AMERICAN RIVIERA
BANCORP

2024 ANNUAL REPORT

AMERICAN RIVIERA BANCORP

A Message to our Shareholders, Clients, and Community

We are pleased to report that American Riviera Bancorp (OTCQX: ARBV) had 2024 net income of $8.7 million, $1.50 of earnings per share, a return on average assets of 0.68%, and a return on average equity of 8.25%. As a result of retaining earnings and improved market value of our bond portfolio, the tangible book value per share of ARBV was $18.31 at December 31, 2024, an increase of $1.72 or 10.4% from the prior year-end. Your ARBV share price increased 21.2% in 2024 to $20.00 at December 31, 2024.

The ongoing effect of the Federal Reserve's "higher for longer" rate policy has compressed profit margins at many banks across the country including our own. Although American Riviera Bank successfully retained relationship clients and grew core deposits by $63.7 million or 6.1% in 2024, we did absorb $6.6 million of additional interest expense to our depositors compared to 2023. As a result, 2024 net income declined $1.8 million from the prior year.

Our ability to deliver the full complement of construction loans, mortgages, home equity lines, commercial real estate loans, business loans and lines of credit, agricultural loans, and SBA loans allowed American Riviera Bank to grow loans by $43.5 million or 4.6% in 2024 despite soft loan demand. Your Bank now has almost one billion dollars of loans outstanding to local businesses, real estate investors, and homeowners just like you on the Central Coast of California!

In July 2024, we expanded our branch network for our clients and strengthened ties on the Central Coast. Our new branch in Atascadero is ideally located between our growing San Luis Obispo and Paso Robles branches, and has a vibrant small business base and a revitalized downtown. With experienced local bankers joining our team, the Atascadero branch grew deposits to $20.0 million in less than six months.

Our team members' commitment to service plays an important role, collectively contributing over 4,000 volunteer hours to the communities we serve. Over half our officers proudly work with local nonprofits in meaningful volunteer capacities, serving as either board or committee members. We are pleased to report that we allocated over 4.0% of our net profit toward local sponsorships and donations at a time when other banks may have been cutting back amidst consolidations and a challenging rate environment.

Your Bank is dedicated to delivering advanced banking technology to enable both businesses and consumers to efficiently control their finances. In 2024, we launched enhancements for retail clients including real-time debit card control and alerting, Zelle®, and an updated mobile app experience. For businesses, we launched a Treasury Services group focused on delivering concierge services to high-volume cash management clients, as well as enhancements to our small business mobile app. In 2025, we will be launching commercial online account opening, direct connection to the SWIFT international wire network, Zelle® for business, Autobooks for invoicing and payments, and advanced fraud mitigation tools.

Our healthy earnings have been retained to support current and future growth. American Riviera Bank's Tier I Risk-Based Capital of $145.0 million or 13.2%, and Total Risk-Based Capital of $157.6 million or 14.4%, as of December 31, 2024, exceed regulatory guidelines for well-capitalized institutions.

We are thankful for the loyalty of our clients and our team of dedicated bankers, who make **American Riviera Bank the Central Coast's community bank**!

Thank you for your support,

Darren Caesar, Board Chair　　　Jeff DeVine, President and CEO

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AMERICAN RIVIERA
BANCORP

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2024 AND 2023
AND FOR THE YEARS THEN ENDED

Page

American Riviera Bancorp:

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Audit Committee
American Riviera Bancorp
Santa Barbara, California

Opinion on Internal Control Over Financial Reporting

We have audited American Riviera 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). In our opinion, American Riviera Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2024 based on criteria established in *Internal Control – Integrated Framework* (2013) issued by COSO relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of FDICIA.

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the 2024 financial statements of American Riviera Bancorp, and our report dated March 24, 2025, expressed an unmodified opinion.

Basis for Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of American Riviera Bancorp and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying *Management's Assessment of Internal Control Over Financial Reporting.*

Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

(Continued)

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of FDICIA, our audit of American Riviera Bancorp's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and controls over the preparation of schedules equivalent to basic financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (Call Report Instructions). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Restriction on Use

This report is intended solely for the information and use of management, the audit committee, others within the organization, the Federal Deposit Insurance Corporation and the California Department of Financial Protection and Innovation and is not intended to be and should not be used by anyone other than these specified parties.

Crowe LLP

Crowe LLP

Sacramento, California
March 24, 2025

AMERICAN RIVIERA BANCORP

CONSOLIDATED BALANCE SHEETS

December 31, 2024 and 2023

(Dollar amounts in thousands except share amounts)

	2024	2023
ASSETS		
Cash and due from banks	$ 14,555	$ 11,986
Interest-bearing deposits in other financial institutions	6,393	7,697
Available-for-sale investment securities	177,933	207,114
Held-to-maturity investment securities, net of allowance for credit losses of $6 and $7 ($39,491 and $40,808, fair value respectively)	41,393	41,326
Equity securities	149	157
Loans, net of deferred fees	989,941	946,411
Allowance for credit losses	(11,572)	(11,648)
Net Loans	978,369	934,763
Premises and equipment, net	8,221	8,801
Operating lease right-of-use asset	4,841	5,193
Cash surrender value of bank owned life insurance	12,131	11,738
Stock in other banks	6,786	6,699
Goodwill	4,800	4,800
Other intangibles, net	110	129
Accrued interest receivable and other assets	23,631	24,633
Total Assets	$ 1,279,312	$ 1,265,036
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand deposits	$ 431,031	$ 443,070
Interest-bearing demand deposits	116,995	123,686
Savings and money market deposits	415,183	399,140
Time deposits	150,129	83,786
Total Deposits	1,113,338	1,049,682
Other borrowings	25,000	85,000
Subordinated notes	16,500	18,000
Operating lease liability	5,903	6,218
Allowance for credit losses on off-balance sheet exposures	1,052	582
Accrued interest payable and other liabilities	6,136	4,914
Total Liabilities	1,167,929	1,164,396
Shareholders' Equity:		
Preferred stock - no par value; 10,000,000 shares as of 2024 and 2023, respectively authorized, none issued	-	-
Common stock - no par value; 50,000,000 shares authorized as of 2024 and 2023, respectively; 5,815,817 and 5,768,697 shares issued and outstanding in 2024 and 2023, respectively	68,041	67,296
Retained earnings	63,012	54,270
Accumulated other comprehensive (loss), net of taxes	(19,670)	(20,926)
Total Shareholders' Equity	$ 111,383	$ 100,640
Total Liabilities and Shareholders' Equity	$ 1,279,312	$ 1,265,036

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

AMERICAN RIVIERA BANCORP

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2024 and 2023
(Dollar amounts in thousands except per share data)

	2024	2023
Interest income:		
Interest and fees on loans	$ 52,537	$ 47,686
Interest on investment securities	6,401	6,940
Interest on deposits in other financial institutions	1,194	1,055
Total interest income	60,132	55,681
Interest expense:		
Interest on interest-bearing demand deposits	625	388
Interest on savings and money market deposits	8,045	5,915
Interest on time deposits	6,450	2,185
Total interest expense on deposits	15,120	8,488
Interest expense on borrowings	3,791	2,907
Total interest expense	18,911	11,395
Net interest income before provision for credit losses	41,221	44,286
Provision for credit losses	393	171
Net interest income after provision for credit losses	40,828	44,115
Non-interest income:		
Service charges, commissions, and fees	2,387	2,219
(Loss) on sale of furniture, fixtures and equipment	-	(68)
Gain (Loss) on sale of investment securities	13	(544)
Gain on sale of loans	301	85
Gain on redemption of subordinated notes	450	-
Other non-interest income	972	784
Total non-interest income	4,123	2,476
Non-interest expense:		
Salaries and employee benefits	19,997	18,966
Occupancy and equipment	3,726	3,542
Other non-interest expense	8,927	9,579
Total non-interest expense	32,650	32,087
Income before provision for taxes	12,301	14,504
Provision for taxes	3,559	3,991
Net Income	$ 8,742	$ 10,513
Earnings per share, basic and diluted	$ 1.50	$ 1.82

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

AMERICAN RIVIERA BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2024 and 2023
(Dollar amounts in thousands)

	2024	2023
Net income	$ 8,742	$ 10,513
Other comprehensive income (loss):		
Change in debt securities available-for-sale:		
Reclassification of (gain) loss on sale of securities included in net income	(13)	544
Unrealized holding gains (losses) arising during the period	1,038	3,030
Income tax effect	(303)	(721)
Unrealized holding gains (losses) on available-for-sale debt securities, net of taxes	722	2,853
Debt securities held-to-maturity:		
Amortization of unrealized loss on securities transferred from available-for-sale	758	496
Income tax effect	(224)	(353)
Amortization of unrealized loss on securities transferred from available-for-sale, net of taxes	534	143
Total other comprehensive income (loss)	1,256	2,996
Comprehensive income	$ 9,998	$ 13,509

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

AMERICAN RIVIERA BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2024 and 2023
(Dollar amounts in thousands except share amounts)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (loss) (Net of taxes)	Total Shareholders' Equity
	Shares	Amount			
Balance at January 1, 2023	**5,692,161**	**$ 66,346**	**$ 43,757**	**$ (23,922)**	**$ 86,181**
Net income			10,513		10,513
Other comprehensive income				2,996	2,996
Restricted stock awards granted	103,447				
Restricted stock awards forfeited	(7,215)				
Shares surrendered:					
To pay taxes on vesting of restricted stock	(19,696)	(376)			(376)
Share-based compensation expense		1,326			1,326
Balance, December 31, 2023	**5,768,697**	**$ 67,296**	**$ 54,270**	**$ (20,926)**	**$ 100,640**
Net income			8,742		8,742
Other comprehensive income				1,256	1,256
Restricted stock awards granted	92,547				
Restricted stock awards forfeited	(13,740)				
Shares surrendered:					
To pay taxes on vesting of restricted stock	(31,687)	(516)			(516)
Share-based compensation expense		1,261			1,261
Balance, December 31, 2024	**5,815,817**	**$ 68,041**	**$ 63,012**	**$ (19,670)**	**$ 111,383**

