribution date and a distribution method. Participants may elect to receive amounts payable in a lump sum or in annual installments over a designated period not to exceed 10 years. The Company pays the administrative costs of the Plan but does not make contributions to the Plan aside from interest credited. The Plan requires the Company to pay interest on the deferred balances at a rate equal to The Wall Street Journal Prime Rate on November 1 of the preceding year, set annually for each calendar year, subject to a floor of 0.00%. Participants were first eligible to contribute to the Plan on January 1, 2013. The Company recorded interest expense on deferred compensation of $81,000 for the year ended December 31, 2024. The Company's total liability under the Plan was $1,017,000 at December 31, 2024.

NOTE 13 - INCOME TAXES

The provision for income taxes is as follows for the years ended December 31, 2024 and 2023:

	2024	2023
Current expense		
Federal	$ 8,682	$ 9,168
State	4,688	5,312
Total current	13,370	14,480
Deferred expense (benefit)		
Federal	(916)	106
State	(96)	34
Total deferred	(1,012)	140
Total provision for income taxes	$ 12,358	$ 14,620

The effective tax rates differ from the federal statutory rate of 21% for 2024 and 2023 when applied to income before income taxes due to the following:

	2024	2023
Federal statutory rate	21.00%	21.00%
State income tax, net of federal effect	8.66%	8.46%
Tax exempt interest, net of nondeductible interest expense	(0.48)%	(0.26)%
Bank-owned life insurance	(0.27)%	(0.19)%
Split-dollar life insurance	0.02%	(0.01)%
Stock-based compensation	0.08%	0.15%
Acquisition-related costs	0.38%	0.00%
Other	0.08%	0.22%
Total	29.47%	29.37%

Deferred income taxes are the result of differences between income tax accounting and accounting principles generally accepted in the United States, with respect to income and expense recognition. The net deferred taxes are reported in Accrued Interest Receivable and Other Assets in the Balance Sheets as of December 31, 2024 and 2023. The tax effects of temporary differences that gave rise to deferred tax assets and deferred tax liabilities at December 31, 2024 and 2023 are as follows:

	2024	2023
Deferred tax assets		
Allowance for credit losses	$ 9,351	$ 7,078
Deferred compensation plan and supplemental executive retirement plan	1,718	1,393
Accrued expenses	701	633
State income tax	1,029	1,115
Unaccreted fair value discount on acquired	9,266	98
Lease liability	2,116	1,308
Net unrealized losses on investment securities	15,115	4,436
Net operating loss carryforwards from the 1st Capital Bancorp acquisition	2,191	-
Reserve for unfunded commitments	645	526
Other deferred tax assets	733	106
Gross deferred tax assets	42,865	16,693
Deferred tax liabilities		
Deferred loan origination costs, net of fees	(2,857)	(1,994)
Core deposit intangibles	(8,293)	(494)
Premises and equipment	(598)	(948)
Right-of-use asset	(2,007)	(1,239)
Unaccreted discount on subordinated debentures	(914)	-
Unrealized gain on pension	(310)	(313)
Other deferred tax liabilities	(99)	(169)
Gross deferred tax liabilities	(15,078)	(5,157)
Net deferred tax asset	$ 27,787	$ 11,536

As a result of the acquisition of 1st Capital Bancorp in 2024, we had federal and California net operating loss carryforwards ("NOLs") of approximately $7,674,000 and $6,769,000, respectively, as of December 31, 2024. The federal NOL will be carried forward indefinitely, if not utilized, but is limited to 80% of taxable income. If not fully utilized, the California NOLs will begin to expire in 2046. The acquisition of 1st Capital Bancorp resulted in limitations on the annual utilization of these NOLs under section 382 of the Internal Revenue Code. We expect to fully utilize all of the federal and California NOLs prior to their expiration, based upon the level of historical taxable income and projections for future taxable income over the periods during which the deferred tax assets are expected to be deductible. Management believes it is more likely than not that the deferred tax assets will be realized. Accordingly, no valuation allowance has been established as of December 31, 2024, or 2023.

