FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2024

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____________ to _____________

FDIC Certificate No. 32203

Summit State Bank

(Exact Name of Registrant as Specified in its Charter)

California
(State of Incorporation)

94-2878925
(I.R.S. Employer Identification No.)

500 Bicentennial Way, Santa Rosa, CA 95403
(Address of Principal Executive Offices)

707-568-6000
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	SSBI	The NASDAQ Stock Market LLC

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐
Accelerated filer ☐
Non-accelerated filer ☒
Smaller reporting company ☒
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.☐

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No☒

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☐ No ☐

As of November 19, 2024, there were 6,776,563 shares of common stock outstanding.

SUMMIT STATE BANK

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Part I Financial Information
Item 1 Financial Statements

SUMMIT STATE BANK
BALANCE SHEETS
(In thousands except share data)

	September 30, 2024 (Unaudited)	December 31, 2023 (1)
ASSETS		
Cash and due from banks	$ 80,928	$ 57,789
Investment securities:		
Available-for-sale, less allowance for credit losses of $38 and $58 (at fair value; amortized cost of $86,225 as of September 30, 2024 and $97,034 as of December 31, 2023)	76,205	84,546
Loans, less allowance for credit losses of $15,466 and $15,221	917,367	938,626
Bank premises and equipment, net	5,251	5,316
Investment in Federal Home Loan Bank stock (FHLB), at cost	5,889	5,541
Goodwill	4,119	4,119
Other real estate owned	5,130	-
Affordable housing tax credit investments	7,698	8,405
Accrued interest receivable and other assets	16,204	18,166
Total assets	$ 1,118,791	$ 1,122,508
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	$ 192,371	$ 201,909
Demand - interest-bearing	212,214	244,748
Savings	45,845	54,352
Money market	219,593	212,278
Time deposits that meet or exceed the FDIC insurance limit	80,801	63,159
Other time deposits	251,946	233,247
Total deposits	1,002,770	1,009,693
Junior subordinated debt, net	5,931	5,920
Affordable housing commitment	4,061	4,094
Accrued interest payable and other liabilities	5,367	5,123
Total liabilities	1,018,129	1,024,830
Commitments and contingencies (Note 7)		
Shareholders' equity		
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 6,776,563 and 6,784,099 as of September 30, 2024 and December 31, 2023	37,677	37,471
Retained earnings	70,012	68,957
Accumulated other comprehensive loss, net	(7,027)	(8,750)
Total shareholders' equity	100,662	97,678
Total liabilities and shareholders' equity	$ 1,118,791	$ 1,122,508

(1) Information derived from audited financial statements.

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

SUMMIT STATE BANK
STATEMENTS OF INCOME
(In thousands except earnings per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2024 (unaudited)	September 30, 2023 (unaudited)	September 30, 2024 (unaudited)	September 30, 2023 (unaudited)
Interest and dividend income:				
Interest and fees on loans	$ 13,594	$ 12,831	$ 39,952	$ 39,152
Interest on deposits with banks	592	1,263	1,405	3,618
Interest on investment securities	663	708	2,084	2,143
Dividends on FHLB stock	128	129	386	293
Total interest and dividend income	14,977	14,931	43,827	45,206
Interest expense:				
Deposits	7,563	6,895	21,396	17,114
FHLB advances	4	10	332	177
Junior subordinated debt	138	94	325	281
Total interest expense	7,705	6,999	22,053	17,572
Net interest income before provision for credit losses	7,272	7,932	21,774	27,634
Provision for (reversal of) credit losses on loans	1,320	(27)	1,311	373
(Reversal of) credit losses on unfunded loan commitments	(8)	(5)	(99)	(3)
(Reversal of) provision for credit losses on investments	(19)	27	(20)	27
Net interest income after provision for (reversal of) credit losses on loans, unfunded loan commitments and investments	5,979	7,937	20,582	27,237
Non-interest income:				
Service charges on deposit accounts	241	231	701	653
Rental income	60	61	180	139
Net gain on loan sales	474	1,046	1,257	2,481
Other income	255	158	641	1,630
Total non-interest income	1,030	1,496	2,779	4,903
Non-interest expense:				
Salaries and employee benefits	3,988	4,362	12,210	12,354
Occupancy and equipment	420	432	1,348	1,326
Other expenses	1,773	2,132	5,651	5,886
Total non-interest expense	6,181	6,926	19,209	19,566
Income before provision for income taxes	828	2,507	4,152	12,574
Provision for income taxes	202	686	1,203	3,652
Net income	$ 626	$ 1,821	$ 2,949	$ 8,922
Basic earnings per common share	$ 0.09	$ 0.27	$ 0.44	$ 1.33
Diluted earnings per common share	$ 0.09	$ 0.27	$ 0.44	$ 1.33
Basic weighted average shares of common stock outstanding	6,719	6,697	6,712	6,694
Diluted weighted average shares of common stock outstanding	6,719	6,705	6,712	6,697

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

SUMMIT STATE BANK
STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2024 (unaudited)	September 30, 2023 (unaudited)	September 30, 2024 (unaudited)	September 30, 2023 (unaudited)
Net income	$ 626	$ 1,821	$ 2,949	$ 8,922
Change in securities available-for-sale:				
Unrealized holding gains (losses) on available-for-sale securities arising during the period	3,264	(2,993)	2,448	(2,555)
Income tax (expense) benefit	(966)	886	(725)	757
Total other comprehensive income (loss), net of tax	2,298	(2,107)	1,723	(1,798)
Comprehensive income (loss)	$ 2,924	$ (286)	$ 4,672	$ 7,124

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

SUMMIT STATE BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Three Months Ended
September 30, 2023 and 2024
(Unaudited)

(In thousands except per share data)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, July 1, 2023	6,784,099	$ 37,301	$ 66,844	$ (9,710)	$ 94,435
Net income	-	-	1,821	-	1,821
Other comprehensive loss, net of tax	-	-	-	(2,107)	(2,107)
Stock based compensation - restricted stock	-	88	-	-	88
Cash dividends - $0.12 per share	-	-	(798)	-	(798)
Balance, September 30, 2023	6,784,099	$ 37,389	$ 67,867	$ (11,817)	$ 93,439
Balance, July 1, 2024	6,784,099	$ 37,623	$ 69,651	$ (9,325)	$ 97,949
Net income	-	-	626	-	626
Other comprehensive income, net of tax	-	-	-	2,298	2,298
Restricted stock forfeited	(7,536)	-	-	-	-
Stock based compensation - restricted stock	-	54	-	-	54
Cash dividends - $0.04 per share	-	-	(265)	-	(265)
Balance, September 30, 2024	6,776,563	$ 37,677	$ 70,012	$ (7,027)	$ 100,662

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

SUMMIT STATE BANK

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Nine Months Ended
September 30, 2023 and 2024
(Unaudited)

(In thousands except per share data)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, January 1, 2023	6,732,699	$ 37,179	$ 61,386	$ (10,019)	$ 88,546
Net income	-	-	8,922	-	8,922
Other comprehensive loss, net of tax	-	-	-	(1,798)	(1,798)
Restricted stock granted	51,400	-	-	-	-
Stock based compensation - restricted stock	-	210	-	-	210
Cash dividends - $0.36 per share	-	-	(2,441)	-	(2,441)
Balance, September 30, 2023	6,784,099	$ 37,389	$ 67,867	$ (11,817)	$ 93,439
Balance, January 1, 2024	6,784,099	$ 37,471	$ 68,957	$ (8,750)	$ 97,678
Net income	-	-	2,949	-	2,949
Other comprehensive income, net of tax	-	-	-	1,723	1,723
Restricted stock forfeited	(7,536)	-	-	-	-
Stock based compensation - restricted stock	-	206	-	-	206
Cash dividends - $0.28 per share	-	-	(1,894)	-	(1,894)
Balance, September 30, 2024	6,776,563	$ 37,677	$ 70,012	$ (7,027)	$ 100,662

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

SUMMIT STATE BANK
STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2024 (unaudited)	2023 (unaudited)
Cash flows from operating activities:		
Net income	$ 2,949	$ 8,922
Adjustments to reconcile net income to net cash from (used in) operating activities:		
Depreciation and amortization	293	287
Securities amortization and accretion, net	(18)	(8)
Accretion of net deferred loan fees	(1,477)	(2,440)
Provision for credit losses on loans	1,311	373
(Reversal of) credit losses on unfunded loan commitments	(99)	(3)
(Reversal of) provision for credit losses on investments	(20)	27
Net gain on loan sales	(1,257)	(2,481)
Amortization of debt issuance cost related to junior subordinated debt	11	11
Amortization of affordable housing tax credit investment	707	521
Net change in accrued interest receivable and other assets	1,237	(1,863)
Net change in accrued interest payable and other liabilities	1,075	(5,088)
Stock-based compensation expense	(526)	289
Net cash from (used in) operating activities	4,186	(1,453)
Cash flows from (used in) investing activities:		
Proceeds from calls and maturities of available-for-sale investment securities	10,827	927
Purchase of Federal Home Loan Bank stock	(348)	(804)
Loan origination and principal collections, net	(6,633)	(65,419)
Proceeds from sales of loans other than loans originated for resale	24,185	51,448
Purchases of bank premises and equipment, net	(228)	(160)
Cash paid for affordable housing tax credit commitment	(33)	(242)
Net cash from (used in) investing activities	27,770	(14,250)
Cash flows (used in) from financing activities:		
Net change in demand, savings and money market deposits	(43,264)	58,892
Net change in certificates of deposit	36,341	9,289
Repayment of Long Term Advances from Federal Home Loan Bank	-	(41,000)
Dividends paid on common stock	(1,894)	(2,441)
Net cash (used in) from financing activities	(8,817)	24,740
Net change in cash and cash equivalents	23,139	9,037
Cash and cash equivalents at beginning of period	57,789	77,567
Cash and cash equivalents at end of period	$ 80,928	$ 86,604
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 21,357	$ 16,468
Income taxes	$ 420	$ 5,633
Non-Cash Investing and Financing Activities:		
Net unrealized gains (losses) on available-for-sale securities	$ 2,448	$ (2,555)
Transfer from loans to other real estate owned	$ (5,130)	$ -

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

SUMMIT STATE BANK

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

On January 15, 1999, Summit State Bank (the "Bank") received authority to transact business as a California state-chartered commercial bank and is subject to regulation, supervision and examination by the State of California Department of Financial Protection & Innovation and the Federal Deposit Insurance Corporation. The Bank was incorporated on December 20, 1982 under the name Summit Savings. The Bank provides a variety of banking services to individuals and businesses in its primary service area of Sonoma County, California. The Bank's branch locations include Santa Rosa, Petaluma, Rohnert Park, and Healdsburg. The Bank offers depository and lending services primarily to meet the needs of its business, nonprofit organization and individual clientele. These services include a variety of transaction, money market, savings and time deposit account alternatives. The Bank's lending activities are directed primarily towards commercial real estate, construction and business loans.