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

AMERICAN RIVIERA BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2024 and 2023
(Dollar amounts in thousands)

	2024	2023
Cash flows from operating activities:		
Net income	$ 8,742	$ 10,513
Adjustments to reconcile net income to net cash provided by operating activities:		
(Reversal) provision for credit losses on loans	(76)	175
Provision (reversal) for credit losses on off-balance sheet exposures	469	(4)
Depreciation and amortization	1,260	1,757
Change in cash surrender value of BOLI	(393)	(275)
Deferred income tax benefit	291	632
Decrease in deferred loan origination fees, net of costs	(35)	(207)
Net amortization of investment security premiums and discounts	1,206	1,175
Net realized (gain) loss on sales of investment securities	(13)	544
Net loss on sale of disposed assets	-	68
Net (gain) on sale of loans	(301)	(85)
Share-based compensation expense	1,261	1,326
Loss (gain) on equity securities	8	(65)
Decrease in accrued interest receivable and other assets	113	585
Increase (decrease) in accrued interest payable and other liabilities	1,221	(1,380)
Net cash from operating activities	13,753	14,759
Cash flows from investing activities:		
Change in interest-bearing deposits in other financial institutions	1,304	42,007
Increase in loans, net	(47,312)	(39,494)
Proceeds from sale of loans	4,117	1,070
Proceeds from principal payments of available-for-sale investment securities	21,069	15,630
Purchase of available-for-sale investment securities	(1,931)	(14,619)
Sales of available-for-sale investment securities	2,080	15,597
Calls and maturities of available-for-sale investment securities	8,500	2,000
Purchase of Federal Home Loan Bank stock	(87)	(1,399)
Purchase of BOLI	-	(1,600)
Purchase of premises and equipment	(565)	(4,839)
Net cash from investing activities	(12,825)	14,353
Cash flows from financing activities:		
Decrease in demand, interest-bearing, and savings deposits, net	(2,687)	(144,794)
Increase in time deposits, net	66,344	30,498
Proceeds from other borrowings	-	85,000
Repayments of other borrowings	(60,000)	-
Redemption of subordinated notes	(1,500)	-
Restricted shares surrendered to pay taxes	(516)	(376)
Net cash from financing activities	1,641	(29,222)
Net change in cash and cash equivalents	2,569	(110)
Cash and cash equivalents at beginning of year	11,986	12,096
Cash and cash equivalents at end of year	$ 14,555	$ 11,986
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest expense	$ 18,442	$ 10,855
Income taxes	$ 1,320	$ 2,775

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The consolidated financial statements include American Riviera Bancorp ("Bancorp") and its wholly owned subsidiary American Riviera Bank ("Bank"), together referred to as the "Company". American Riviera Bancorp completed a one-for-one share exchange of common stock with the Bank, effected in the form of an internal reorganization as of February 2022. Intercompany transactions and balances are eliminated in consolidation.

American Riviera Bancorp (OTCQX: ARBV) is a registered bank holding company headquartered in Santa Barbara, California. American Riviera Bank, the 100% owned subsidiary of the Bancorp, is a full-service community bank focused on serving the lending and deposit needs of businesses and consumers on the Central Coast of California. The state-chartered bank opened for business on July 18, 2006, with the support of local shareholders. Full-service branches are located in Santa Barbara, Montecito, Goleta, Santa Maria, San Luis Obispo, Atascadero, and Paso Robles. The Bank provides commercial business, commercial real estate, residential mortgage, construction, and Small Business Administration lending services, as well as convenient online and mobile technology.

The Bancorp is subject to regulation by the Federal Reserve Bank of San Francisco ("FRB"). As a state-chartered non-member bank, the Bank is subject to regulation by the California Department of Financial Protection and Innovation ("DFPI"), and the Federal Deposit Insurance Corporation ("FDIC"). The Bank's deposits are insured by the FDIC up to applicable legal limits.

The accounting and reporting policies of the Company and the Bank conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Subsequent Events

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash Flows

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and due from banks with maturities less than 90 days, and Federal funds sold. Generally, Federal funds are sold for one day periods. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions, and Federal funds sold and purchased.

Interest-Bearing Deposits in Other Financial Institutions

Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Debt Securities

Investment securities are classified into the following categories:

- Available-for-sale ("AFS") securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income or loss within shareholders' equity.
- Held-to-maturity ("HTM") securities, which management has the positive intent and ability to hold, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value.

Gains and losses on the sale of securities are computed and recorded using the specific identification method on the trade date. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date.

Allowance for Credit Losses – Available-for-sale Securities

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Allowance for Credit Losses – Available-for-sale Securities *(continued)*

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

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

Accrued interest receivable on available-for-sale debt securities totaled $1.0 million and $1.1 million at December 31, 2024, and December 31, 2023, respectively, and excluded from the estimate of credit losses.

Allowance for Credit Losses – Held-to-maturity Securities

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities totaled $0.6 million at December 31, 2024 and 2023, and is excluded from the estimate of credit losses.

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

Management classifies the held-to-maturity portfolio into the following major security types: mortgage-backed: residential and municipal.

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

Equity Securities

Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. Restrictions on the sale of equity securities held are not considered in the fair value measurement unless the restriction is a characteristic of the actual securities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating Segments

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

The Company's reportable segment is determined by the Chief Executive Officer, who is the designated chief operating decision maker, based upon information provided about the Company's products and services offered, primarily banking operations. The segment is also distinguished by the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business, which are then aggregated if operating performance, products/services, and customers are similar. The chief operating decision maker will evaluate the financial performance of the Company's business components such as by evaluating revenue streams, significant expenses, and budget to actual results in assessing the Company's segment and in the determination of allocating resources. The chief operating decision maker uses revenue streams to evaluate product pricing and significant expenses to assess performance and evaluate return on assets. The chief operating decision maker uses consolidated net income to benchmark the Company against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results are used to assess performance. Loans, investments, and deposits provide the revenues in the banking operation. Interest expense, provisions for credit losses, and payroll provide the significant expenses in the banking operation. All operations are domestic. Segment performance is evaluated using consolidated net income as reported in the consolidated statements of income presented. Accounting policies for the segment are the same as those described in this Note 1.

Loans

All classes of loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for credit losses. Interest is accrued daily based upon outstanding loan balances. Interest income on construction, real estate-commercial, real estate-residential and commercial loans is discontinued, and the loan is moved to non-accrual status at the time the loan is ninety days delinquent, unless the loan is well-secured and in process of collection in accordance with the Company's policy. Consumer and other loans are typically charged-off no later than ninety days past due. For all classes of loans, past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of interest or principal is considered doubtful.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loans (*continued)*

All interest accrued but not received for a loan placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Under the cost recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and the future payments are reasonably assured.

Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield using the level-yield method without anticipating prepayments, to be amortized to interest income over the contractual term of the loan. In certain circumstances, the Company may accelerate amortization on premiums paid for purchased loans when prepayments are likely prior to the contractual term. The unamortized balance of deferred fees and costs is reported as a component of net loans.

Allowance for Credit Losses - Loans

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

Management estimates the ACL balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Pools of loans with similar risk characteristics are collectively evaluated while loans that no longer share risk characteristics with loan pools are evaluated individually. The Company measures the ACL using a discounted cash flow methodology, which utilizes pool-level assumptions and cash flow projections on an individual loan basis, which then aggregates at the portfolio segment level and is supplemented by a qualitative reserve that is applied to each portfolio segment level.

The Company has identified the following portfolio segments to measure the allowance for credit losses. Below is a description and the risk characteristics of each segment:

> ***Commercial*** – Commercial and industrial 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Allowance for Credit Losses - Loans *(continued)*

Real Estate - commercial – Adverse economic developments, or an overbuilt market, 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.

Real Estate - residential - The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. 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.

Construction – 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.

Loans to individuals – Consumer loans are comprised of loans to individuals, including installment loans, revolving lines of credit and term loans. Most installment loans are made directly for consumer purchases, but business loans granted for the purchase of vehicles may also be included. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

The Company's ACL model incorporates assumptions for prepayments rates, probability of default ("PD") and loss given default ("LGD") to project each loan's cash flow throughout its entire life cycle. An initial reserve amount is determined based on the difference between the amortized cost basis of each loan and the present value of all future cash flows. Assumptions for prepayment rates are based on actual prepayment experience over a trailing time frame. PD is forecasted using a regression model that incorporates the Company's own data, benchmark data, and certain economic variables as inputs. The LGD is derived from PD using the Frye-Jacobs index provided by the Company's third-party model provider.