The Bancorp and the Bank have entered into a tax allocation agreement, which provides that income taxes shall be allocated between the parties on a separate entity basis. The intent of this agreement is that each member of the consolidated group will incur no greater tax liability than it would have incurred on a stand-alone basis.

We have no material unrecognized tax benefits at December 31, 2024, or 2023 and do not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next 12 months. The total amount of interest and penalties recorded in the income statement was $8,000 and $1,000 for the years ended December 31, 2024 and 2023, respectively.

We are subject to U.S. federal income tax as well as California income tax and multiple other states with immaterial tax liabilities. In general, we are no longer subject to examination by taxing authorities for years before 2021 for federal or state purposes, respectively.

NOTE 14 - RELATED PARTY TRANSACTIONS

Loan-related activity to principal officers, directors and their affiliates during 2024 and 2023 were as follows:

	2024	2023
Beginning balance	$ 17,828	$ 17,600
New loans or disbursements	4,233	8,453
Changes in borrower status	-	(6,394)
Principal repayments	(3,528)	(1,831)
Ending balance	$ 18,533	$ 17,828

At December 31, 2024 and 2023, no related party loans were on nonaccrual status or classified for regulatory reporting purposes. Deposits from principal officers, directors and their affiliates at December 31, 2024 and 2023 were $9,712,000 and $9,003,000, respectively.

We solicited legal services from a member of our Board of Directors and incurred legal expenses of $109,000 and $41,000 in 2024 and 2023, respectively.

NOTE 15 - STOCK-BASED COMPENSATION

We have two share-based compensation plans as described below. Total compensation cost that has been charged against income for those plans was $854,000 and $726,000 for December 31, 2024 and 2023, respectively. The total income tax benefit was $182,000 and $93,000 for December 31, 2024 and 2023, respectively.

We estimate the fair value of each option award as of the date of grant using a closed form option valuation model (Black-Scholes-Merton) and the following assumptions. Expected volatilities are based on historical volatilities of our common stock commensurate with the expected term of the option. The "simplified" method described in the Securities and Exchange Commission's Staff Accounting Bulletin No. 110 is used to determine the expected term of the options due to the lack of sufficient historical data. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with substantially the same term as the expected term of the option.

There were no stock options granted in 2024. The fair value of options granted in 2023 was determined using the following weighted average assumptions as of grant date:

	2023
Risk-free interest rate	4.41%
Expected terms (yrs.)	6.25
Expected stock price volatility	31.43%
Dividend yield	2.40%

<u>2014 Omnibus Plan</u>: We adopted the Omnibus Plan in May 2014 for employees and non-employee directors, which remained in effect until February 19, 2024. The Omnibus Plan allows qualified stock option grants for employees and non-qualified restricted stock awards for officers and non-employee directors. The maximum number of shares of common stock that may be issued under this plan is 939,940 and 444,399 shares were available when the plan expired in February 2024. The Omnibus Plan was replaced with the 2024 Equity Based Compensation Plan.

The Omnibus Plan permits the grant of non-statutory options, incentive stock options and restricted stock awards to our directors and employees. Options granted under the Omnibus Plan may be incentive stock options or non-statutory stock options, as determined by the plan administrator at the time of grant of an option, however incentive stock options may be granted only to employees. In addition, restricted stock awards may be granted under the Omnibus Plan to directors and employees.

2024 Equity Based Compensation Plan: We adopted the Equity Based Compensation Plan in May 2024 for employees and non-employee directors, which will continue in effect until March 20, 2034. The Equity Based Compensation Plan allows incentive stock option grants for employees and stock options, restricted stock awards, restricted share units and performance share awards for officers and non-employee directors. The maximum number of shares of common stock that may be issued under this plan is 1,000,000 and 952,289 shares were available as of December 31, 2024.