The financial statements as of September 30, 2024 and for the three and nine months ended September 30, 2024 and 2023 are unaudited. In the opinion of management, these unaudited financial statements contain all adjustments, consisting only of normal recurring accruals necessary to present fairly the financial statements of the Bank.

The accompanying unaudited interim financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles for interim financial information and Article 8 of Regulation S-X of the Securities and Exchange Commission. Operating results for the three and nine months ended September 30, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024. These unaudited financial statements do not include all disclosures associated with the Bank's annual financial statements and notes thereto and accordingly, should be read in conjunction with the financial statements and notes thereto included in the Bank's Annual Report for the year ended December 31, 2023 on Form 10-K, on file with the FDIC (the Form 10-K may also be found at www.summitstatebank.com).

The accompanying accounting and reporting policies of the Bank conform to U.S. Generally Accepted Accounting Principles and prevailing practices within the banking industry.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles 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. The allowance for credit losses, goodwill impairment, fair values of investment securities and the determination of potential impairment of affordable housing tax credit investment are particularly subject to change.

Operating Segments

While the Bank's chief decision makers monitor the revenue streams of the Bank's various products and services, operations are managed, and financial performance is evaluated on a bankwide basis. Operating segments are aggregated into one segment for purposes of financial reporting.

Earnings Per Common Share

Basic earnings per common share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing income available to common shareholders by the weighted-average common shares outstanding plus the weighted average number of dilutive shares for the period. The Bank has two forms of outstanding common stock: common stock and unvested restricted stock awards. Holders of unvested restricted stock awards receive forfeitable dividends at the same rate as common shareholders. Stock options or unvested restricted stock awards that are considered anti-dilutive, such as options whose exercise prices exceed the current common stock price, are not included in computing diluted earnings per share as they would not reduce EPS under the treasury method. Stock options for 57,000 shares of common stock for the three and nine months ended September 30, 2024 were not considered in computing diluted earnings per share because they were anti-dilutive. Stock options for 79,000 and 84,000 shares of common stock for the three and nine months ended September 30, 2023 were not considered in computing diluted earnings per share because they were anti-dilutive.

The factors used in the earnings per common share computation follow:

	Three Months Ended		Nine Months Ended	
(in thousands except earnings per share)	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Basic				
Net income	$ 626	$ 1,821	$ 2,949	$ 8,922
Weighted average common shares outstanding (1)	6,719	6,697	6,712	6,694
Basic earnings per common share	$ 0.09	$ 0.27	$ 0.44	$ 1.33
Diluted				
Net income	$ 626	$ 1,821	$ 2,949	$ 8,922
Weighted average common shares outstanding for basic earnings per common share (1)	6,719	6,697	6,712	6,694
Add: Dilutive effects of assumed exercises of stock options and restricted stock awards	-	8	-	3
Average shares and dilutive potential common shares	6,719	6,705	6,712	6,697
Diluted earnings per common share	$ 0.09	$ 0.27	$ 0.44	$ 1.33

(1) excludes unvested RSAs

Accounting Standards Pending Adoption

In November 2023, the FASB issued ASU 2023-07 – Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The amendments in this ASU improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses, enhanced interim disclosure requirements, clarifying circumstances in which an entity can disclose multiple segments measures of profit or loss, providing new segment disclosure requirements for entities with a single reportable segment, and requiring other disclosures. The provisions of this ASU are effective for fiscal years beginning after December 15, 2023 (i.e., 2024 Form 10-K), and interim periods within fiscal years beginning after December 15, 2024. The amendments in this ASU should be applied retrospectively to all prior periods presented in the financial statements. Early adoption is permitted. The amendments in this ASU are not expected to have a material impact on the Bank's consolidated financial statements or results of operations.

In December 2023, the FASB issued ASU 2023-09 – Income Taxes (Topic 740): Improvements to Income Tax Disclosures. The amendments in this ASU address investor requests for more transparency about income tax information through improvements to income tax disclosures. The ASUs enhances existing requirements that an entity disclose a tabular reconciliation, using both reporting currency amounts and percentages, of the entity's reported income tax expense and the amount computed by multiplying income from continuing operations before income taxes by the applicable statutory Federal income tax rate by including specific categories in the rate reconciliation table and requiring additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income or loss by the applicable statutory income tax rate). The ASU also includes requirements to disclose the amount of income taxes paid (net of refunds received) disaggregated by Federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid is equal to or greater than 5 percent of total income taxes paid. The amendments in this ASU are effective, on a prospective basis, for annual periods beginning after December 31, 2024. Early adoption is permitted. The amendments in this ASU will not affect the Company's consolidated financial position or results of operations; however, the required disclosures will be added to the Company's consolidated financial statements after the ASU is adopted.

2. INVESTMENT SECURITIES – AVAILABLE-FOR-SALE

The amortized costs and estimated fair value of investment securities available-for-sale are reflected in the tables below; the Bank has no investment securities held-to-maturity:

	September 30, 2024				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
Government agencies	$ 52,848	$ 4	$ (8,178)	$ -	$ 44,674
Mortgage-backed securities - residential	8,718	-	(1,216)	-	7,502
Corporate debt	24,659	122	(714)	(38)	24,029
Total investment securities available-for-sale	$ 86,225	$ 126	$ (10,108)	$ (38)	$ 76,205

	December 31, 2023				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
Government agencies	$ 62,271	$ -	$ (9,841)	$ -	$ 52,430
Mortgage-backed securities - residential	9,314	-	(1,430)	-	7,884
Corporate debt	25,449	51	(1,210)	(58)	24,232
Total investment securities available-for-sale	$ 97,034	$ 51	$ (12,481)	$ (58)	$ 84,546

The unrealized loss on the investment portfolio including asset backed securities, corporates, and agencies were generally caused by changes in required yields by investors for these types of securities and changes in interest rates. All the Bank's securities remain investment grade with the exception of two securities that have a total par value of $750,000. These securities are below investment grade and after a separate evaluation was performed, management determined these investments will be separately reserved. This determination was due to a continued and significant deterioration in the credit rating and the significantly negative impact current economic factors are projected to have on future earnings potential, asset quality, liquidity and projected cash flows.

The Bank continues to monitor all its securities for changes in credit rating or other indications of credit deterioration. The Bank continues to determine the two securities below investment grade could result in a credit loss and as such the Bank recorded an allowance for credit losses of $38,000 as of September 30, 2024 and $58,000 as of December 31, 2023.

Management has concluded the decline in fair value of its investment securities is attributable to changes in short-term interest rates, market shifts of the treasury yield curve and other variable market and economic conditions. Except for the two securities mentioned above, no other allowance for credit losses has been recognized on the available-for-sale securities in an unrealized loss position. Management does not believe any of those securities are impaired due to credit risk factors at either September 30, 2024 or December 31, 2023. In addition, for the available-for-sale securities in an unrealized loss position, the Bank assessed whether it intended to sell the securities, or if it was more likely than not that it would be required to sell the securities before recovery of its amortized cost basis, which would require a write-down to fair value through net income. Because the Bank did not intend to sell any of its securities, and it was not more-likely-than-not that the Bank would be required to sell the securities before recovery of their amortized cost bases, the Bank determined that no write-down was necessary as of the reporting date.

Investment securities with unrealized losses are summarized and classified according to the duration of the loss period as follows:

	September 30, 2024					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Government agencies	$ -	$ -	$ 42,675	$ (8,178)	$ 42,675	$ (8,178)
Mortgage-backed securities - residential	-	-	7,502	(1,216)	7,502	(1,216)
Corporate debt	241	(9)	17,976	(705)	18,217	(714)
Total investment securities	$ 241	$ (9)	$ 68,153	$ (10,099)	$ 68,394	$ (10,108)

	December 31, 2023					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Government agencies	$ 6,983	$ (17)	$ 45,447	$ (9,824)	$ 52,430	$ (9,841)
Mortgage-backed securities - residential	-	-	7,884	(1,430)	7,884	(1,430)
Corporate debt	732	(20)	19,755	(1,190)	20,487	(1,210)
Total investment securities	$ 7,715	$ (37)	$ 73,086	$ (12,444)	$ 80,801	$ (12,481)

At September 30, 2024, the Bank held one investment security in an unrealized loss position for less than 12 months and sixty-eight investment securities in an unrealized loss position greater than 12 months.

The following table sets forth an analysis of the allowance for credit losses on available for sale securities for the periods indicated.

(in thousands)	Government agencies	Mortgage-backed securities	Corporate debt
Balance, December 31, 2023	$ -	$ -	$ 58
Additions for securities for which no previous expected credit losses were recognized	-	-	-
Additional increase (decrease) on securities that previously had an allowance	-	-	(20)
Write-offs charged against the allowance	-	-	-
Recoveries of amounts previously written-off	-	-	-
Balance, September 30, 2024	$ -	$ -	$ 38

At September 30, 2024, investment securities with a fair value of $8,634,000 were pledged to secure public deposits and represented 11.3% of the investment portfolio. At December 31, 2023, investment securities with a fair value of $8,215,000, or 9.7% of the investment portfolio, were pledged.

The amortized cost and estimated fair value of investment securities by contractual maturity at September 30, 2024 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.

(in thousands)	Amortized Cost	Estimated Fair Value
Within one year	$ 6,510	$ 6,479
After one year through five years	18,399	17,796
After five years through ten years	20,107	18,523
After ten years	32,491	25,905
	77,507	68,703
Investment securities not due at a single maturity date:		
Mortgage-backed securities - residential	8,718	7,502
	$ 86,225	$ 76,205

The Bank does not own securities of any single issuer (other than U.S. Government agencies) whose aggregate book value was in excess of 10% of the Bank’s total shareholders’ equity at the time of purchase.