Reasonable and supportable forecasts are used to predict current and future economic conditions. Management elected to use a four-quarter forecast period followed by a four-quarter straight-line reversion period. After the combined eight quarters of forecast plus reversion period, the probability of default is assumed to remain unchanged for the remaining life of the loan. The Company uses a single key macroeconomic variable from the Federal Open Market Committee's Summary of Economic Projections within the economic forecast scenarios.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Allowance for Credit Losses - Loans *(continued)*

In addition to the quantitative assumptions, management considers the need for qualitative adjustments to the ACL. Such adjustments may be related to and include, but are not limited to factors such as: changes in lending policies; changes in the nature and volume of the portfolio; staff experience; changes in the volume and trends in classified loans, delinquencies and nonaccruals; concentration risk; trends in underlying collateral value; external factors such as competition, legal and regulatory; changes in the quality of the loan review system; and general economic conditions.

The Company assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed reviews of all individual loans or aggregated loan relationships with commitments of $750,000 or more, to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Bank's regulators. During the Company's internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the estimated fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass – A Pass loan represents a credit that satisfactorily meets all of the Company's underwriting criteria and provides adequate protection for the Company through the paying capacity of the borrower and/or the margin (value) and marketability (liquidity) of the collateral.

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

Substandard – A Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. It is characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful - A Doubtful loan has all the weaknesses inherent in those classified 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.

Loss - A Loss loan is considered uncollectable and charged off immediately.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Allowance for Credit Losses - Loans *(continued)*

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

Although management believes the allowance to be adequate, ultimate losses may vary from estimates. 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. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators, the FDIC and the DFPI, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Allowance for Credit Losses on Off-Balance Sheet Exposures

The Company also maintains a separate reserve for off-balance sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Historical losses, economic conditions, and reasonable and supportable forecasts all influence the reserve estimate.

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 servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. Servicing assets related to Small Business Administration (“SBA”) loans are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Servicing Rights *(continued)*

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 the Company later determines 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 in non-interest 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.

At this time, the Company believes that all servicing fees received related to residential mortgage loans are at a value equal to the cost incurred to service. As such, there are no residential mortgage servicing right assets on the balance sheet and all servicing fee income related to residential mortgage loans, which is reported on the income statement as Service Charges, Commissions and Fees, is based on a contractual percentage of the outstanding principal and is recorded as income when received.

Servicing fees totaled $0.2 million and $0.3 million for the years ended December 31, 2024, and 2023. Late fees and ancillary fees related to loan servicing are not material.

Premises and Equipment

Company premises and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures, and equipment are estimated to be three to seven years. Leasehold improvements are amortized over the lesser of the respective lease term (including renewal periods that are reasonably assured), or their useful lives.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

Certain operating leases contain scheduled and specified rent increases or incentives in the form of tenant improvement allowances or credits. The scheduled rent increases are recognized on a straight-line basis over the lease term as an increase in the amount of rental expense recognized each period. Lease incentives reduce the right-of-use asset at the inception of the lease and are amortized on a straight-line basis over the lease term as a reduction of rental expense. Amounts accrued in excess of amounts paid related to the scheduled rent increases and the unamortized deferred leasehold improvement credits are included in operating right-of-use asset and operating lease liability on the balance sheet.

Other Real Estate Owned

Other real estate owned (“OREO”) is comprised of property acquired through foreclosure proceedings or acceptance of deeds-in-lieu of foreclosure. Losses recognized at the time of acquiring property in full or partial satisfaction of loans are charged against the allowance for loan losses. OREO is initially recorded at fair value less estimated disposition costs. Fair value of OREO is generally based on an independent appraisal of the property. Subsequent to initial measurement, OREO is carried at the lower of the recorded investment or fair value less estimated disposition costs. Revenues and expenses associated with OREO, and subsequent adjustment to the fair value of the property and to the estimated costs of disposal, are realized and reported as a component of non-interest expense when incurred.

Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (“FHLB”) system, the Bank is required to maintain an investment in the capital stock of the FHLB. The level of investment varies based on the amount of borrowings and other factors. The investment is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Investment in The Independent Bankers Bank Stock

The Bank maintains an investment in the capital stock of The Independent Bankers Bank (“TIB”) a correspondent bank that provides certain services to the Bank. The investment is carried at cost and is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Investment in Federal Agricultural Mortgage Corporation (“Farmer Mac”) Stock

The Bank maintains an investment in the capital stock of Farmer Mac. The Bank is required to maintain an investment with Farmer Mac in order to conduct ongoing transactions with the agency. The investment is carried at fair value based on quoted market prices with changes in fair value recognized in net income. Cash dividends are reported as income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Bank Owned Life Insurance

The Company has purchased life insurance policies on certain key executives. Bank owned life insurance ("BOLI") 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.

Goodwill

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Total goodwill at December 31, 2024, and 2023 represents the excess of the cost of the acquired bank over the net of the amounts assigned to assets acquired and liabilities assumed in the transaction accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisitions. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed at least annually for impairment.

The Company has selected October 31 as the date to perform the annual impairment test. Management assessed qualitative factors including performance trends and noted no factors indicating goodwill impairment. Goodwill is also tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the goodwill below its carrying amount. No such events or circumstances arose during the fourth quarter of 2024, so goodwill was not required to be retested. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

Intangible Assets

The other intangible assets at December 31, 2024, and 2023, represent the net carrying value of servicing rights associated with SBA loans that are serviced by the Company for the SBA and other institutional investors that have purchased government guaranteed portions of certain loans. At December 31, 2024, and 2023, the net carrying value of servicing rights associated with these loans was $110,000 and $129,000, respectively.

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 tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income Taxes *(continued)*

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income by the weighted-average number of common shares outstanding for the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Share-Based Payments

Compensation cost for all share-based payments is recognized based on the estimated fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's 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. The Company's accounting policy is to recognize forfeitures as they occur.

Comprehensive Income

Comprehensive income includes net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale investment securities and amortization of the unrealized loss on securities transferred to held-to-maturity from available-for-sale which are also recognized as separate components of shareholders' equity.

Equity

Stock dividends in excess of 20% are reported by transferring the par value of the stock issued from retained earnings to common stock. Stock dividends for 20% or less are reported by transferring the fair value, as of the ex-dividend date, of the stock issued from retained earnings to common stock and additional paid-in capital. Fractional share amounts are paid in cash with a reduction in retained earnings.

Retirement Plans

Employee 401(k) and profit-sharing plan expense represents the amount of matching and discretionary contributions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 2. 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 such instruments. Changes in assumptions or in market conditions could significantly affect these estimates.

Loss Contingencies

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

Recently Adopted Accounting Guidance

In November 2023, the FASB issued guidance within ASU 2023-07, Segment Reporting (Topic 280). The amendments in this update are intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures related to significant segment expenses. The amendments did not change how an entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments, and all existing segment disclosure requirements in ASC 280 and other Codification topics remain unchanged. The amendments in this update are incremental and require public entities that report segment information to disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss as well as other segment items. Annual disclosure of the title and position of the chief operating decision maker and how the reported measures of segment profit or loss are used to assess performance and allocation of resources is also required.

The Company adopted this guidance beginning with the annual period ending December 31, 2024, and applied these updates on a retrospective basis. Upon adoption, operating segments were aggregated into one as operating results for all segments were similar, resulting in no impact on the Company's financial position or results of operations.

Reclassifications

There were no reclassifications in the current year, nor prior year, for presentation purposes.

2. FAIR VALUE MEASUREMENTS

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. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted market prices (unadjusted) for identical instruments traded in active exchange markets that the Company has the ability to access as of the measurement date.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use in pricing the asset or liability.

Valuation techniques include management judgment and estimation, which may be significant.

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.

The methods and assumptions used to estimate fair values are described as follows:

(a) Investment Securities

Fair values for investment securities are based on quoted market prices for similar securities using matrix pricing, resulting in a Level 2 classification.

(b) Loans

Fair values of loans are based on the exit price and estimated using discounted cash flow analyses. The estimation of fair values of loans results in a Level 3 classification as it requires various assumptions and considerable judgement to incorporate factors relevant when selling loans to market participants, including assumptions related to market interest rates and expected credit losses.

2. FAIR VALUE MEASUREMENTS *(continued)*

Fair Value Hierarchy *(continued)*

(c) Equity Securities

Fair values of equity securities are based on quoted market prices, resulting in a Level 1 classification.

(d) Deposits

The fair values disclosed for demand deposits (e.g., interest and non-interest checking), passbook savings, and certain types of money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 2 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

(e) Borrowings

The carrying amounts of Federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values resulting in a Level 2 classification.

(f) Other Borrowings

The fair values of the Company's long-term borrowings are estimated using discounted cash flow analysis based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

(g) Accrued Interest Receivable/Payable

The carrying amounts of accrued interest receivable and payable are based on the fair value hierarchy of the related asset or liability.