The Equity Based Compensation Plan permits the grant of non-qualified stock options, incentive stock options, restricted stock awards, restricted share units and performance share awards to our directors and employees. Options granted under the Equity Based Compensation Plan may be incentive stock options or non-statutory stock options, as determined by the plan administrator at the time of grant of an option, however incentive stock options may be granted only to employees. In addition, restricted stock awards may be granted under the Equity Based Compensation Plan to directors and employees.

Stock Options: The per share exercise price for the shares to be issued upon exercise of any option shall be such price as is determined by the plan administrator, but no less than 100 percent of the fair market value per share on the date of grant. All option contracts have expiration dates on the earlier of termination of service or 10 years from the date of grant. The following is a summary of the activity relating to the 2014 Omnibus Plan for 2024 as presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding at beginning of year	313,172	$ 22.59		
Granted	-	-		
Exercised	30,847	18.88		
Expired	(1,749)	23.77		
Forfeited	(6,295)	23.63		
Options outstanding at end of year	335,975	$ 22.86	5.79 years	$ 5,106,166
Options fully vested and expected to vest	271,770			$ 5,106,166
Exercisable at end of year	224,271	$ 22.54	5.35 years	$ 4,284,960

Information related to the stock option plan during each year follows:

	2024	2023
Intrinsic value of options exercised	$ 536	$ 355
Cash received from options exercised	$ 576	$ 241
Tax benefit realized from options exercised	$ 16	$ 10
Weighted average fair value of options granted	$ -	$ 7.65

As of December 31, 2024, there was $364,000 of total unrecognized compensation cost related to non-vested stock options granted under the 2014 Omnibus Plan. The cost is expected to be recognized over a weighted average period of 1.80 years.

Restricted Stock Awards: As of December 31, 2024, there was $1,761,000 in unrecognized compensation cost related to non-vested shares granted under two equity-based compensation plans combined. The cost is expected to be recognized over a weighted average period of 2.95 years. The total fair value of shares vested during the years ended December 31, 2024 and 2023 was $500,000 and $284,000, respectively.

The following is a summary of the activity relating to non-vested shares under to the 2014 Omnibus Plan for the year ended December 31, 2024, as presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested awards at January 1, 2024	24,034	$ 27.63
Granted	-	-
Vested	(7,688)	26.93
Forfeited	-	-
Non-vested awards at December 31, 2024	16,346	$ 27.96

The following is a summary of the activity relating to non-vested shares under to the 2024 Equity Based Compensation Plan for the year ended December 31, 2024, as presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested awards at January 1, 2024	-	$ -
Granted	52,466	35.95
Vested	(7,180)	29.61
Forfeited	(4,755)	39.24
Non-vested awards at December 31, 2024	40,531	$ 36.68

NOTE 16 - REGULATORY CAPITAL MATTERS

Regulatory Capital: We are subject to various regulatory capital adequacy requirements administered by the banking regulatory agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if not undertaken, would have a direct material effect on our financial statements. Management believes as of December 31, 2024, the Bank and Bancorp meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations define five classifications for regulated banks: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2024 and 2023, the most recent regulatory notifications categorized us well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category.

The Board of Governors of the Federal Reserve also sets regulatory capital requirements for bank holding companies like the Bancorp that generally follow similar minimum requirements set for banks for capital adequacy. However, the Federal Reserve also maintains a Small Bank Holding Company Policy Statement that generally applies to holding companies with less than $3.0 billion in assets and with non-complex operations. One element of this policy is that such holding companies are not subject to separate capital measurements and instead the Federal Reserve looks through the holding company to the bank level capital ratios. The Bancorp qualifies for the Policy Statement and currently is not subject to separate capital ratio measurements. Nevertheless, the following table shows the Bancorp's capital ratios as if it were subject to separate capital measurement.