3. LOANS

Outstanding loans are summarized as follows:

(in thousands)	September 30, 2024	December 31, 2023
Commercial & agricultural (1)	$ 144,336	$ 133,389
Real estate - commercial	688,172	697,319
Real estate - construction and land	6,560	23,773
Real estate - single family	55,968	58,808
Real estate - multifamily	37,768	40,547
Consumer & lease financing (2)	29	11
	932,833	953,847
Allowance for credit losses	(15,466)	(15,221)
	$ 917,367	$ 938,626

(1) Includes loans secured by farmland.

(2) Consumer & lease financing includes overdrafts of $29 as of September 30, 2024 and $9 as of December 31, 2023.

The following is a discussion of the risks across each loan portfolio segment:

Commercial and Agricultural Loans – Commercial and agricultural credit is extended to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, farmland, or other projects. Most of these borrowers are customers doing business within the Bank's geographic locations. These loans are generally underwritten individually and secured with the assets of the company and the personal guarantee of the business owners. Commercial and agricultural loans are made based primarily on the historical and projected cash flow of the borrower and the underlying collateral provided by the borrowers. The cash flows of borrowers may not occur as expected, or the collateral securing these loans may fluctuate in value. A weakened economy, and the resulting decrease in consumer or business spending, may also have an impact on the credit quality of commercial and agricultural loans.

Commercial and Multifamily Real Estate Loans – Commercial and multifamily real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market.

Construction and Land Real Estate Loans – Construction and land real estate loans are extended to qualified commercial and individual customers and are underwritten and secured by the assets of the company or individual. Commercial construction credits are generally secured with personal guarantees of the business owner. Credits are underwritten to meet the general credit policy criteria for current and projected cash flow coverage and loan-to-value. Both types of credit are generally written as construction to permanent loans with terms consistent with policy and property type.

The Bank extends construction loans to borrowers in California, Arizona, Texas, Colorado and Washington with a majority under the SBA 7(a) or U.S. Department of Agriculture (USDA) loan guarantee programs. The majority of land real estate loans are with customers doing business within the Bank's geographic region, Northern California. Repayment of construction loans is largely dependent on the ultimate success of the project and can be impacted by the inherent volatility in real estate values, delays due to weather, and labor or material shortages.

Single Family Real Estate Loans – Single family residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed up to 30 years, and in most cases, are extended to borrowers to finance their primary residence. Real estate market values at the time of origination directly affect the amount of credit extended, and in the event of default, subsequent changes in these values may impact the severity of losses. Additionally, commercial loans may be categorized as Single Family Residential if the loan is secured by a mortgage on a home. Commercial loans categorized as Single Family Residential are underwritten as described in Commercial and Agricultural Loans section above and have terms such as interest rates and maturities as a standard Commercial Loan.

Consumer and Lease Financing Loans – The Bank does not fund consumer loans with the exception of temporary loans to fund overdrafts and maintaining a small legacy portfolio. The balance in this category will adjust based on changes in investment provisions or reversals and increases or decreases to overdrafts. Consumer and lease financing loans are primarily comprised of loans made directly to consumers. These loans have a specific underwriting matrix which consists of several factors including debt to income, type of collateral and loan to collateral value, credit history and relationship to the borrower. Consumer and lease financing lending uses risk-based pricing in the underwriting process. Consumer and lease financing loans are impacted by factors that impact consumers' ability to repay the loans, such as unemployment rates.

Changes in the allocation of allowance for credit losses by class for the three and nine months ended September 30, 2024 and 2023 are as follows:

	Three Months Ended September 30, 2024				
(in thousands)	Balance at June 30, 2024	Provision (reversal)	Charge-offs	Recoveries	Balance at September 30, 2024
Commercial & agricultural	$ 4,184	$ 1,154	$ -	$ -	$ 5,338
Real estate - commercial	7,680	177	-	-	7,857
Real estate - construction and land	887	(25)	-	-	862
Real estate - single family	607	24	-	-	631
Real estate - multifamily	525	15	-	-	540
Consumer, lease financing & other	262	(25)	-	-	238
Total	$ 14,145	$ 1,320	$ -	$ -	$ 15,466

	Nine Months Ended September 30, 2024				
(in thousands)	Balance at December 31, 2023	Provision (reversal)	Charge-offs	Recoveries	Balance at September 30, 2024
Commercial & agricultural	$ 1,395	$ 3,662	$ -	$ 281	$ 5,338
Real estate - commercial	8,812	392	(1,347)	-	7,857
Real estate - construction and land	3,413	(2,551)	-	-	862
Real estate - single family	721	(90)	-	-	631
Real estate - multifamily	634	(94)	-	-	540
Consumer, lease financing & other	246	(8)	-	-	238
Total	$ 15,221	$ 1,311	$ (1,347)	$ 281	$ 15,466

(in thousands)	Three Months Ended September 30, 2023 Balance at June 30, 2023	Provision (reversal)	Charge-offs	Recoveries	Balance at September 30, 2023
Commercial & agricultural	$ 1,398	$ (89)	$ -	$ 9	$ 1,318
Real estate - commercial	7,608	528	-	-	8,136
Real estate - construction and land	4,758	(466)	-	-	4,292
Real estate - single family	679	18	-	-	697
Real estate - multifamily	586	(7)	-	-	579
Consumer, lease financing & other	232	(11)	-	-	221
Total	$ 15,261	$ (27)	$ -	$ 9	$ 15,243

(in thousands)	Nine Months Ended September 30, 2023 Balance at December 31, 2022	Provision (reversal)	Charge-offs	Recoveries	Balance at September 30, 2023
Commercial & agricultural	$ 972	$ 315	$ -	$ 31	$ 1,318
Real estate - commercial	5,858	2,278	-	-	8,136
Real estate - construction and land	6,748	(2,456)	-	-	4,292
Real estate - single family	558	139	-	-	697
Real estate - multifamily	462	117	-	-	579
Consumer, lease financing & other	241	(20)	-	-	221
Total	$ 14,839	$ 373	$ -	$ 31	$ 15,243

For the three months ending September 30, 2024, the ACL for commercial & agricultural increased $1,154,000, due to an updated analysis of individually assessed loans. The ACL for real estate – single family, real estate – multifamily and consumer loans changed nominally. For the nine months ending September 30, 2024, the ACL for commercial real estate loans decreased $1,347,000 due to a charge-off related to a write-down to market value of a foreclosed property, and the ACL for real estate – construction and land loans decreased $2,551,000 due to paydowns on existing loan balances.

The following table presents the amortized cost basis of collateral dependent loans by class of loans and by collateral type as of September 30, 2024 and December 31, 2023:

	September 30, 2024							
	Amortized Cost by Collateral Type							
(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total	Allowance for Credit Losses
Farmland	$ 8,948	$ -	$ -	$ -	$ -	$ -	$ 8,948	$ 1,430
Hotel/Motel	-	9,328	-	-	-	-	9,328	-
Multi Family 5+	-	2,157	-	-	-	-	2,157	-
Mixed Use	-	838	-	-	659	-	1,497	-
UCC Blanket	4,200	-	-	-	-	-	4,200	1,016
UCC Crops	540	-	-	-	-	-	540	274
Unsecured	37	-	-	-	-	-	37	-
Vineyard	7,495	-	-	-	-	-	7,495	-
Winery Property	15,104	-	-	-	-	-	15,104	1,000
Total collateral dependent loans	**$ 36,324**	**$ 12,323**	**$ -**	**$ -**	**$ 659**	**$ -**	**$ 49,306**	**$ 3,720**

	December 31, 2023							
	Amortized Cost by Collateral Type							
(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total	Allowance for Credit Losses
Farmland	$ 8,948	$ -	$ -	$ -	$ -	$ -	$ 8,948	$ -
Commercial Office	-	6,449	-	-	-	-	6,449	959
Hotel/Motel	-	5,690	-	-	-	-	5,690	-
Single Family Residence (SFR)	44	-	-	-	-	-	44	-
SFR/UCC Blanket	577	-	-	-	-	-	577	96
UCC Blanket	3,150	-	-	-	-	-	3,150	643
UCC Crops	550	-	-	-	-	-	550	-
Vineyard	7,531	-	-	-	-	-	7,531	-
Winery Property	11,841	-	-	-	-	-	11,841	-
Total collateral dependent loans	**$ 32,641**	**$ 12,139**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 44,780**	**$ 1,698**

Accrued interest receivable for the total loan portfolio was $2,848,000 and $3,152,000 and net deferred loan fees were $2,644,000 and $2,399,000 as of September 30, 2024 and December 31, 2023, respectively. Accrued interest and unamortized net deferred loan fees are not included in the Bank's ACL calculation.

The following table represents the accrued interest receivable written off by reversing interest income during the three and nine months ended September 30, 2024 and September 30, 2023.

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2024	**September 30, 2023**	**September 30, 2024**	**September 30, 2023**
Commercial & agricultural	$ 9	$ 368	$ 9	$ 704
Real estate - commercial	-	-	109	-
Real estate - construction and land	-	-	-	-
Real estate - single family	-	-	-	-
Real estate - multifamily	-	-	-	-
Consumer & lease financing	-	-	-	-
Total	$ 9	$ 368	$ 118	$ 704

The following table presents the interest recognized on collateral dependent loans for the three and nine month periods ending September 30, 2024 and September 30, 2023:

(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total
September 30, 2024							
Interest income recognized on collateral dependent loans during the three months ended	$ 91	$ 526	$ -	$ -	$ 96	$ -	$ 713
Interest income recognized on collateral dependent loans during the nine months ended	374	702	-	-	96	-	1,172
September 30, 2023							
Interest income recognized on collateral dependent loans during the three months ended	$ 819	$ -	$ 403	$ -	$ -	$ -	$ 1,222
Interest income recognized on collateral dependent loans during the nine months ended	1,325	-	638	-	-	-	1,963

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still accruing by class of loans as of September 30, 2024 and December 31, 2023:

	September 30, 2024				December 31, 2023			
(in thousands)	Nonaccrual With Allowance for Credit Losses	Nonaccrual With No Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual With Allowance for Credit Losses	Nonaccrual With No Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial & agricultural	$ 16,220	$ 19,557	$ 35,777	$ -	$ 3,052	$ 28,967	$ 32,019	$ 48
Real estate - commercial	-	1,064	1,064	-	6,449	5,690	12,139	-
Real estate - construction and land	-	-	-	-	-	-	-	-
Real estate - single family	-	-	-	-	-	-	-	-
Real estate - multifamily	-	-	-	-	-	-	-	-
Consumer & lease financing	-	-	-	-	-	-	-	-
Total	$ 16,220	$ 20,621	$ 36,841	$ -	$ 9,501	$ 34,657	$ 44,158	$ 48

Interest income recognized on nonaccrual loans totaled $162,000 and $524,000 for the three and nine months ended September 30, 2024 and $1,222,000 and $1,964,000 for the three and nine months ended September 30, 2023.