(h) Off-balance Sheet Instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, considering the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

2. FAIR VALUE MEASUREMENTS *(continued)*

The estimated carrying and fair values of the Company's financial instruments at December 31, 2024, and 2023 are as follows *(Dollars in thousands)*:

	2024				
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 14,555	$ 14,555	$ -	$ -	$ 14,555
Interest-bearing deposits in other financial institutions	6,393	-	6,393	-	6,393
Investment securities available-for-sale	177,933	-	177,933	-	177,933
Investment securities held-to-maturity	41,393	-	39,491	-	39,491
Equity securities	149	149	-	-	149
Loans, net	978,369	-	-	922,296	922,296
Accrued interest receivable	5,199	-	1,506	3,693	5,199
Financial liabilities:					
Deposits	$ 1,113,338	$ -	$ 974,761	$ -	$ 974,761
Accrued interest payable	1,052	-	1,052	-	1,052
Other borrowings	25,000	-	25,000	-	25,000
Subordinated notes	16,500	-	14,115	-	14,115

	2023				
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 11,986	$ 11,986	$ -	$ -	$ 11,986
Interest-bearing deposits in other financial institutions	7,697	-	7,812	-	7,812
Investment securities available-for-sale	207,114	-	207,114	-	207,114
Investment securities held-to-maturity	41,326	-	40,801	-	40,801
Equity securities	157	157	-	-	157
Loans, net	934,763	-	-	885,598	885,598
Accrued interest receivable	5,119	-	1,622	3,497	5,119
Financial liabilities:					
Deposits	$ 1,049,682	$ -	$ 912,219	$ -	$ 912,219
Accrued interest payable	565	-	565	-	565
Other borrowings	85,000	-	85,039	-	85,039
Subordinated notes	18,000	-	14,746	-	14,746

2. FAIR VALUE MEASUREMENTS *(continued)*

The estimated fair values do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Assets and Liabilities Recorded at Fair Value

There were no changes in the valuation techniques used during 2024. The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2024, and 2023:

Recurring Basis

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2024, and 2023 *(Dollars in thousands):*

	2024			
Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities				
Debt securities:				
U.S. government agencies mortgage-backed securities	$ 8,384	$ -	$ 8,384	$ -
State and political subdivision	41,700	-	41,700	-
Residential mortgage-backed securities	119,014	-	119,014	-
Corporate debt	8,835	-	8,835	-
Equity Securities	149	-	149	-
Total assets measured at fair value on a recurring basis	$ 178,082	$ -	$ 178,082	$ -

	2023			
Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities				
Debt securities:				
U.S. government agencies mortgage-backed securities	$ 17,697	$ -	$ 17,697	$ -
State and political subdivision	44,440	-	44,440	-
Residential mortgage-backed securities	136,623	-	136,623	-
Corporate debt	8,354	-	8,354	-
Equity Securities	157	-	157	-
Total assets measured at fair value on a recurring basis	$ 207,271	$ -	$ 207,271	$ -

During the years ended December 31, 2024, and 2023, there were no transfers in or out of Levels 1 or 2.

2. FAIR VALUE MEASUREMENTS *(continued)*

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. There were no loans measured at fair value as of December 31, 2024.

These include assets that are measured at the lower of cost or fair value that were recognized at fair value, which was below cost as of December 31, 2023 *(Dollars in thousands):*

	2023			
Description	Fair Value	Level 1	Level 2	Level 3
Collateral dependent loans				
Commercial	$ 97	$ -	$ -	$ 97
Total assets measured at fair value on a non-recurring basis	$ 97	$ -	$ -	$ 97

Individually evaluated loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $97,000, with an allowance for credit loss of zero at December 31, 2023.

The fair value of collateral dependent loans is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are often significant and result in a Level 3 classification of the inputs for determining fair value. Individually evaluated loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow method is not considered a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate.

Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or account receivable aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Non-real estate individually evaluated loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other real estate owned ("OREO") is measured at fair value, less estimated disposition costs. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are often significant and result in a Level 3

2. FAIR VALUE MEASUREMENTS *(continued)*

Non-recurring Basis *(continued)*

classification of the inputs for determining fair value. OREO properties are evaluated on a semi-annual basis for additional impairment and adjusted accordingly.

Appraisals for both collateral-dependent loans and OREO are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the appraisal management group engaged by the Company. Once received, a member of the loan department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Both collateral-dependent loans and OREO which are not in escrow are appraised every six months to ensure a fair market value is being used to calculate possible collateral shortfalls. For those properties in escrow, the Company uses the contract price less actual disposition costs as the contract price is determined to be market value.

3. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at December 31, 2024 and 2023 consisted of the following *(Dollars in thousands):*

	2024				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Allowance for Credit Losses
Securities Available for Sale					
U.S. government agencies mortgage-backed securities	$ 9,008	$ 7	$ (631)	$ 8,384	$ -
State and political subdivision	45,249	4	(3,553)	41,700	-
Residential mortgage-backed securities	135,666	70	(16,722)	119,014	-
Corporate Debt	10,700	-	(1,865)	8,835	-
Total Available for Sale	$ 200,623	$ 81	$ (22,771)	$ 177,933	$ -
	Amortized Cost	**Gross Unrecognized Gains**	**Gross Unrecognized Losses**	**Estimated Fair Value**	**Allowance for Credit Losses**
Securities Held to Maturity					
U.S. government agencies mortgage-backed securities	$ -	$ -	$ -	$ -	$ -
State and political subdivision	38,799	-	(1,560)	37,239	6
Residential mortgage-backed securities	2,600	-	(348)	2,252	-
Corporate Debt	-	-	-	-	-
Total Held to Maturity	41,399	-	(1,908)	39,491	6
Total Investment Securities	**$ 242,022**	**$ 81**	**$ (24,679)**	**$ 217,424**	**$ 6**

3. INVESTMENT SECURITIES *(continued)*

	2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Allowance for Credit Losses
Securities Available for Sale					
U.S. government agencies mortgage-backed securities	$ 18,520	$ 9	$ (832)	$ 17,697	$ -
State and political subdivision	47,910	126	(3,596)	44,440	-
Residential mortgage-backed securities	153,699	175	(17,251)	136,623	-
Corporate Debt	10,700	-	(2,346)	8,354	-
Total Available for Sale	$ 230,829	$ 310	$ (24,025)	$ 207,114	$ -

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value	Allowance for Credit Losses
Securities Held to Maturity					
U.S. government agencies mortgage-backed securities	$ -	$ -	$ -	$ -	$ -
State and political subdivision	38,764	220	(464)	38,520	7
Residential mortgage-backed securities	2,569	-	(281)	2,288	-
Corporate Debt	-	-	-	-	-
Total Held to Maturity	41,333	220	(745)	40,808	7
Total Investment Securities	**$ 272,162**	**$ 530**	**$ (24,770)**	**$ 247,922**	**$ 7**

Net unrealized gains on investment securities totaling $1.0 million were recorded net of tax for $0.7 million as accumulated other comprehensive income within shareholders' equity at December 31, 2024. Net unrealized gains on investment securities totaling $3.0 million were recorded net of tax for $2.3 million as accumulated other comprehensive income within shareholders' equity at December 31, 2023.

3. INVESTMENT SECURITIES *(continued)*

The following table summarizes the securities sold and called for the years ended December 31, 2024 and 2023 *(Dollars in thousands)*:

	2024		
	Proceeds	Gross Gains	Gross Losses
Sales	$ 2,080	$ 13	$ -
Calls	-	-	-
Total	$ 2,080	$ 13	$ -

	2023		
	Proceeds	Gross Gains	Gross Losses
Sales	$ 15,597	$ 16	$ (560)
Calls	2,000	-	-
Total	$ 17,597	$ 16	$ (560)

The following tables summarizes investment securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2024, and December 31, 2023, respectively, aggregated by major security type and length of time in a continuous unrealized loss position *(Dollars in thousands):*

	2024					
	Less Than 12 Months		12 months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale						
U.S. government agencies	$ -	$ -	$ 6,719	$ (631)	$ 6,719	$ (631)
State and Political Subdivision	7,718	(148)	33,364	(3,405)	41,082	(3,553)
Residential Mortgage-backed securities	6,438	(71)	100,567	(16,651)	107,005	(16,722)
Corporate Debt	-	-	8,835	(1,866)	8,835	(1,866)
Total Available for Sale	$ 14,156	$ (219)	$ 149,485	$ (22,553)	$ 163,641	$ (22,772)

	2023					
	Less Than 12 Months		12 months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale						
U.S. government agencies	$ -	$ -	$ 15,363	$ (832)	$ 15,363	$ (832)
State and Political Subdivision	-	-	38,683	(3,596)	38,683	(3,596)
Residential Mortgage-backed securities	5,436	(41)	113,053	(17,210)	118,489	(17,251)
Corporate Debt	357	(143)	7,997	(2,203)	8,354	(2,346)
Total Available for Sale	$ 5,793	$ (184)	$ 175,096	$ (23,841)	$ 180,889	$ (24,025)

3. INVESTMENT SECURITIES *(continued)*

Unrealized losses on available-for-sale securities have not been recognized into income because the issuer's securities are of high credit quality, management does not intend to sell, it is more likely than not that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the bonds approach maturity. The Company has adequate liquidity and the ability and intent to hold these securities to maturity, which would result in full recovery of the indicated unrealized loss. Accordingly, none of the unrealized losses on the securities are related to credit issues.

As of December 31, 2024, the Company's available-for-sale security portfolio consisted of 159 securities, 149 of which were in an unrealized loss position. At December 31, 2024, 98% of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be provisioned for credit loss at December 31, 2024.

The Company's available-for-sale mortgage-backed securities portfolio includes non-agency collateralized mortgage obligations with a fair value of $3.3 million which had unrealized losses of approximately $431,000 at December 31, 2024. These non-agency mortgage-backed securities were rated AAA at purchase. The Company believes there is no provision for credit loss necessary and does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery. The issuers continue to make timely principal and interest payments on the bonds.