Actual and required capital amounts and ratios are presented below at December 31, 2024 and 2023 for both the Bank and Bancorp:

Capital Ratios for the Bancorp*	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2024						
Total capital to risk weighted assets	$ 317,356	14.00%	$ 237,953	10.50%	$ 226,622	10.00%
Tier 1 (Core) capital to risk weighted assets	$ 277,354	12.24%	$ 192,629	8.50%	$ 181,298	8.00%
Common Tier 1 (CET1) to risk weighted assets	$ 277,354	12.24%	$ 158,635	7.00%	$ 147,304	6.50%
Tier 1 (Core) capital to average assets	$ 277,354	10.51%	$ 105,532	4.00%	$ 131,916	5.00%
As of December 31, 2023						
Total capital to risk weighted assets	$ 231,856	14.98%	$ 162,545	10.50%	$ 154,805	10.00%
Tier 1 (Core) capital to risk weighted assets	$ 212,427	13.72%	$ 131,584	8.50%	$ 123,844	8.00%
Common Tier 1 (CET1) to risk weighted assets	$ 212,427	13.72%	$ 108,363	7.00%	$ 100,623	6.50%
Tier 1 (Core) capital to average assets	$ 212,427	12.09%	$ 70,271	4.00%	$ 87,838	5.00%

Capital Ratios for the Bank*	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2024						
Total capital to risk weighted assets	$ 316,993	13.99%	$ 237,944	10.50%	$ 226,614	10.00%
Tier 1 (Core) capital to risk weighted assets	$ 288,599	12.74%	$ 192,622	8.50%	$ 181,291	8.00%
Common Tier 1 (CET1) to risk weighted assets	$ 288,599	12.74%	$ 158,630	7.00%	$ 147,299	6.50%
Tier 1 (Core) capital to average assets	$ 288,599	10.94%	$ 105,519	4.00%	$ 131,898	5.00%
As of December 31, 2023						
Total capital to risk weighted assets	$ 231,419	14.95%	$ 162,545	10.50%	$ 154,805	10.00%
Tier 1 (Core) capital to risk weighted assets	$ 211,990	13.69%	$ 131,584	8.50%	$ 123,844	8.00%
Common Tier 1 (CET1) to risk weighted assets	$ 211,990	13.69%	$ 108,363	7.00%	$ 100,623	6.50%
Tier 1 (Core) capital to average assets	$ 211,990	12.07%	$ 70,271	4.00%	$ 87,838	5.00%

**Ratios for all capital adequacy requirements, except for the Tier 1 leverage ratio, include the required minimum capital plus the 2.5% capital conservation buffer as required under the Basel III Capital Standards.*

Dividend Restrictions: The Board of Directors may, to the extent of such earnings and our net capital requirements and subject to the provisions of the California Financial Code, declare and pay a portion of such earnings to its shareholders as dividends. No cash dividend will be declared without a complete analysis of capital impact, current economic assessment and current risk analysis.

Under the California Financial Code, payment of dividends by the Bank to the Bancorp without advance regulatory approval is restricted to the lesser of retained earnings or the amount of undistributed net profits of the Bank from the three most recent fiscal years. Under this restriction, approximately $81,736,000 of the Bank’s retained earnings balance was available for payment of dividends to the Bancorp as of December 31, 2024. The Bancorp received $6,730,000 in cash dividends from the Bank during fiscal year 2024.

Under the California Corporations Code, payment of dividends by the Bancorp to its shareholders is restricted to the amount of retained earnings immediately prior to the distribution or the amount of assets that exceeds the total liabilities immediately after the distribution. As of December 31, 2024, the Bancorp's retained earnings and amount of total assets that exceeds total liabilities were $140,673,000 and $332,981,000, respectively.

NOTE 17 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Correspondent Banking: At times, we maintain deposit amounts at corresponding banks that exceed federally insured limits. Uninsured deposits totaled $486,000 and $14,382,000 at December 31, 2024 and 2023, respectively. We have not experienced any losses on amounts exceeding the insured limits.