The following table presents the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of September 30, 2024, by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ -	$ 431	$ 35,309	$ 35,740	$ 108,596	$ 144,336
Real estate - commercial	659	-	838	1,497	686,675	688,172
Real estate - construction and land	-	-	-	-	6,560	6,560
Real estate - single family	-	-	-	-	55,968	55,968
Real estate - multifamily	2,156	-	-	2,156	35,612	37,768
Consumer & lease financing	-	-	-	-	29	29
Total	$ 2,815	$ 431	$ 36,147	$ 39,393	$ 893,440	$ 932,833

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

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ 1,954	$ 53	$ 23,164	$ 25,171	$ 108,218	$ 133,389
Real estate - commercial	7,553	323	-	7,876	689,443	697,319
Real estate - construction and land	-	-	-	-	23,773	23,773
Real estate - single family	-	-	-	-	58,808	58,808
Real estate - multifamily	-	-	-	-	40,547	40,547
Consumer & lease financing	-	-	-	-	11	11
Total	$ 9,507	$ 376	$ 23,164	$ 33,047	$ 920,800	$ 953,847

A loan is considered past due if a scheduled payment of interest or principal that is due is unpaid for 30 days or more.

For the three and nine months ended September 30, 2024 and 2023, there were no loan modifications to borrowers experiencing financial difficulty. For the three and nine months ended September 30, 2024 and 2023, there were no payment defaults on modified loans to borrowers experiencing financial difficulty.

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis for loans in excess of $100,000. Smaller balances are graded at origination and updated based on payment status and other information obtained from borrowers. The Bank uses the following definitions for risk ratings:

PASS - Loans not meeting any of the three criteria below that are analyzed individually as part of the above described process are considered to be pass rated loans.

SPECIAL MENTION - Loans in this category are considered "criticized" from a regulatory point of view but are not considered "classified" until the risk classification becomes substandard or worse. Loans in this category represent above average risk and potential weakness which may, if not corrected, weaken the loan and threaten repayment at some future date.

SUBSTANDARD - Loans in this category have a well-defined weakness that jeopardizes full repayment of the debt, although loss may not seem likely. Loss potential does not have to exist in individual loans in the Substandard classification but will be apparent in the aggregate. Typically, these loans have not met repayment plans as agreed. The primary source of repayment may have failed to materialize; repayment may be dependent on collateral liquidation or other secondary sources. Bankrupt borrowers and those with continuously past due payments are considered substandard.

DOUBTFUL - Loans in this category have all the characteristics of substandard loans with the added weakness that payment in full or liquidation in full is highly questionable and improbable.

The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the strengthening of the loan, its classification as an estimated loss is deferred until the amount of the loss may be more accurately determined.

The following tables present the Bank's portfolio by loan type, risk category, and year of origination, as of September 30, 2024. Revolving loans that are converted to term loans are treated as new originations in the table below:

(in thousands)	September 30, 2024							
	Term Loans by Year of Origination						Revolving	
	2024	2023	2022	2021	2020	Prior	Loans	Total Loans
Commercial & agricultural								
Risk Rating								
Pass	$ 7,447	$ 7,112	$ 9,784	$ 11,668	$ 6,811	$ 24,085	$ 32,300	$ 99,207
Special Mention	-	-	283	-	-	7,835	686	8,804
Substandard	-	37	977	710	1,076	28,790	4,195	35,785
Doubtful	-	-	-	-	-	-	540	540
Total Commercial & agricultural	$ 7,447	$ 7,149	$ 11,044	$ 12,378	$ 7,887	$ 60,710	$ 37,721	$ 144,336
Real estate - commercial								
Risk Rating								
Pass	$ 26,850	$ 87,130	$ 182,258	$ 112,506	$ 82,646	$ 136,153	$ 10,216	$ 637,759
Special Mention	-	-	8,759	26,761	845	3,223	-	39,588
Substandard	-	-	-	1,367	659	8,799	-	10,825
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - commercial	$ 26,850	$ 87,130	$ 191,017	$ 140,634	$ 84,150	$ 148,175	$ 10,216	$ 688,172
Real estate - construction and land								
Risk Rating								
Pass	$ 189	$ 199	$ 350	$ 862	$ 502	$ 4,458	$ -	$ 6,560
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - construction and land	$ 189	$ 199	$ 350	$ 862	$ 502	$ 4,458	$ -	$ 6,560
Real estate - single family								
Risk Rating								
Pass	$ 1,076	$ 709	$ 6,596	$ 6,275	$ 21,119	$ 18,582	$ 1,068	$ 55,425
Special Mention	-	-	-	-	-	543	-	543
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - single family	$ 1,076	$ 709	$ 6,596	$ 6,275	$ 21,119	$ 19,125	$ 1,068	$ 55,968
Real estate - multifamily								
Risk Rating								
Pass	$ -	$ 1,862	$ 2,506	$ 5,329	$ 12,889	$ 13,026	$ -	$ 35,612
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	2,156	-	2,156
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - multifamily	$ -	$ 1,862	$ 2,506	$ 5,329	$ 12,889	$ 15,182	$ -	$ 37,768
Consumer & lease financing (1)								
Risk Rating								
Pass	$ 29	$ -	$ -	$ -	$ -	$ -	$ -	$ 29
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Consumer & lease financing (1)	$ 29	$ -	$ -	$ -	$ -	$ -	$ -	$ 29
Current-period gross writeoffs (2)	$ -	$ -	$ -	$ -	$ -	$ 1,347	$ -	$ 1,347

(1) Consumer & lease financing includes overdrafts of $29 as of September 30, 2024

(2) Gross writeoffs pertain to the real estate - commercial loan segment

The following tables present the Bank's portfolio by grade, presented by year of origination, as of December 31, 2023. Revolving loans that are converted to term loans are treated as new originations in the table below:

(in thousands)	December 31, 2023 Term Loans by Year of Origination 2023	2022	2021	2020	2019	Prior	Revolving Loans	Total Loans
Commercial & agricultural								
Risk Rating								
Pass	$ 9,621	$ 9,912	$ 13,420	$ 8,433	$ 7,063	$ 24,776	$ 22,971	$ 96,196
Special Mention	-	-	-	-	3,362	-	1,190	4,552
Substandard	44	998	-	1,009	10,189	15,424	4,977	32,641
Doubtful	-	-	-	-	-	-	-	-
Total Commercial & agricultural	$ 9,665	$ 10,910	$ 13,420	$ 9,442	$ 20,614	$ 40,200	$ 29,138	$ 133,389
Real estate - commercial								
Risk Rating								
Pass	$ 90,501	$ 194,737	$ 136,583	$ 82,518	$ 40,596	$ 114,716	$ 15,562	$ 675,213
Special Mention	-	-	1,141	855	-	7,971	-	9,967
Substandard	-	-	-	5,690	-	6,449	-	12,139
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - commercial	$ 90,501	$ 194,737	$ 137,724	$ 89,063	$ 40,596	$ 129,136	$ 15,562	$ 697,319
Real estate - construction and land								
Risk Rating								
Pass	$ 7,545	$ 350	$ 10,193	$ 516	$ 2,325	$ 2,844	$ -	$ 23,773
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - construction and land	$ 7,545	$ 350	$ 10,193	$ 516	$ 2,325	$ 2,844	$ -	$ 23,773
Real estate - single family								
Risk Rating								
Pass	$ 722	$ 6,445	$ 6,512	$ 22,790	$ 7,717	$ 11,978	$ 2,513	$ 58,677
Special Mention	-	-	-	-	-	131	-	131
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - single family	$ 722	$ 6,445	$ 6,512	$ 22,790	$ 7,717	$ 12,109	$ 2,513	$ 58,808
Real estate - multifamily								
Risk Rating								
Pass	$ 2,442	$ 2,548	$ 5,401	$ 13,082	$ 4,044	$ 11,618	$ 1,412	$ 40,547
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Real estate - multifamily	$ 2,442	$ 2,548	$ 5,401	$ 13,082	$ 4,044	$ 11,618	$ 1,412	$ 40,547
Consumer & lease financing (1)								
Risk Rating								
Pass	$ 9	$ -	$ -	$ -	$ -	$ 2	$ -	$ 11
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Consumer & lease financing (1)	$ 9	$ -	$ -	$ -	$ -	$ 2	$ -	$ 11
Current-period gross writeoffs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) Consumer & lease financing includes overdrafts of $9 as of December 31, 2023

Pledged Loans

The Bank maintains two lines of credit where the line is secured by pledging qualifying loans with unpaid principal balances. The first line is held at the Federal Home Loan Bank (FHLB) and secured under terms of a blanket collateral agreement; loans with unpaid principal balances of $320,360,000 at September 30, 2024 and $434,689,000 at December 31, 2023 are pledged to secure the line of credit with the FHLB. The second line is held at the Federal Reserve Bank of San Francisco (FRB) and secured under terms of a Borrower-in-Custody arrangement; loans with unpaid principal balances of $337,113,000 at September 30, 2024 and $ 254,711,000 at December 31, 2023 secure the line of credit with FRB.

Related Party Loans

The Bank has, and expects to have, in the future, banking transactions in the ordinary course of its business with non-employee Directors, Executive Officers, principal shareholders, as well as their businesses, associates, and members of their immediate family. The Bank makes available an Employee Loan Program which offers a preferred interest rate reduction on primary home mortgage loans; this program is compliant with the applicable restrictions of Section 22(h) of the Federal Reserve Act. Prior to August 1, 2020, non-employee Directors were also eligible to participate in the Bank's Employee Loan Program; after August 1, 2020, non-employee Directors are no longer eligible to participate in this program. Otherwise, all other transactions, including loans and commitments to lend, are made in the ordinary course of business on the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons of similar creditworthiness not related to the Bank. These transactions do not involve more than the normal risk of collectability or present other unfavorable features. Loans to individual non-employee Directors and Executive Officers must comply with the Bank's lending policies and statutory lending limits. In addition, in some cases, prior approval of the Bank's Board of Directors must be obtained for such loans, as required by federal and state regulations applicable to the Bank.