The Company's portfolio of available-for-sale debt securities includes 36 municipal securities with a market value of $41.1 million which had unrealized losses of $3.5 million at December 31, 2024. The Company monitors certain credit characteristics of each municipal security issuer as necessary, and these issuers appear to be able to service all outstanding debt. The Company believes there is no provision for credit loss necessary and does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

The Company's available-for-sale corporate debt securities portfolio includes 9 securities with a market value of $8.8 million which had unrealized losses of $1.9 million at December 31, 2024. The Company monitors certain credit characteristics of each corporate issuer on a quarterly basis and these issuers appear to be able to service all outstanding debt. The Company believes there is no provision for credit loss necessary and does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

3. INVESTMENT SECURITIES *(continued)*

The following table presents the activity in the allowance for credit losses for debt securities held-to-maturity by major security type for the years ended December 31, 2024, and December 31, 2023 *(Dollars in thousands):*

December 31, 2024	Mortgage-backed Residential	Municipal
Allowance for credit losses:		
Beginning balance	$ -	$ 7
Reversal of provision	-	(1)
Total ending allowance balance	$ -	$ 6

December 31, 2023	Mortgage-backed Residential	Municipal
Allowance for credit losses:		
Beginning balance	$ -	$ -
Impact of adopting ASC 326	-	11
Reversal of Provision	-	(3)
Total ending allowance balance	$ -	$ 7

3. INVESTMENT SECURITIES *(continued)*

The amortized cost and estimated fair value of investment securities at December 31, 2024 and 2023 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately *(Dollars in thousands):*

	2024		2023	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Securities available-for-sale				
Due in one year or less	$ 1,092	$ 1,083	$ 8,497	$ 8,407
After one through five years	11,844	11,133	6,895	6,584
After five years through ten years	18,002	15,113	25,946	22,159
After ten years	34,019	31,590	35,791	33,333
Residential Mortgage-backed securities	135,666	119,014	153,700	136,631
Total available-for-sale	200,623	177,933	230,829	207,114
Securities held-to-maturity				
Due in one year or less	$ -	$ -	$ -	$ -
After one year through five years	-	-	-	-
After five years through ten years	854	799	-	-
After ten years	37,945	36,441	38,757	38,520
Residential Mortgage-backed securities	2,600	2,251	2,569	2,288
Total held-to-maturity	41,399	39,491	41,326	40,808
Total investment securities	**$ 242,042**	**$ 217,424**	**$ 272,155**	**$ 247,922**

4. LOANS

Outstanding loans at December 31, 2024 and 2023 are summarized below *(Dollars in thousands)*:

	2024	2023
Commercial	$ 94,723	$ 81,367
Real estate – commercial	633,835	642,285
Real estate – residential	189,638	168,356
Construction	72,770	55,840
Consumer and other	464	98
Total gross loans	991,430	947,946
Deferred loan origination fees, net of costs	(1,489)	(1,535)
Allowance for credit losses	(11,572)	(11,648)
Loans, net	$ 978,369	$ 934,763

The table above includes loans acquired at fair value on January 1, 2016, with outstanding balances of $2.7 million and $6.5 million as of December 31, 2024, and 2023, respectively.

The Company deferred $1.2 million and $1.0 million in salaries and employee benefits as loan origination costs for the years ended December 31, 2024, and 2023, respectively.

Loans with a fair value of approximately $435.3 million and $387.0 million were pledged to secure borrowing arrangements as of December 31, 2024, and 2023, respectively (see Note 12).

Loan Servicing

The Company services SBA loans for the SBA and other institutional investors that have purchased government guaranteed portions of certain loans. At December 31, 2024, and 2023, the Bank was servicing approximately $13.2 million and $12.9 million in SBA loans previously sold. The net carrying value of servicing rights associated with these loans was $110,000 and $129,000 as of December 31, 2024, and 2023, respectively. The carrying value approximated the fair value at December 31, 2024, and 2023.

5. ALLOWANCE FOR CREDIT LOSSES

The following tables present the activity in the allowance for credit losses by portfolio segment for the years ending December 31, 2024 and 2023 *(Dollars in thousands):*

December 31, 2024	Commercial	Real Estate – Commercial	Real Estate – Residential	Construction	Consumer and Other	Total
Allowance for credit losses:						
Beginning balance	$ 2,010	$ 7,186	$ 1,504	$ 946	$ 2	$ 11,648
Provision (reversal) for credit losses	7	(2,387)	1,264	1,039	1	(76)
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Ending balance	$ 2,017	$ 4,799	$ 2,768	$ 1,985	$ 3	$ 11,572

December 31, 2023	Commercial	Real Estate – Commercial	Real Estate – Residential	Construction	Consumer and Other	Total
Allowance for credit losses:						
Beginning balance prior to adoption of ASC 326	$ 1,430	$ 7,245	$ 1,555	$ 392	$ 4	$ 10,626
Impact of adopting ASC 326	529	(151)	(68)	528	1	839
Provision (reversal) for credit losses	41	92	17	26	(5)	171
Charge-offs	-	-	-	-	2	2
Recoveries	10	-	-	-	-	10
Ending balance	$ 2,010	$ 7,186	$ 1,504	$ 946	$ 2	$ 11,648

5. ALLOWANCE FOR CREDIT LOSSES *(continued)*

The following table shows an aging analysis of the loan portfolio by the time past due at December 31, 2024 and 2023 (*Dollars in thousands*):

December 31, 2024	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Current	Total
Commercial	$ 87	$ -	$ 740	$ 827	$ 93,896	$ 94,723
Real Estate – Commercial	2,507	-	-	2,507	631,328	633,835
Real Estate – Residential	2,423	-	-	2,423	187,215	189,638
Construction	-	-	5,358	5,358	67,412	72,770
Consumer and Other	-	-	-	-	464	464
Total	$ 5,017	$ -	$ 6,098	$ 11,115	$ 980,315	$ 991,430

December 31, 2023	30-89 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Current	Total
Commercial	$ -	$ -	$ 594	$ 594	$ 80,773	$ 81,367
Real Estate – Commercial	78	-	-	78	642,207	642,285
Real Estate – Residential	-	-	-	-	168,356	168,356
Construction	-	-	-	-	55,840	55,840
Consumer and Other	-	-	-	-	98	98
Total	$ 78	$ -	$ 594	$ 672	$ 947,274	$ 947,946

5. ALLOWANCE FOR CREDIT LOSSES *(continued)*

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2024 and 2023 (*Dollars in thousands*):

December 31, 2024	Nonaccrual With No Allowance for Credit Loss	Nonaccrual	Loans past Due Over 89 Days Still Accruing
Commercial	$ 740	$ 740	$ -
Construction	5,358	5,358	
Total	$ 6,098	$ 6,098	$ -

December 31, 2023	Nonaccrual With No Allowance for Credit Loss	Nonaccrual	Loans past Due Over 89 Days Still Accruing
Commercial	$ 594	$ 594	$ -
Total	$ 594	$ 594	$ -

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2024 and 2023 (*Dollars in thousands*):

December 31, 2024	First position lien on commercial real estate	Second position lien on commercial real estate	Third position lien on residential real estate
Commercial	$ -	$ -	$ 740
Construction	3,851	1,507	-
Total	$ 3,851	$ 1,507	$ 740

December 31, 2023	Third position lien on residential real estate
Commercial	$ 594
Total	$ 594

For the years ended December 31, 2024 and 2023, the Company did not recognize any income on non-accrual loans on a cash basis of accounting.

5. ALLOWANCE FOR CREDIT LOSSES *(continued)*

	Term Loans Amortized Cost Basis by Origination Year								
	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
As of December 31, 2024									
Commercial:									
Risk rating									
Pass	$ 52,927	$ 5,467	$ 13,098	$ 4,579	$ 3,423	$ 10,361	- -	- -	$ 89,855
Special mention	326	69	-	-	-	-	-	-	395
Substandard	3,760	-	155	496	61	-	-	-	4,472
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial loans	57,013	$ 5,536	$ 13,253	$ 5,075	$ 3,484	$ 10,361	$ -	$ -	$ 94,722
Commercial:									
Current period gross write offs	-	-	-	-	-	-	-	-	-
Current period recoveries	-	-	-	-	-	-	-	-	-
Current period net write offs	-	-	-	-	-	-	-	-	-
Real Estate - Commercial:									
Risk rating									
Pass	$ 50,082	- 71,997	- 169,672	- 152,043	- 90,838	- 82,815	- -	- -	- 617,447
Special mention	-	-	6,571	2,351	-	290	-	-	9,212
Substandard	-	-	1,351	5,825	-	-	-	-	7,176
Doubtful	-	-	-	-	-	-	-	-	-
Total Real Estate - Commercial	50,082	$ 71,997	$ 177,594	$ 160,219	$ 90,838	$ 83,105	$ -	$ -	$ 633,835
Real Estate - Commercial:									
Current period gross write offs	-	-	-	-	-	-	-	-	-

5. ALLOWANCE FOR CREDIT LOSSES *(continued)*

	Term Loans Amortized Cost Basis by Origination Year								
	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Real Estate - Commercial:									
Current period recoveries	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Current period net write offs	-	-	-	-	-	-	-	-	-
Real Estate - Residential:									
Risk rating									
Pass	$ 44,228	- 15,947	- 60,441	- 34,759	- 17,171	- 10,922	- -	- -	- 181,530
Special mention	497	-	-	3,250	-	-	-	-	3,747
Substandard	-	-	-	-	2,423	-	-	-	2,423
Doubtful	-	-	-	-	-	-	-	-	-
Total Real Estate - Residential	44,725	$ 15,947	$ 60,441	$ 38,009	$ 19,594	$ 10,922	$ -	$ -	$ 189,638
Real Estate - Residential:									
Current period gross write offs	-	-	-	-	-	-	-	-	-
Current period recoveries	-	-	-	-	-	-	-	-	-
Current period net write offs	-	-	-	-	-	-	-	-	-
Construction:									
Risk rating									
Pass	$ 30,828	- 6,111	- 21,567	- -	- -	- 456	- -	- -	- 58,962
Special mention	-	-	-	-	-	-	-	-	-
Substandard	8,450	5,358	-	-	-	-	-	-	13,808
Doubtful	-	-	-	-	-	-	-	-	-
Total Construction	39,278	$ 11,469	$ 21,567	$ -	$ -	$ 456	$ -	$ -	$ 72,770