Financial Investments with Off-balance-sheet Exposure: In the normal course of business to meet the financing needs of our clients, we enter into various financial arrangements where the financial instruments are not recorded in our consolidated balance sheet. These financial instruments include commitments to extend credit, standby letters of credit, overdraft protection and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Our exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit, standby letters of credit and financial guarantees is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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

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

The contractual amounts of financial instruments with off-balance-sheet exposure as of December 31, 2024 and 2023 were as follows:

	December 31, 2024		December 31, 2023	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 12,442	$ 539,206	$ 15,994	$ 391,542
Unused lines of credit	491	72,446	503	68,218
Standby letters of credit	-	1,545	-	3,520
	$ 12,933	$ 613,197	$ 16,497	$ 463,280

Commitments to make loans are generally made for periods of 90 days or less.

NOTE 18 – BUSINESS COMBINATION

On October 1, 2024, Bancorp acquired 100% of the outstanding common shares of 1st Capital Bancorp, parent company for 1st Capital Bank, for an aggregate transaction value of $80,794,000. As of October 1, 2024, 1st Capital Bancorp merged with and into Bancorp and 1st Capital Bank merged with and into Bank. Under the terms of the acquisition, 5,754,544 shares of 1st Capital Bancorp common stock were exchanged to received 0.36 of a share of the Company's common stock for each share of 1st Capital Bancorp common stock. With the acquisition, the Company has expanded its geographic footprint and client base. 1st Capital Bancorp results of operations were included in the Bancorp's results beginning October 1, 2024. 1st Capital Bancorp's contributions to net interest income and net income (loss) included in the consolidated statements of income were $13,471,000 and ($4,272,000), respectively, since the date of acquisition through December 31, 2024, and are included in the Bancorp's Consolidated Statement of Income. The fair value of the common shares issued as part of the consideration paid for 1st Capital Bancorp were determined based on the closing price of the Bancorp's common shares on the acquisition date.

Goodwill of $14,292,000 was recorded, which represents the excess of the total merger consideration paid over the fair value of the assets acquired, net of the fair values of the liabilities assumed. Goodwill is not expected to be deductible for income tax purposes. The fair value of the core deposit intangible asset was determined to be $27,700,000. The following table summarizes the consideration paid for 1st Capital Bancorp and the fair value of the assets acquired and liabilities assumed at the acquisition date:

Consideration		
Shares of 1st Capital Bancorp common stock exchanged		5,754,544
Exchange ratio		0.36
Shares of the Company's common stock issued to 1st Capital Bancorp shareholders at closing, before fractional shares		2,071,636
Less fractional shares		(153)
Shares of the Company's common stock issued to 1st Capital Bancorp shareholders at closing		2,071,483
The Company's closing price per share, September 30, 2024	$	39.00
Fair value of common shares issued and exchanged	$	80,788
Cash paid for fractional shares		6
Fair value of total consideration transferred	$	80,794
Recognized amounts of identifiable assets acquired and liabilities assumed (fair value)		
Cash and cash equivalents	$	43,116
Debt securities		258,333
Equity securities		5,196
Loans		603,061
Premises and equipment		1,132
Core deposit intangibles		27,700
Other assets		41,455
Total fair value of assets acquired		979,993
Deposits		893,215
Subordinated debentures		11,521
Other liabilities		8,755
Total fair value of liabilities assumed		913,491
Total fair value of identifiable net assets		66,502
Goodwill	$	14,292

The fair value of net assets acquired includes PCD, which are acquired assets that have shown evidence of more-than-insignificant credit deterioration since origination. Assets acquired and classified as non-PCD included loans and investment securities with a fair value and gross contractual amounts receivable of $829,867,000 and $889,804,000, respectively, on the date of acquisition.

The fair value of purchased financial assets with credit deterioration was $31,527,000 on the date of acquisition. The gross contractual amounts receivable relating to the purchased financial assets with credit deterioration was $35,440,000. The Bancorp's estimates, on the date of acquisition, that $806,000 of the contractual cash flows specific to the purchased financial assets with credit deterioration will not be collected.