Related party loans totaled $3,066,000 at September 30, 2024 and $3,574,000 at December 31, 2023. Undisbursed commitments to related parties were $178,000 and $500,000 at September 30, 2024 and December 31, 2023, respectively.

The following is a summary of the aggregate activity involving related party borrowers.

(in thousands)	2024
Balance, January 1	$ 3,574
New borrowings	306
Amounts repaid	(814)
Balance, September 30	$ 3,066
Undisbursed commitments to related parties	$ 178

4. OTHER REAL ESTATE OWNED

The following table represents other real estate owned (OREO) activity for the periods indicated.

(in thousands)	Nine Months Ended
Balance, January 1, 2024	$ -
Loans transferred to other real estate owned	5,130
Sale of other real estate owned	-
Balance, September 30, 2024	$ 5,130

At September 30, 2024 the balance of other real estate owned was $5,130,000 which was the result of a foreclosed real estate-commercial loan recorded as a result of obtaining physical possession of the property. There was no other real estate owned at September 30, 2023. There was no valuation allowance allocated to properties held for the periods ended September 30, 2024 and 2023.

5. LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plan or equipment for a period of time in exchange for consideration.

The types of leases where the Bank is a lessee are real estate properties for four branches located in Healdsburg, Rohnert Park, Petaluma and Santa Rosa, office spaces in Santa Rosa, a lending office in Roseville and photocopier equipment. These leases have variable terms maturing prior to 2029. The Bank's leases do not include residual value guarantees or covenants. A majority of the leases are classified as operating leases.

The calculated amount of the right-of-use ("ROU") assets and lease liabilities in the table below are calculated by discounting the minimum contractual balance due of all future payments through the end of the current term to present value. When the Bank determines exercising the renewal option for any lease agreement is reasonably certain, it will include the extended term in the calculation of the ROU asset and lease liability.

As it pertains to the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Bank uses its incremental borrowing rate in calculating the discounted present value. The discount rate is determined at the lease commencement date and is not changed during the life of the lease unless the lease period is modified.

Cash payments from subleases originated by the Bank are recorded as rental income and included in non-interest income. Rental income is recognized in the month in which the revenue covers. Leasehold improvements and operational expenses associated with the rental property are recorded separate from the income as an expense.

The following table represents the balance sheet classification of the Bank's ROU assets and lease liabilities. The Bank elected not to include short-term leases (i.e., leases with initial terms of twelve months or less) on the balance sheet.

(in thousands)		September 30, 2024	December 31, 2023
Operating Leases	**Classification**		
Lease right-of-use assets	Accrued Int Rec & Other Assets	$ 981	$ 923
Lease liabilities	Accrued Int Payable & Other Liabilities	1,030	980
Financing Leases			
Lease right-of-use assets	Bank Premises & Equip	$ 10	$ 14
Lease liabilities	Accrued Int Payable & Other Liabilities	10	14

The following table represents lease costs for the three and nine months ended September 30, 2024 and 2023:

(in thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Lease Costs				
Operating lease cost	$ 122	$ 119	$ 363	$ 356
Financing lease cost				
Interest on lease liabilities	-	-	-	-
Amortization of right-of-use assets	1	2	4	5
Rental income	(60)	(61)	(180)	(139)
Net lease cost	$ 63	$ 60	$ 187	$ 222

(in thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Other Information				
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 124	$ 119	$ 370	$ 353
Operating cash flows from finance leases	-	-	-	-
Financing cash flows from finance leases	1	2	4	5
Noncash investing and financing activities:				
Right-of-use assets obtained in exchange for operating lease liabilities	$ 386	$ -	$ 386	$ -
Right-of-use assets obtained in exchange for financing lease liabilities	-	-	-	-

	September 30, 2024
Weighted-average remaining lease term	
Operating leases	3.6 years
Financing leases	1.9 years
Weighted-average discount rate	
Operating leases	3.13%
Financing leases	2.71%

Rent expense for the three and nine months ended September 30, 2024 was $128,000 and $389,000 compared to $124,000 and $390,000 for the same period in 2023.

Future minimum payments for finance leases and operating leases as of September 30, 2024 were as follows:

(in thousands)

Twelve Months Ended:	Operating Leases	Financing Leases
September 30, 2025	$ 406	$ 6
September 30, 2026	238	4
September 30, 2027	234	-
September 30, 2028	164	-
September 30, 2029	75	-
Thereafter	-	-
Total Future Minimum Lease Payments	1,117	10
Amounts Representing Interest	(87)	-
Present Value of Net Future Minimum Lease Payments	$ 1,030	$ 10

6. BORROWINGS AND OTHER OBLIGATIONS

Federal Home Loan Bank Borrowings

The Bank uses FHLB advances to manage balance sheet liquidity and gap fund daily fluctuations on a short-term basis, as needed. Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The line was collateralized by $320,360,000 and $434,689,000 of loans under a blanket lien arrangement at September 30, 2024 and December 31, 2023. Based on this collateral, the Bank was eligible to borrow up to a total of $178,944,000 and $249,997,000 of which $138,937,000 and $209,991,000 were available for additional advances as of September 30, 2024 and December 31, 2023, respectively.

There were no advances outstanding from the FHLB at September 30, 2024 and December 31, 2023.

Federal Reserve Line of Credit

The Bank has a secured line of credit with the Federal Reserve Bank of San Francisco secured by certain agricultural, real estate, construction, and land loans. The line was collateralized by $337,113,000 and $254,711,000 of loans under a Borrower-in-Custody arrangement at September 30, 2024 and December 31, 2023, respectively. The Bank had borrowing capacity under this line totaling $171,118,000 and $107,467,000 at September 30, 2024 and December 31, 2023, respectively, and had no outstanding borrowings with the Federal Reserve Bank at either period end date.

Federal Funds Purchased – Unsecured Borrowings

The Bank has an unsecured line of credit with correspondent banks for overnight borrowings totaling $50,000,000 at September 30, 2024 and $15,0000,000 at December 31, 2023. In general, the interest rate on these lines approximate the federal funds target rate. The Bank had no overnight borrowing under these credit facilities as of September 30, 2024 or December 31, 2023.

Subordinated Debenture

On June 28, 2019, the Bank completed a private placement of $6,000,000 in fixed-to-floating rate subordinated notes (the "Notes") to support organic growth and for general corporate purposes. The Notes are for a 10-year term and have been structured to qualify as Tier 2 capital for regulatory purposes. The Notes bear interest at a fixed rate of 6.0% per annum for the first half of the term and adjust to a floating rate tied to SOFR beginning July 1, 2024. Interest is payable quarterly in arrears and due on March 31, June 30, September 30, and December 31 of each year through the maturity date. The Notes are redeemable by the Bank at its option, in whole or in part, on or after September 30, 2024, or in whole but not in part under certain other circumstances. The Notes are reported net of any unamortized debt issuance cost which totaled $69,000 and $80,000 at September 30, 2024 and December 31, 2023.

Other Obligations

The Bank leases certain premises and equipment under finance leases, which are included in borrowings and other obligations in the statements of income, See Note 5 Leases, for additional information.

7. COMMITMENTS AND CONTINGENCIES

The Bank is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial condition or results of operations of the Bank.

The Bank's business activity is primarily with clients located within Northern California. Although the Bank has a diversified loan portfolio, a significant portion of its clients' ability to repay loans is dependent upon the real estate market and various economic factors within Sonoma County. Generally, loans are secured by various forms of collateral. The Bank's credit policy requires sufficient collateral to be obtained as necessary to meet the Bank's relative risk criteria for each borrower. The Bank's collateral for the lending portfolio consists primarily of real estate, accounts receivable, inventory and other financial instruments. At September 30, 2024, loans with real estate collateral approximated $787,057,000 or 84% of the loan portfolio compared to $898,168,000 or 94% at December 31, 2023.

The Bank 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 clients and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheets.

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

Commitments to extend credit, which totaled $89,930,000 and $98,509,000 at September 30, 2024 and December 31, 2023, respectively, are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held relating to these commitments varies, but may include securities, equipment, accounts receivable, inventory and deeds of trust on residential real estate and owner-occupied or income-producing commercial properties.

Standby letters of credit, which totaled $23,835,000 at September 30, 2024 and $23,275,000 at December 31, 2023, are conditional commitments issued by the Bank 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 represent the fees received for issuing the guarantees, was not significant at September 30, 2024 and December 31, 2023. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

8. SHAREHOLDERS' EQUITY

Regulatory Capital

At September 30, 2024, The Bank's capital levels exceeded the minimums necessary to be considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1 capital, total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below.

The Bank elected not to include Accumulated Other Comprehensive Income in the regulatory capital calculations.

The Bank's actual and required capital amounts and ratios consisted of the following:

(in thousands)	September 30, 2024 Amount	September 30, 2024 Ratio	December 31, 2023 Amount	December 31, 2023 Ratio
Common Equity Tier 1 Capital Ratio				
Summit State Bank	$ 100,186	10.4%	$ 98,690	9.9%
Minimum requirement with capital conservation buffer	$ 67,529	7.0%	$ 69,760	7.0%
Minimum requirement for "Well-Capitalized" institution	$ 62,706	6.5%	$ 64,778	6.5%
Minimum regulatory requirement	$ 43,412	4.5%	$ 44,846	4.5%
Tier 1 Capital Ratio				
Summit State Bank	$ 100,186	10.4%	$ 98,690	9.9%
Minimum requirement with capital conservation buffer	$ 82,000	8.5%	$ 84,709	8.5%
Minimum requirement for "Well-Capitalized" institution	$ 77,176	8.0%	$ 79,726	8.0%
Minimum regulatory requirement	$ 57,882	6.0%	$ 59,795	6.0%
Total Capital Ratio				
Summit State Bank	$ 117,035	12.1%	$ 117,105	11.8%
Minimum requirement with capital conservation buffer	$ 101,294	10.5%	$ 104,641	10.5%
Minimum requirement for "Well-Capitalized" institution	$ 96,470	10.0%	$ 99,658	10.0%
Minimum regulatory requirement	$ 77,176	8.0%	$ 79,726	8.0%
Tier 1 Leverage Ratio				
Summit State Bank	$ 100,186	9.2%	$ 98,690	8.9%
Minimum requirement for "Well-Capitalized" institution	$ 54,548	5.0%	$ 55,766	5.0%
Minimum regulatory requirement	$ 43,639	4.0%	$ 44,613	4.0%

Stock-Based Compensation Plans

The shareholders approved the 2023 Equity Incentive Plan ("Plan") on May 22, 2023. The Plan allows for various equity-based incentives such as options, stock appreciation rights (SARs), restricted stock awards (RSAs), restricted stock units, and other stock-based awards. The Plan reserves a total of 330,000 shares of common stock for issuance to Bank employees and directors. There are 330,000 shares that remain available for future grants under the Plan at September 30, 2024.