5. ALLOWANCE FOR CREDIT LOSSES *(continued)*

	Term Loans Amortized Cost Basis by Origination Year								
	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Construction:									
Current period gross write offs	-	-	-	-	-	-	-	-	-
Current period recoveries	-	-	-	-	-	-	-	-	-
Current period net write offs	-	-	-	-	-	-	-	-	-
Consumer and other:									
Risk rating									
Pass	$ 454	- 9	- -	- -	- -	- -	- 1	- -	- 464
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total Consumer and other	454	$ 9	$ -	$ -	$ -	$ -	$ 1	$ -	$ 464
Consumer and other:									
Current period gross write offs	-	-	-	-	-	-	-	-	-
Current period recoveries	-	-	-	-	-	-	-	-	-
Current period net write offs	-	-	-	-	-	-	-	-	-
Total loans:	$ 191,552	$ 104,958	$ 272,855	$ 203,303	$ 113,916	$ 104,844	$ 1	$ -	$ 991,429
Current period gross write offs	-	-	-	-	-	-	-	-	-
Current period recoveries	-	-	-	-	-	-	-	-	-
Current period net write offs	-	-	-	-	-	-	-	-	-

5. ALLOWANCE FOR CREDIT LOSSES *(continued)*

	Term Loans Amortized Cost Basis by Origination Year								
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
As of December 31, 2023									
Commercial:									
Risk rating									
Pass	$ 15,402	$ 17,492	$ 6,752	$ 4,854	$ 1,116	$ 11,708	$ 19,418	$ -	$ 76,742
Special mention	-	382	-	-	-	-	-	-	382
Substandard	-	539	688	205	34	-	2,777	-	4,243
Doubtful	-	-	-	-	-	-	-	-	-
Total commercial loans	15,402	18,414	7,440	5,058	1,149	11,708	22,195	-	81,367
Commercial:									
Current period gross write offs	-	-	-	-	-	-	-	-	-
Current period recoveries	-	-	-	-	-	10	-	-	10
Current period net write offs	-	-	-	-	-	(10)	-	-	(10)
Real Estate - Commercial:									
Risk rating									
Pass	$ 87,133	$ 185,059	$ 161,757	$ 99,329	$ 41,045	$ 60,986	$ 1,055	$ -	$ 636,364
Special mention	-	-	-	-	-	-	1	-	1
Substandard	-	-	5,919	-	-	-	-	-	5,919
Doubtful	-	-	-	-	-	-	1	-	1
Total Real Estate - Commercial	87,133	185,059	167,676	99,329	41,045	60,986	1,057	-	642,285
Real Estate - Commercial:									
Current period gross write offs	-	-	-	-	-	-	-	-	-

5. ALLOWANCE FOR CREDIT LOSSES *(continued)*

	Term Loans Amortized Cost Basis by Origination Year								
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Real Estate - Commercial:									
Current period recoveries	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Current period net write offs	-	-	-	-	-	-	-	-	-
Real Estate - Residential:									
Risk rating									
Pass	$ 18,287	$ 61,791	$ 39,284	$ 20,281	$ 5,526	$ 8,209	$ 14,979	$ -	$ 168,356
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total Real Estate - Residential	18,287	61,791	39,284	20,281	5,526	8,209	14,979	-	168,356
Real Estate - Residential:									
Current period gross write offs	-	-	-	-	-	-	-	-	-
Current period recoveries	-	-	-	-	-	-	-	-	-
Current period net write offs	-	-	-	-	-	-	-	-	-
Construction:									
Risk rating									
Pass	$ 31,038	$ 23,309	$ 1,024	$ -	$ -	$ 469	$ -	$ -	$ 55,840
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total Construction	31,038	23,309	1,024	-	-	469	-	-	55,840

5. ALLOWANCE FOR CREDIT LOSSES *(continued)*

	Term Loans Amortized Cost Basis by Origination Year								
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Construction:									
Current period gross write offs	-	-	-	-	-	-	-	-	-
Current period recoveries	-	-	-	-	-	-	-	-	-
Current period net write offs	-	-	-	-	-	-	-	-	-
Consumer and other:									
Risk rating									
Pass	$ 21	$ -	$ -	$ -	$ -	$ -	$ 77	$ -	$ 98
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total Consumer and other	21	-	-	-	-	-	77	-	98
Consumer and other:									
Current period gross write offs	-	-	-	-	2	-	-	-	2
Current period recoveries	-	-	-	-	-	-	-	-	-
Current period net write offs	-	-	-	-	2	-	-	-	2
Total loans:	$ 151,880	$ 288,573	$ 215,424	$ 124,669	$ 47,720	$ 81,372	$ 38,308	$ -	$ 947,946
Current period gross write offs	-	-	-	-	2	-	-	-	2
Current period recoveries	-	-	-	-	-	10	-	-	10
Current period net write offs	-	-	-	-	2	(10)	-	-	(8)

5. ALLOWANCE FOR CREDIT LOSSES *(continued)*

Loan Modifications

The Company did not make any loan modifications during the years ended December 31, 2024 and 2023.

6. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31, 2024 and 2023 *(Dollars in thousands)*:

	2024	2023
Furniture fixtures and equipment	$ 4,701	$ 4,386
Leasehold improvements	7,893	7,644
Building	1,224	1,224
Building improvements	1,576	1,576
Land	774	774
Total bank premises and equipment	16,168	15,604
Accumulated Depreciation and amortization	(7,947)	(6,803)
Premises and equipment, net	$ 8,221	$ 8,801

Depreciation and amortization included in occupancy and equipment expense totaled $1.1 million and $0.9 million for the years ending December 31, 2024 and 2023.

7. LEASES

The Company enters into leases in the normal course of business primarily for full-service branches and lending centers. The Company's leases have remaining terms ranging from 6 months to 9 years, some of which include renewal options to extend the lease for up to 20 years. The Company leases its headquarters, branch facilities (except Paso Robles which is owned by the Company) and lending offices under non-cancelable operating leases.

The lease for the Santa Barbara branch expires on June 30, 2025, and includes two five-year renewal options. The lease includes an annual rent adjustment based on changes in the Consumer Price Index (CPI) with a floor of 3% and a cap of 8%.

The lease for the Santa Maria branch expires on December 31, 2026, and has one four-year renewal option. The lease includes annual rent adjustments of 4%.

The lease for the Goleta branch expires on August 31, 2027, and has two five-year renewal options. The lease rate is fixed for the current term.

7. LEASES *(continued)*

The lease for the Montecito branch expires on April 30, 2028, and has one ten-year renewal option. The lease includes rent adjustments every three years based on changes in the Consumer Price Index (CPI) with an annual floor of 2% and a cap of 5%.

The leases for the full-service branch and loan production office in San Luis Obispo expires in May 2029. The leases include annual rent adjustments of 3% and have four five-year renewal options.

The lease for the administration and commercial lending office expires December 1, 2032. The lease has two five-year renewal options and includes an annual rent adjustment of 3%.

The lease for the Atascadero branch expires on June 30, 2034, and has four five-year renewal options. The lease includes annual scheduled rent increases of 3%.

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

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 net present value of lease payments over the lease term.

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

As of December 31, 2024 and 2023, all of the Company's leases are classified as operating leases. Right-of-use assets were $4.8 million and $5.2 million and lease liabilities were $5.9 million and $6.2 million as of December 31, 2024, and 2023, respectively.

Rental expense, net of sublease income, included in occupancy and equipment expense totaled $1.4 million and $1.5 million for the years ended December 31, 2024, and 2023, respectively.

7. LEASES *(continued)*

Lease Obligations

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2024, are as follows *(Dollars in thousands)*:

Year Ending December 31,	Operating Lease
2025	$ 1,319
2026	1,120
2027	1,031
2028	861
2029	599
Thereafter	1,710
Total undiscounted lease payments	6,640
Less: imputed interest	(737)
Net lease liabilities	$ 5,903

Supplemental Lease Information

	December 31, 2024	December 31, 2023
Operating lease weighted average remaining lease term (years)	6	6
Operating lease weighted average discount rate	3.35%	2.92%

8. OTHER REAL ESTATE OWNED

At December 31, 2024 and December 31, 2023, the Company had no properties acquired through foreclosure or deed-in-lieu.

9. GOODWILL AND INTANGIBLE ASSETS

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Total goodwill at December 31, 2024 and 2023 was $4.8 million. Total goodwill at December 31, 2024 and 2023 represented the excess of the cost of a previous bank acquisition over the net of the amounts assigned to assets acquired and liabilities assumed in the transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisitions. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed at least annually for impairment.

9. GOODWILL AND INTANGIBLE ASSETS *(continued)*

Goodwill is also tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the goodwill below its carrying amount. No such events or circumstances arose during the fourth quarter of 2024, so goodwill was not required to be retested.

The other intangible assets at December 31, 2024, and 2023, represent the net carrying value of servicing rights associated with SBA loans that are serviced by the Company for the SBA and other institutional investors that have purchased government guaranteed portions of certain loans. At December 31, 2024, and 2023, the net carrying value of servicing rights associated with these loans was $110,000 and $129,000, respectively.