The pre-tax merger-related costs reflected in the consolidated statement of income for the year ended December 31, 2024, are summarized in the following table:

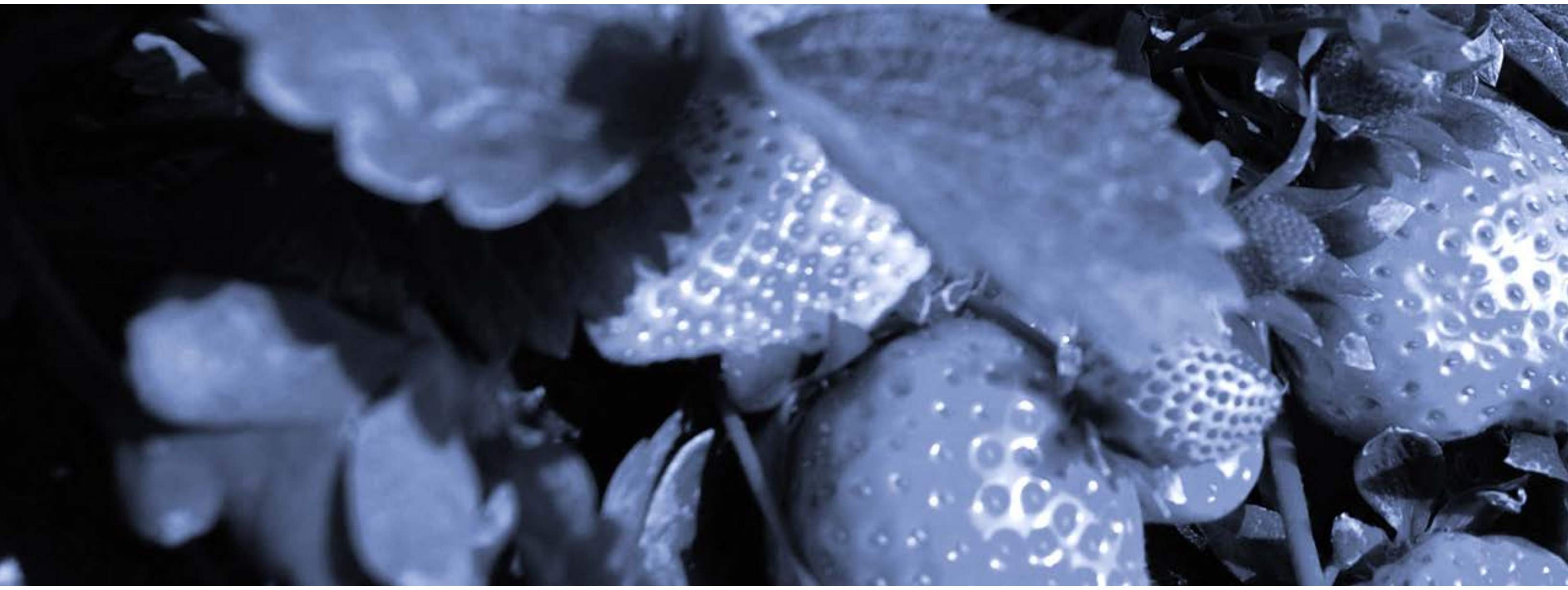
Financial advisory fees	$ 548
Professional services	583
Information technology	1,735
Personnel, severance and change in control costs	4,069
Marketing	104
Other	11
Total acquisition-related costs	$ 7,050

NOTE 19 - EARNINGS PER SHARE

The components used in the basic and diluted earnings per share computation follow:

	2024	2023
Basic earnings per share		
Net income	$ 29,579	$ 35,150
Weighted average common shares outstanding	8,920,590	8,396,566
Basic earnings per common share	$ 3.32	$ 4.19
Diluted earnings per share		
Net income	$ 29,579	$ 35,150
Weighted average common shares outstanding for basic earnings per common share	8,920,590	8,396,566
Add: Dilutive effects of assumed exercises of stock options and restricted stock awards	95,353	35,295
Weighted average outsanding and dilutive potential common shares	9,015,943	8,431,861
Diluted earnings per common share	$ 3.28	$ 4.17

Stock options for 2,000 and 112,000 shares of common stock were not considered in computing diluted earnings per common share as of December 31, 2024 and 2023, respectively, because they were anti-dilutive.



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