The Plan requires that the award exercise price may not be less than the fair value of the stock at the date it is granted. Awards have vesting periods of 5 years, unless otherwise approved by the Board of Directors. Expiration dates are determined by the Board of Directors but may not be later than ten years from the date of grant. There were no awards granted during the three or nine months ended September 30, 2024 or September 30, 2023.

Stock-Based Compensation Plans – Stock Appreciation Rights

Prior to 2021, the Bank granted Stock Appreciation Rights "SARs" to executive officers and directors. SARs provide long-term incentives to the employees and directors by providing a cash payment for the difference between the market price of the Bank's common stock at time of exercise and the price at the grant date. SARs expire ten years from the date of grant, and typically have an annual vesting of 20% per year, unless otherwise approved by the Board of Directors. SARs granted to the Board of Directors typically vested immediately in their entirety or partially vest immediately with annual vesting for the next two years; these SARs also have an expiration of ten years. The compensation expense is accrued quarterly as a liability.

Vested SARs are settled in the form of cash payments when the Bank receives written notification from an employee to exercise a SAR payment, the tenth anniversary of the effective date, or at termination of employment. Obligations associated with SARs are accounted for as liabilities and are included in accrued interest payable and other liabilities on the balance sheet. The Bank's SARs are valued based on the number of vested shares times the fair value of the SARs as of the report date. The Bank discontinued issuing SARs beginning 2021 and instead has been issuing RSAs; because of this there were no SAR grants for the three and nine months ended September 30, 2024 or 2023.

The fair value of each vested SAR award is estimated quarterly using a closed form option valuation (Black-Scholes) model. The output of this valuation is updated quarterly and based on the Bank's actual historical stock price volatility, days to expirations, strike price, the current dividend yield, and the discount rate based on the current U.S. Treasury yield curve that matches the remaining term of each tranche.

At September 30, 2024 and December 31, 2023, the total SAR liability was $175,000 and $907,000, respectively. The total expense accrued for the three and nine months ending September 30, 2024 related to SARs was $21,000 and $(481,000) related to employee SARs which is reflected in the Salaries and Benefits line of the statements of income and $(4,000) and $(251,000) related to director SARs which is reflected in the Other Expenses line of the statements of income. For the three and nine months ended September 30, 2023, total expense accrued was $119,000 and $49,000 related to employee SARs and $85,000 and $30,000 related to director SARs. The decrease in the SAR liability at September 30, 2024 is due to the Bank's stock price decreasing to $8.45 at September 30, 2024 compared to $12.30 at December 31, 2023.

There were SAR agreements based on 295,020 common shares as of September 30, 2024 and December 31, 2023. Of the SAR agreements, there were 268,620 vested and 26,400 unvested as of September 30, 2024 and 265,100 vested and 29,920 unvested as of December 31, 2023.

Stock Appreciation Rights

September 30, 2024

(In thousands except per share data)

Outstanding Rights					Exercise Price	Fair Value		Vested Expense Three Months Ended	
Vested	Unvested	Forfeited	Total	Settlement Date	at Grant	June 30, 2024	September 30, 2024	September 30, 2024	Cumulative
27,500	-	-	27,500	December 2016	$ 10.545	$ 0.421	$ 0.469	$ 1	$ 13
22,000	-	-	22,000	December 2017	$ 11.364	$ 0.261	$ 0.385	$ 3	$ 8
62,700	-	-	62,700	August 2018	$ 14.273	$ 0.179	$ 0.126	$ (3)	$ 8
33,000	-	-	33,000	December 2018	$ 10.527	$ 0.842	$ 0.758	$ (3)	$ 25
37,400	-	-	37,400	October 2019	$ 10.718	$ 0.858	$ 1.028	$ 7	$ 39
35,200	8,800	-	44,000	December 2019	$ 11.627	$ 0.689	$ 0.853	$ 6	$ 30
3,300	-	-	3,300	January 2020	$ 11.786	$ 0.672	$ 0.832	$ 1	$ 3
21,120	-	(880)	20,240	February 2020	$ 11.273	$ 0.747	$ 0.957	$ 4	$ 20
26,400	17,600	-	44,000	December 2020	$ 11.018	$ 0.740	$ 1.099	$ 9	$ 29
268,620	26,400	(880)	294,140					$ 25	$ 175

Outstanding Rights					Exercise Price	Fair Value		Vested Expense Nine Months Ended	
Vested	Unvested	Forfeited	Total	Settlement Date	at Grant	December 31, 2023	September 30, 2024	September 30, 2024	Cumulative
27,500	-	-	27,500	December 2016	$ 10.545	$ 2.852	$ 0.469	$ (66)	$ 13
22,000	-	-	22,000	December 2017	$ 11.364	$ 3.190	$ 0.385	$ (62)	$ 8
62,700	-	-	62,700	August 2018	$ 14.273	$ 2.168	$ 0.126	$ (128)	$ 8
33,000	-	-	33,000	December 2018	$ 10.527	$ 4.117	$ 0.758	$ (111)	$ 25
37,400	-	-	37,400	October 2019	$ 10.718	$ 4.202	$ 1.028	$ (119)	$ 39
35,200	8,800	-	44,000	December 2019	$ 11.627	$ 3.757	$ 0.853	$ (102)	$ 30
3,300	-	-	3,300	January 2020	$ 11.786	$ 3.687	$ 0.832	$ (9)	$ 3
21,120	-	(880)	20,240	February 2020	$ 11.273	$ 3.994	$ 0.957	$ (50)	$ 20
26,400	17,600	-	44,000	December 2020	$ 11.018	$ 4.330	$ 1.099	$ (85)	$ 29
268,620	26,400	(880)	294,140					$ (732)	$ 175

September 30, 2023

(In thousands except per share data)

Outstanding Rights					Exercise Price	Fair Value		Vested Expense Three Months Ended	
Vested	Unvested	Forfeited	Total	Settlement Date	at Grant	June 30, 2023	September 30, 2023	September 30, 2023	Cumulative
27,500	-	-	27,500	December 2016	$ 10.545	$ 5.037	$ 5.651	$ 17	$ 156
22,000	-	-	22,000	December 2017	$ 11.364	$ 4.566	$ 5.359	$ 17	$ 118
62,700	-	-	62,700	August 2018	$ 14.273	$ 3.012	$ 3.850	$ 43	$ 241
26,400	6,600	-	33,000	December 2018	$ 10.527	$ 5.108	$ 6.076	$ 26	$ 160
37,400	-	-	37,400	October 2019	$ 10.718	$ 5.012	$ 5.970	$ 19	$ 223
26,400	17,600	-	44,000	December 2019	$ 11.627	$ 4.475	$ 5.394	$ 24	$ 142
3,300	-	-	3,300	January 2020	$ 11.786	$ 4.388	$ 5.295	$ 3	$ 18
17,600	3,520	(880)	21,120	February 2020	$ 11.273	$ 4.717	$ 5.630	$ 16	$ 99
17,600	26,400	-	44,000	December 2020	$ 11.018	$ 4.987	$ 5.892	$ 16	$ 104
240,900	54,120	(880)	295,020					$ 181	$ 1,261

Outstanding Rights					Exercise Price	Fair Value		Vested Expense Nine Months Ended	
Vested	Unvested	Forfeited	Total	Grant Date	at Grant	December 31, 2022	September 30, 2023	September 30, 2023	Cumulative
27,500	-	-	27,500	December 2016	$ 10.545	$ 5.700	$ 5.651	$ (1)	$ 156
22,000	-	-	22,000	December 2017	$ 11.364	$ 5.125	$ 5.359	$ 5	$ 118
62,700	-	-	62,700	August 2018	$ 14.273	$ 3.499	$ 3.850	$ 11	$ 241
26,400	6,600	-	33,000	December 2018	$ 10.527	$ 5.728	$ 6.076	$ 9	$ 160
37,400	-	-	37,400	October 2019	$ 10.718	$ 5.686	$ 5.970	$ (8)	$ 223
26,400	17,600	-	44,000	December 2019	$ 11.627	$ 5.137	$ 5.394	$ 6	$ 142
3,300	-	-	3,300	January 2020	$ 11.786	$ 5.044	$ 5.295	$ 1	$ 18
17,600	3,520	(880)	21,120	February 2020	$ 11.273	$ 5.376	$ 5.630	$ 28	$ 99
17,600	26,400	-	44,000	December 2020	$ 11.018	$ 5.641	$ 5.892	$ 5	$ 104
240,900	54,120	(880)	295,020					$ 56	$ 1,261

Stock-Based Compensation Plans – Restricted Stock Awards

Beginning in 2022, the Board started issuing Restricted Stock Awards "RSAs" in lieu of SARs as long-term equity incentives to key employees and directors. All vested and unvested RSAs are included in the common share count. RSAs vest in five equal installments on each of the first five anniversaries of the grant date. Holders are entitled to dividends on the same per-share ratio as holders of common stock. Dividends for unvested RSAs will accrue at grant and be paid out at the time of vesting. Unvested RSAs and the associated accrued but unpaid dividends are forfeited if the grantee's service with the Bank is terminated prior to the vesting of the RSAs.

There were no RSAs awarded during the three or nine months ended September 30, 2024 and 0 and 51,400 RSAs awarded during the three and nine months ended September 30, 2023.

There were 57,436 RSAs outstanding as of September 30, 2024; this includes a total of 101,560 RSAs granted with 9,756 forfeited and 34,368 vested. This compares to 86,512 RSAs outstanding as of December 31, 2023 which includes a total of 101,560 RSAs granted with 2,220 forfeited and 12,828 vested.