10. TIME DEPOSITS

Time deposits as of December 31, 2024, have the following maturities by year *(Dollars in thousands)*:

Maturity Year	Amount
2025	$ 148,964
2026	1,163
2027	2
2028	-
2029	-
Total	$ 150,129

Time deposits with balances that meet and exceed $250,000 totaled $73.8 million and $36.7 million at December 31, 2024, and 2023, respectively.

11. INCOME TAXES

The provision for income taxes for the years ended December 31, 2024, and 2023 consisted of the following *(Dollars in thousands)*:

	2024	**2023**
Current:		
Federal	$ 1,958	$ 1,782
State	1,310	1,577
Total	3,268	3,359
Deferred:		
Federal	256	681
State	35	(49)
Total	291	632
Provision for income taxes	$ 3,559	$ 3,991

11. INCOME TAXES (continued)

Effective tax rates differ from the federal statutory rate of 21% applied to income before income taxes due to the following *(Dollars in thousands):*

	2024	2023
Federal statutory rate times financial statement income	$ 2,583	$ 3,046
Effect of:		
State income taxes, net of federal tax benefit	1,063	1,207
Share-based compensation	(16)	(74)
Tax-exempt interest	(165)	(290)
Other, net	94	102
Total	$ 3,559	$ 3,991

Deferred tax assets (liabilities) at December 31, 2024, and 2023 consisted of the following and are recorded on the balance sheet with accrued interest receivable and other assets or accrued interest payable and other liabilities *(Dollars in thousands)*:

	2024	2023
Deferred tax assets:		
Lease liability	$ 1,745	$ 1,838
Allowance for loan losses	3,421	3,443
Accrued expenses	1,039	956
Share-based compensation	429	498
Unrealized loss on available-for-sale investment securities	8,219	8,746
Net operating loss carryforward	82	181
State taxes	272	394
Other	127	308
Total deferred tax assets	$ 15,334	$ 16,364
Deferred tax liabilities:		
Deferred loan costs	(653)	(686)
Right-of-use asset	(1,431)	(1,535)
Premises and equipment	(715)	(859)
Prepaid expenses	(49)	(33)
Other	(117)	(64)
Total deferred tax liabilities	(2,965)	(3,177)
Net deferred tax asset	$ 12,369	$ 13,187

As of December 31, 2024 and 2023, management performed an evaluation of the Company's net deferred tax asset and determined that it was more likely than not that the Company would be able to utilize its net deferred tax asset. Therefore, no valuation allowance is necessary for 2024.

11. INCOME TAXES (continued)

The Company files income tax returns in the United States and California jurisdictions. The Company is no longer subject to examination by federal taxing authorities for tax years prior to 2021 and is no longer subject to examination by California taxing authorities for tax years prior to 2020. There are currently no pending federal or state income tax examinations by tax authorities.

The Company has no uncertain tax positions and has not accrued for any interest or penalties as of December 31, 2024 or 2023. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

As of December 31, 2024, the Company has net operating losses (“NOLs”) available to carry-forward for federal tax purposes totaling $0.4 million. Federal NOL carry-forwards will expire in 2035, if unused. All federal NOLs were acquired in a previous bank acquisition in 2016. The utilization of these NOL carry-forwards by the Company for federal tax purposes is subject to Internal Revenue Code Sec. 382 with limitations placed on the amount of NOLs that can be utilized annually. The annual 382 limitation is approximately $0.5 million for federal purposes. The Company does not, however, believe that the annual limitation will impact the ultimate deductibility of these NOL carry-forwards.

12. BORROWING ARRANGEMENTS

The Company has unsecured Federal funds lines of credit with seven of its correspondent banks under which it can borrow up to $145.0 million in the aggregate. There were zero borrowings outstanding under these arrangements as of December 31, 2024, and 2023.

In addition, the Company has an arrangement with the Federal Home Loan Bank (“FHLB”) under which it may borrow an amount not to exceed 25% of total assets which must be fully secured by qualifying loans or investment securities. At December 31, 2024, amounts pledged and available under such limits at the FHLB were approximately $287.1 million and $276.5 million, respectively.

At year-end, advances from the FHLB were as follows *(Dollars in thousands)*:

	2024	2023
Long term, fixed rate at 4%, maturing in 2026	$ -	$ 10,000
Short term, fixed rate of 4.63% at Dec 31, 2024 and average rate of 5.63% at Dec 31, 2023	15,000	65,000
Total	$ 15,000	$ 75,000

Principal payments over the next five years are as follows *(Dollars in thousands)*:

2025	$ 15,000
2026	-
2027	-
2028	-
2029	-

The Company has a short-term borrowing arrangement with the Federal Reserve Bank through the Discount Window. The Company has pledged certain loans and investment securities to secure borrowings. The borrowing capacity under the agreement varies

12. BORROWING ARRANGEMENTS *(continued)*

depending on the amount and type of loans and investment securities pledged. There were no borrowings outstanding under the agreement at December 31, 2024, or 2023, and the Company had $40.6 million of readily available borrowing capacity at December 31, 2024, based on currently pledged loans and investment securities.

The Company has one secured line of credit with The Independent Bankers Bank of $10.0 million dollars. As of December 31, 2024, the balance on the line of credit was $10.0 million dollars. The note is at a fixed rate of 3.85% until May 1, 2027, at which time the rate will adjust annually to Wall Street Prime, with a floor of 3.25%.

The Company completed a private placement of $18.0 million in fixed-to-floating rate subordinated notes due March 1, 2032 ("Notes") to certain qualified buyers and accredited investors issued February 28, 2022. The Notes are structured to qualify as Tier 2 capital for the Company for regulatory purposes and will carry a fixed rate of 3.75% until March 1, 2027. Thereafter, the Notes will pay interest at a floating rate, reset quarterly, equal to the then current three-month SOFR plus 212 basis points. The Notes are redeemable by the Company at its option, in whole or in part, on any interest payment date on or after March 1, 2027, or at any time, in whole or in part, upon certain other specified events prior to the Notes' maturity on March 1, 2032. The Company redeemed $1.5 million of subordinated notes during 2024, resulting in a gain of $450,000, leaving $16.5 million outstanding as of December 31, 2024.

13. COMMITMENTS AND CONTINGENCIES

<u>Financial Instruments With Off-Balance Sheet Risk</u>

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of the following *(Dollars in thousands)*:

	December 31, 2024	December 31, 2023
Commitments to extend credit	$ 212,768	$ 187,570
Standby letters of credit	$ 3,464	$ 3,619

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for loans included on the balance sheets.

Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any covenant established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. These commitments are normally unfunded portions of previously approved lines of credit. The Company evaluates each borrower's creditworthiness on a case-by-case basis.

13. COMMITMENTS AND CONTINGENCIES *(continued)*

Financial Instruments With Off-Balance Sheet Risk *(continued)*

The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include deposit accounts, marketable securities, accounts receivable, inventory, equipment, and deeds of trust on commercial or residential real estate.

Standby letters of credit are conditional commitments issued to guarantee the performance of a client to a third-party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2024 and 2023. The Company recognizes these fees as revenue over the term of the commitment.

As of December 31, 2024, unsecured commercial loan commitments represent approximately 52% of total commitments and the majority of these commitments have variable interest rates. Other real estate loans, which are collateralized and generally have adjustable interest rates, represent approximately 3% of total commitments. Home equity lines of credit, which are collateralized and generally have variable interest rates, represent approximately 25% of total commitments. Collateralized construction loan commitments represent approximately 19% of total commitments and have fixed and variable rates. Agricultural production represents approximately 1% of total commitments and generally have variable rates.

As of December 31, 2023, unsecured commercial loan commitments represent approximately 56% of total commitments and the majority of these commitments have variable interest rates. Other real estate loans, which are collateralized and generally have adjustable interest rates, represent approximately 5% of total commitments. Home equity lines of credit, which are collateralized and generally have variable interest rates, represent approximately 25% of total commitments. Collateralized construction loan commitments represent approximately 10% of total commitments and have fixed and variable rates. Agricultural production represents approximately 2% of total commitments and generally have variable rates. The remaining 2% of loan commitments represent other consumer loans, which are collateralized and uncollateralized and generally have variable interest rates.

Concentrations of Credit Risk

A concentration of credit is defined by the Federal Reserve Bank as loans and or loan commitments to: (1) any individual borrower; (2) small, interrelated group of individuals; (3) single repayment source with normal credit risk or greater; and (4) an individual project that represents 25% or more of a bank’s Tier 1 capital and reserves.

The Company grants real estate construction and commercial loans to borrowers in Santa Barbara County, San Luis Obispo County and surrounding areas and a substantial portion of its portfolio is collateralized by commercial and residential real estate.

13. COMMITMENTS AND CONTINGENCIES *(continued)*

Concentrations of Credit Risk *(continued)*

Concentrations may also exist when certain types of loans exceed 100% of the Bank's total capital ("TC") or 100% of the Company's total shareholders' equity ("TE").

At December 31, 2024, a concentration representing approximately 405% of the Bank's TC and 569% of the Company's TE was in Real Estate – Commercial loans. These loans include both owner-occupied and non-owner-occupied commercial real estate loans and are within a variety of types. Residential real estate loans also represented a concentration of approximately 121% of the Bank's TC and 170% of the Company's TE. These loans include owner occupied and non-owner occupied adjustable residential real estate loans, variable home equity lines and fixed rate, short term non-revolving credits.