As of September 30, 2024 and December 31, 2023, there was $733,000 and $1,063,000 of total unrecognized compensation costs related to non-vested RSAs granted, respectively.

All RSAs are released in the form of stock upon vesting. The Bank will recognize an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock, generally when vested or settled.

The following table presents unvested restricted stock awards activity for the periods indicated:

	Number of Shares	Weighted-Average Price per Share
Outstanding Unvested Balance, December 31, 2023	86,512	$ 15.30
Granted	-	-
Vested	(21,540)	15.12
Forfeited	(7,536)	15.08
Outstanding Unvested Balance, September 30, 2024	57,436	$ 15.40

9. OTHER EXPENSES

Other expenses consisted of the following:

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Information technology	$ 529	$ 492	$ 1,589	$ 1,461
Professional fees	339	409	1,149	1,148
Director fees and expenses	200	293	373	667
Nasdaq listing and regulatory license expense	50	75	216	204
Marketing and donations	213	352	710	964
Deposit and other insurance premiums	261	235	945	663
Other expenses	181	276	669	779
	$ 1,773	$ 2,132	$ 5,651	$ 5,886

10. FAIR VALUE

Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. 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.

Because no active market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following table presents a summary of the carrying value and fair value by level of financial instruments on the Bank's balance sheet at September 30, 2024 and December 31, 2023:

	September 30, 2024			**December 31, 2023**		
(in thousands)	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and due from banks	$ 80,928	$ 80,928	Level 1	$ 57,789	$ 57,789	Level 1
Investment securities - available-for-sale	76,205	76,205	Level 2	84,546	84,546	Level 2
Loans, net of allowance	917,367	876,703	Level 3	938,626	886,878	Level 3
Investment in FHLB stock	5,889	5,889	Level 2	5,541	5,541	Level 2
Other Real Estate Owned	5,130	5,130	Level 3	-	-	Level 3
Originated servicing rights	3,550	3,384	Level 3	3,691	2,495	Level 3
Accrued interest receivable	3,569	3,569	Level 1	3,703	3,703	Level 1
Financial liabilities:						
Deposits	$ 1,002,770	$ 1,002,439	Level 2	$ 1,009,693	$ 1,007,745	Level 2
Junior subordinated debt	5,931	5,110	Level 3	5,920	5,019	Level 3
Accrued interest payable	1,304	1,304	Level 1	619	619	Level 1

The fair values of securities available for sale are determined by a third-party vendor who uses matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). Level 2 available-for-sale securities include US agencies or government-sponsored agencies' debt securities, mortgage-backed securities, and corporate bonds. Management periodically reviews the pricing information received from third-party pricing services and tests those prices against other sources to validate the reported fair values.

Fair value of loans is based on exit price techniques and obtained from an independent third party that uses its proprietary valuation model and methodology and may differ from actual price from a prospective buyer. The discounted cash flow valuation approach reflects key inputs and assumptions that are unobservable, such as loan probability of default, loss given default, prepayment speed, and market discount rates. Loans are classified as Level 3 measurements due to the use of significant unobservable inputs, as well as significant judgment and estimation.

The Bank holds Federal Home Loan Bank ("FHLB") of San Francisco stock which is recorded at cost as there is no impairment or changes resulting from observable price transactions for identical investments as of September 30, 2024 and 2023.

The fair value of fixed-rate time deposits is estimated by discounting future contractual cash flows using discount rates that reflect the current observable market rates offered for time deposits of similar remaining maturities.

Junior subordinated debt fair valuation is estimated by discounting future contractual cash flows net of discounted premiums and amortized fees. The discount rate is based on limited observable market prices for London Interbank Offered Rate ("LIBOR") or comparable market prices. This item is classified as a Level 3 measurement due to the use of significant unobservable inputs, judgements and estimations for projected cash flows and discount rate.

The fair value of loan servicing assets is performed by an independent third party that calculates the discounted cash flow using a proprietary valuation model and may differ from actual price from a prospective buyer. The valuation is performed at the loan level and is based on objective attributes of the portfolio including note rate, fixed versus variable, term, interest rate, as well as observable market-based assumptions for servicing costs and prepayment speeds. Servicing assets are classified as Level 3 measurements due to the use of significant unobservable inputs, judgements and estimations, such as prepayment speeds, inflation rate, and market discount rates.

Other real estate owned assets are initially recorded at fair value less costs to sell when acquired to establish a new cost basis. Fair value is commonly based on recent real estate appraisals which are updated at least annually. These appraisals may utilize a single valuation approach or a combination or approaches including comparable sales and the income approach from data from comparable properties. Adjustments are routinely made during the appraisal process by the independent appraisers to adjust for differences between the comparable sale prices and income data available. Appraisals may be adjusted or discounted based on management's historical knowledge, change in market conditions from the time of the valuation, and/or management's expertise and knowledge of the collateral. Such adjustments result in a Level 3 classification of the inputs for determining fair value. OREO properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

The fair value of accrued interest receivable and accrued interest payable are recorded at carrying value.

Assets and Liabilities Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements (In thousands)		
	September 30, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
Government agencies	$ 44,674	$ -	$ 44,674	$ -
Mortgage-backed securities - residential	7,502	-	7,502	-
Corporate debt	24,029	-	24,029	-
Total securities available-for-sale	$ 76,205	$ -	$ 76,205	$ -

		Fair Value Measurements (In thousands)		
	December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
Government agencies	$ 52,430	$ -	$ 52,430	$ -
Mortgage-backed securities - residential	7,884	-	7,884	-
Corporate debt	24,232	-	24,232	-
Total securities available-for-sale	$ 84,546	$ -	$ 84,546	$ -

No liabilities were measured at fair value on a recurring basis at September 30, 2024 or December 31, 2023.

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Bank's quarterly valuation process. There were no transfers between any levels during the three or nine months ended September 30, 2024 or 2023.

Assets and Liabilities Measured on a Non-Recurring Basis

The fair value of loans that are collateral dependent are generally based on real estate appraisals. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, less cost to sell, and the amortized cost. If the fair value of the collateral is greater than the amortized cost, no allowance is required. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales, primarily for owner occupied properties, and the income approach, primarily for non-owner-occupied loans. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Collateral values are subject to market forces or other circumstances that may cause deterioration in the value of the collateral, such as cap rates, vacancy and general economic weakness. Deterioration in valuations could result in additional reserves or charge-off of a portion of the loan to the extent the amortized cost exceeds the fair value of collateral.

Commercial real estate loans can be secured by owner occupied or non-owner occupied commercial real estate. Typically, owner occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, hotels, multifamily, complexes, land under development, industrial properties, as well as other commercial or industrial real estate.

Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.

Assets measured at fair value on a non-recurring basis are summarized below:

		Fair Value Measurements (In thousands)		
	September 30, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Individually assessed loans	$ 45,586	$ -	$ -	$ 45,586
Other real estate owned	5,130	-	-	5,130
Originated servicing rights	3,384	-	-	3,384

		Fair Value Measurements (In thousands)		
	December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Individually assessed loans	$ 43,082	$ -	$ -	$ 43,082
Other real estate owned	-	-	-	-
Originated servicing rights	2,495	-	-	2,495

For Level 3 assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2024 and December 31, 2023, the significant unobservable inputs used in the fair value measurement were as follows:

(in thousands)	Valuation Technique	Description	September 30, 2024 Range	Weighted Average	Fair Value	December 31, 2023 Range	Weighted Average	Fair Value
Loans, net of allowance	Discounted Cash Flow	Constant Prepayment Rate	6.91% - 10%	9.80%	$ 876,703	6.68% - 10%	9.80%	$ 886,878
		Discount Rate	6.29% - 8.34%	7.23%		6.64% - 8.80%	7.64%	
Originated servicing rights	Discounted Cash Flow	Constant Prepayment Rate	13.58% - 16.93%	16.29%	3,384	13.9% - 16.47%	15.83%	2,495
		Discount Rate	14.50%	14.50%		15%	15%	
Other Real Estate Owned	Appraised Value / Comparable Sales	Discounts to appraisals for estimated holding or selling costs	10.0%	10.0%	5,130	N/A	N/A	-
Junior subordinated debt	Discounted Cash Flow	Discount Rate	8.88%	8.88%	5,110	9.21%	9.21%	5,019

Significant increases or decreases in any of these inputs in isolation could result in a significantly lower or higher fair value measurement. Although the constant prepayment rate and the discount rate are not directly interrelated, they generally move in the opposite direction of each other.

No liabilities were measured at fair value on a non-recurring basis at September 30, 2024 and December 31, 2023.

11. SUBSEQUENT EVENTS

None

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides additional information about the financial condition of the Bank at September 30, 2024 and December 31, 2023, and results of operations for the three and nine months ended September 30, 2024 and 2023. The following analysis should be read in conjunction with the financial statements of the Bank and with the audited financial statements and accompanying notes included in our 2023 Annual Report on Form 10-K, which were prepared in accordance with U.S. Generally Accepted Accounting Principles. The interim financial information provided as of and for the three and nine months ended September 30, 2024 and 2023 are unaudited. In the opinion of management of the Bank, the interim financial information presented reflects all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair representation of the results of such periods.

All references to yields, cost of liabilities and net interest margin are annualized for the periods discussed.

Forward Looking Statements. This report includes forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on the current beliefs of the Bank management as well as assumptions made by and information currently available to the Bank's management. Forward-looking statements are those that predict or describe future events or trends or that do not relate solely to historical matters. However, our actual results and financial performance in the future will be affected by known and currently unknown risks, uncertainties and other factors that may cause our actual results or financial performance in the future to differ materially from the results or financial performance that may be expressed, predicted or implied by such forward-looking statements. In this report, the words “anticipate,” “believe,” “estimate,” “expect,” “should,” “intend,” “project,” “may,” “will,” “would,” variations of such words and words or phrases of similar meaning identify forward-looking statements may relate to, among other things, expectations as to the Bank’s financial performance or condition, economic trends, the business environment in which the Bank operates, and perceived opportunities in the market.