At December 31, 2023, a concentration representing approximately 439% of the Bank's TC and 638% of the Company's TE was in Real Estate – Commercial loans. These loans include both owner-occupied and non-owner-occupied commercial real estate loans and are within a variety of types. Residential real estate loans also represented a concentration of approximately 115% of the Bank's TC and 167% of the Company's TE. These loans include owner occupied and non-owner occupied adjustable residential real estate loans, variable home equity lines and fixed rate, short term non-revolving credits.

Although management believes the loans within these concentrations have no more than the normal risk of collectability, a continued substantial decline in the performance of the economy or a continued decline in real estate values in the Company's primary market area could have an adverse impact on the collectability of these loans.

Concentrations in Deposit and Loan Relationships

As of December 31, 2024 and 2023, the Company did not have any deposit customers that exceed 5% of total deposits.

As of December 31, 2024 and 2023, the Company did not have any loan customers that exceed 10% of total loans.

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. The Bank maintains funds in money market accounts at certain correspondent banks. As of December 31, 2024, the Bank had $15.7 million of uninsured deposits.

14. SHARE-BASED PAYMENTS

The Company has one share-based compensation plan, which is described as follows. Compensation cost and directors' fees charged against income for restricted stock awards was $1.3 million for the years ended December 31, 2024, and 2023. The total tax deficit was $26,000 as of December 31, 2024, and total tax benefit was $74,000 for December 31, 2023.

14. SHARE-BASED PAYMENTS *(continued)*

On June 20, 2024, the Company adopted the American Riviera Bank 2024 Omnibus Stock Incentive Plan ("Plan") which has been approved by its shareholders and permits the grant of equity compensation in the form of Options, Restricted Stock Awards, Performance Awards, and Restricted Stock Units for up to 500,000 shares of the Company's common stock. The remaining shares available for issuance under the prior 2015 Omnibus Plan were cancelled upon adoption of the 2024 Plan. However, shares forfeited or cancelled after such date from the 2015 Plan are replenished in the 2024 Plan.

As of December 31, 2024, there were 208,422 shares of restricted stock that were unvested and expected to vest. Total shares issuable under the Plan were 503,402 at year-end 2024, with 92,547 and 103,447 restricted shares granted in 2024 and 2023, respectively.

The Plan is designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Company's operating results and government regulations. The Plan requires that the option or grant price may not be less than the fair market value of the stock at the date the award is granted, and that the exercise price per share must be paid in full or shares tendered for sale “net exercise” at the time the option is exercised. The Plan permits the use of vested, in-the-money stock options to be used as a cashless exercise. At this time, there are no options outstanding. The Plan does not provide for the settlement of awards in cash and new shares are issued upon option exercise or grant of restricted stock.

Restricted Common Stock Awards

The Plan provides for the issuance of shares to directors and officers. Compensation expense for employee awards and director fee expense for director grants is recognized on a straight-line basis over the vesting period of the awards based on the fair value of the stock at grant date. The fair value of the stock was determined using the most recent market data. Restricted common stock shares to employees typically vest over a four to five-year period and over a one-year period for directors.

A summary of changes in the Company’s unvested shares for the year is as follows:

Unvested Shares	**Shares**	**Weighted Average Grant Date Fair Value**
Unvested shares at January 1, 2024	214,500	$ 17.21
Granted	92,547	16.17
Vested	(84,885)	16.47
Forfeited	(13,740)	17.24
Unvested shares at December 31, 2024	208,422	$ 17.05

At December 31, 2024, and 2023, the total compensation cost related to unvested restricted common stock not yet recognized was $2.0 million and $1.9 million respectively. This cost is expected to be recognized over a weighted-average remaining period of approximately 2.95 years and will be adjusted for subsequent changes in estimated

14. SHARE-BASED PAYMENTS *(continued)*

forfeitures. The fair value attributable to restricted stock awards vested for the year ended December 31, 2024, and 2023, was $1.3 million and $1.0 million, respectively.

15. SHAREHOLDERS' EQUITY

Earnings per share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years ended December 31, 2024, and 2023 is as follows:

	Net Income	Weighted Average Number of Shares Outstanding	Earnings per share
December 31, 2024			
Basic earnings per share	$ 8,742,000	5,815,817	$ 1.50
Effect of dilutive stock options and restricted shares		-	
Diluted earnings per share	8,742,000	5,815,817	1.50
December 31, 2023			
Basic earnings per share	$ 10,513,000	5,768,697	$ 1.82
Effect of dilutive stock options and restricted shares		-	
Diluted earnings per share	10,513,000	5,768,697	1.82

Regulatory Capital

Banks are subject to regulatory capital requirements administered by federal banking 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 practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The net unrealized gain or loss on AFS securities is not included in computing regulatory capital. The Bank meets all capital adequacy requirements to which it is subject.

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

15. SHAREHOLDERS' EQUITY (continued)

Regulatory Capital *(continued)*

As of December 31, 2024, and 2023, total average assets for leverage capital purposes were $1,297.5 million and $1,267.0 million, respectively, and total risk-weighted assets were $1,097.1 million and $1,065.9 million, respectively.

Capital ratios as of December 31, 2024, and 2023 are as follows *(Dollars in thousands)*:

	2024		2023	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
American Riviera Bank	$ 144,964	11.2%	$ 134,561	10.6%
Minimum for "Well-Capitalized" institution under prompt corrective action provisions	$ 64,874	5.0%	$ 63,352	5.0%
Minimum regulatory requirement	$ 51,899	4.0%	$ 50,682	4.0%
Common Equity Tier 1 Ratio				
American Riviera Bank	$ 144,964	13.2%	$ 134,561	12.6%
Minimum for "Well-Capitalized" institution under prompt corrective action provisions	$ 71,312	6.5%	$ 69,286	6.5%
Minimum regulatory requirement	$ 49,370	4.5%	$ 47,967	4.5%
Tier 1 Risk-Based Capital Ratio				
American Riviera Bank	$ 144,964	13.2%	$ 134,561	12.6%
Minimum for "Well-Capitalized" institution under prompt corrective action provisions	$ 87,769	8.0%	$ 85,275	8.0%
Minimum regulatory requirement	$ 65,827	6.0%	$ 63,956	6.0%
Total Risk-Based Capital Ratio				
American Riviera Bank	$ 157,593	14.4%	$ 146,797	13.8%
Minimum for "Well-Capitalized" institution under prompt corrective action provisions	$ 109,711	10.0%	$ 106,593	10.0%
Minimum regulatory requirement	$ 87,769	8.0%	$ 85,275	8.0%

The Company operates under the Small Bank Holding Company Policy Statement and therefore is not currently subject to generally applicable capital adequacy requirements.

16. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income. The following table presents the Company's sources of non-interest income for the twelve months ended December 31, 2024, and 2023. The other category totaling $2.6 million and $1.3 million for the years ended December 31, 2024, and 2023, respectively, is not within the scope of ASC 606.

Non-interest income for the years ended December 31, 2024, and 2023 consisted of the following *(Dollars in thousands)*:

	2024	2023
Service charges on deposits	$ 1,402	$ 1,066
Overdraft Fees	80	74
Other	2,641	1,336
Total	$ 4,123	$ 2,476

A description of the Bank's revenue stream accounted for under ASC 606 is as follows:

The Bank earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

17. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

In 2006, the Bank adopted the American Riviera Bank 401(k) Profit Sharing Plan and Trust (the "401k Plan"). All employees 21 years of age or older are immediately eligible to participate in the 401k Plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. The Bank makes "safe harbor" matching contributions, and the Bank may make additional profit-sharing contributions to the 401k Plan at the discretion of the Board of Directors. "Safe harbor" Bank contributions vest immediately for all employees. The Company contributed $0.6 million in the form of employer matching contributions to the 401k Plan during both years ended December 31, 2024, and 2023.

18. OTHER EXPENSES

Other expenses for the years ended December 31, 2024, and 2023, consisted of the following *(Dollars in thousands)*:

	2024	2023
Data processing	$ 1,456	$ 2,396
Advertising and marketing	1,059	962
Professional fees	780	880
Regulatory assessments	724	705
Director Fees	366	437
Software	1,112	1,058
Insurance	188	188
Other	3,242	2,973
Total other expenses	$ 8,927	$ 9,579

19. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including executive officers and directors. The following is a summary of the aggregate activity involving related parties *(Dollars in thousands):*

Loans

Balance, January 1, 2024	$ -
Disbursements	6
Amounts repaid	(6)
Balance, December 31, 2024	$ -

As of December 31, 2024, total undisbursed commitments to related parties were $50,000.

As of December 31, 2024, and 2023, there were no loans to related parties that exceeded 10% of the Bank's total loans.

20. QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company invested in qualified affordable housing projects in 2022. At December 31, 2024, the balance of the investment for qualified affordable housing projects was $2.0 million. At December 31, 2023, the balance of the investment for qualified affordable housing projects was $2.3 million. These balances are reflected in the accrued interest receivable and other assets line on the consolidated balance sheets. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $1.7 million at December 31, 2024, and $2.4 million at December 31, 2023. These balances are reflected in the accrued interest payable and other liabilities line on the consolidated balance sheets. The Company expects to fulfill these commitments during the year ending 2039.

During the years ended December 31, 2024, and 2023, the Company recognized amortization expense of $315,000 and $152,000, respectively, which was included within income tax expense on the consolidated statements of income.

Additionally, the Company recognized tax credits and other benefits from its investment in affordable housing tax credits of $82,000 and $40,000 in 2024 and 2023, respectively.

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