We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, implied or projected by such forward-looking statements. Forward looking statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. Risks and uncertainties include, but are not limited to:

- general economic conditions, either nationally or in the market areas in which we do or anticipate doing business;
- adverse changes in the economy;
- adverse changes in the market for real estate, which serves as collateral for the loans that we make;
- lower revenues than expected;
- credit quality deterioration which could cause an increase in the provision for credit losses;
- competitive pressure among depository institutions increases significantly;
- the cost and availability of additional capital;
- changes in the interest rates and inflation;
- asset/liability repricing risks and liquidity risks;
- legislative or regulatory requirements or changes adversely affecting our business;
- changes in the securities markets;
- potential weakness of real estate collateral values;
- the adverse impact of a pandemic and governmental responses to the pandemic on the Bank and its customers, employees and third-party service providers;
- the risk of fraud and cybersecurity incidents; and
- the economic and regulatory effects of terrorism, events of war and civil unrest.

Also, other important factors that could cause actual results to differ materially from the Bank’s expectations are disclosed under Item 1A. “RISK FACTORS,” in our Annual Report on Form 10-K for the year ended December 31, 2023 on file with the Federal Deposit Insurance Corporation (“FDIC”), Item 1A of Part II of this report, and below under this “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – *Critical Accounting Policies*” and elsewhere in this report.

If any of these risks or uncertainties materialize, or if any of the assumptions underlying such forward-looking statements prove to be incorrect, our results could differ materially from those expressed in, implied, or projected by, such forward-looking statements. We assume no obligation to update such forward-looking statements.

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties, and assumptions. Our future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. Any such statement speaks only as of the date of this discussion, regardless of the time of delivery of this document. We do not undertake any obligation to update or release any revisions to any forward-looking statements, to report any new information, future event or other circumstances after the date of this filing or to reflect the occurrence of unanticipated events, except as required by law. However, your attention is directed to any further disclosures made on related subjects in any subsequent reports we may file with the FDIC, including on Forms 10-K, 10-Q, and 8-K.

Government and Regulatory Oversight. The Bank is subject to regulatory oversight by the Department of Financial Protection & Innovation (DFPI) of the State of California and the Federal Deposit Insurance Corporation (FDIC). These regulatory bodies periodically perform examinations of the Bank. There is a potential that a regulatory examination may derive different estimates than those reached by management and could require material adjustments or restatements.

Critical Accounting Policies. The discussion and analysis of the Bank's results of operations and financial condition are based upon financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Bank's management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these financial statements.

The Bank believes these estimates and assumptions to be reasonably accurate; however, actual results may differ from these estimates under different assumptions or circumstances. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses, consideration of goodwill impairment, consideration of potential impairment of investment securities and determination of potential impairment of affordable housing tax credit investment.

Results of Operations

Three and nine months ended September 30, 2024 and September 30, 2023

The Bank's primary source of income is net interest income, which is the difference between interest income and fees derived from earning assets and interest paid on liabilities which fund those assets. Net interest income, expressed as a percentage of total average interest earning assets, is referred to as the net interest margin. The Bank's net interest income is affected by changes in the volume and mix of interest earning assets and interest-bearing liabilities. It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing deposits and other borrowed funds. The Bank also generates non-interest income, including transactional fees, service charges, office lease income and gains and losses on loans. Non-interest expenses consist primarily of employee compensation and benefits, occupancy and equipment expenses and other operating expenses. The Bank's results of operations are also affected by its provision for credit losses. Results of operations may also be significantly affected by other factors including general economic and competitive conditions, natural disasters such as fires, floods, and earthquakes, interruptions of utility service in our markets for sustained periods, pandemics, mergers and acquisitions of other financial institutions within the Bank's market area, changes in market interest rates, government policies, and actions of regulatory agencies.

Net Income

A summary of the net income and annualized ratios are as follows:

(Dollars in thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Three Months Ended Change	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Nine Months Ended Change
Net income	$ 626	$ 1,821	$(1,195)	$ 2,949	$ 8,922	$(5,973)
Earnings per diluted share	$ 0.09	$ 0.27	$ (0.18)	$ 0.44	$ 1.33	$ (0.89)
Annualized return on average assets	0.23%	0.63%	(0.40)%	0.36%	1.04%	(0.68)%
Annualized return on average common shareholders' equity	2.48%	7.59%	(5.11)%	4.00%	12.76%	(8.76)%

Net Interest Income and Net Interest Margin

Net interest income decreased $660,000 or 8% for the three months ended September 30, 2024 compared to September 30, 2023. The annualized net interest margin was 2.71% for the three months ended September 30, 2024, compared to 2.80% for the same period of 2023. Net interest income decreased $5,860,000 or 21% for the nine months ended September 30, 2024 compared to September 30, 2023. The annualized net interest margin was 2.74% for the nine months ended September 30, 2024, compared to 3.31% for the same period of 2023. The decrease in net interest income when comparing the three and nine months ending September 30, 2024 to September 30, 2023 is due to the drastic growth in interest expense. The increase in interest expense was due to an increase in the cost of funds for both non-maturing deposits and maturing CD's.

Average earning assets decreased 5% to $1,063,476,000 for the three months ended September 30, 2024. For the three months ended September 30, 2024, the annualized yield on average earning assets was 5.59% and the annualized cost of average interest-bearing liabilities was 3.83%, as compared to the annualized yield on average earning assets of 5.27% and annualized cost of interest-bearing liabilities of 3.34% for the same period of 2023. Average earning assets decreased 5% to $1,056,714,000 for the nine months ended September 30, 2024. For the nine months ended September 30, 2024, the annualized yield on average earning assets was 5.52% and the annualized cost of average interest-bearing liabilities was 3.71%, as compared to the annualized yield on average earning assets of 5.41% and annualized cost of interest-bearing liabilities of 2.89% for the same period of 2023.

The annualized rate on loans decreased to 5.47% for the three months ended September 30, 2024 when compared to 5.55% for the same period in 2023. The annualized rate in loans increased to 5.48% for the nine months ended September 30, 2024 when compared to 5.10% for the same period in 2023.

Interest income increased to $14,977,000 or 0.3% for the three months ended September 30, 2024 compared to September 30, 2023. Interest income decreased to $43,827,000 or 3% for the nine months ended September 30, 2024 compared to September 30, 2023. The decrease during the nine month period was primarily due to a decreased volume in interest on deposits with banks.

Interest expense for the three months ended September 30, 2024 was $7,705,000, an increase of $706,000 from $6,999,000 for the three months ended September 30, 2023. Interest expense on deposits for the three months ended September 30, 2024 was $7,563,000. Interest expense on deposits for the three months ended September 30, 2023 was $6,895,000. Interest expense for the nine months ended September 30, 2024 was $22,053,000, an increase of $4,481,000 from $17,572,000 for the nine months ended September 30, 2023. Interest expense on deposits for the nine months ended September 30, 2024 was $21,396,000. Interest expense on deposits for the nine months ended September 30, 2023 was $17,114,000. Interest expense has been increasing due to the Bank increasing its interest-bearing deposit volume along with the drastic and continued increases in the rate environment. To grow and retain deposits the Bank has been increasing its deposit rates to remain competitive.

The average cost of deposits, including the impact of noninterest bearing deposits, for the three months ended September 30, 2024, was 3.08% compared to 2.63% for the three months ended September 30, 2023. The average cost of deposits, including the impact of noninterest bearing deposits, for the nine months ended September 30, 2024, was 2.95% compared to 2.23% for the nine months ended September 30, 2023. A majority of the increase in the cost of funds for the three and nine months ended September 30, 2024 was the result of an increased rate paid on deposits along with an increase in interest-bearing demand deposit and savings and money market deposit volume, increasing to a combined average balance of $467,575,000 and $480,463,000 for the three and nine months ended September 30, 2024 from $438,358,000 and $390,275,000 for the three and nine months ended September 30, 2023.

The following table presents condensed average balance sheet information for the Bank, together with interest rates earned and paid on the various sources and uses of its funds for each of the periods presented. Average balances are based on daily average balances. Nonaccrual loans are included in loans with any interest collected reflected on a cash basis.

	Three Months Ended September 30, 2024			**Three Months Ended September 30, 2023**		
(Dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Average Rate (4)**	**Average Balance**	**Interest Income/ Expense**	**Average Rate (4)**
Assets						
Interest earning assets:						
Interest-bearing deposits with banks	$ 42,958	$ 592	5.47%	$ 90,313	$ 1,263	5.55%
Taxable investment securities	81,414	663	3.23%	82,932	708	3.39%
FHLB Stock	5,889	128	8.62%	5,541	129	9.24%
Loans, net of unearned income (1)	933,215	13,594	5.78%	945,165	12,831	5.39%
Total earning assets/interest income	1,063,476	14,977	5.59%	1,123,951	14,931	5.27%
Non-earning assets	49,159			46,323		
Allowance for credit losses	(14,166)			(15,267)		
Total assets	$ 1,098,469			$ 1,155,007		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand deposits	$ 205,734	$ 1,706	3.29%	$ 198,320	$ 1,434	2.87%
Savings and money market	261,841	2,283	3.46%	240,038	1,728	2.86%
Time deposits	323,594	3,574	4.38%	386,304	3,733	3.83%
FHLB advances	273	4	5.81%	707	10	5.61%
Subordinated debt	5,929	138	9.23%	5,914	94	6.31%
Total interest-bearing liabilities/interest exp	797,371	7,705	3.83%	831,283	6,999	3.34%
Non interest-bearing deposits	191,654			215,794		
Other liabilities	9,482			12,750		
Total liabilities	998,507			1,059,827		
Shareholders' equity	99,962			95,180		
Total liabilities and shareholders' equity	$ 1,098,469			$ 1,155,007		
Net interest income and margin (2)		$ 7,272	2.71%		$ 7,932	2.80%
Net interest spread (3)			1.76%			1.93%

(1) Average balances on loans outstanding include non-performing loans. The net amortization of deferred fees on loans included in interest income was $55,000 and $199,000 for the three months ended September 30, 2024 and 2023, respectively.

(2) Net interest margin is computed by dividing net interest income by average total earning assets.

(3) Net interest spread is the difference between the average rate earned on average total earning assets and the average rate paid on average total interest-bearing liabilities.

(4) Annualized.

(Dollars in thousands)	Nine Months Ended September 30, 2024 Average Balance	Interest Income/ Expense	Average Rate (4)	Nine Months Ended September 30, 2023 Average Balance	Interest Income/ Expense	Average Rate (4)
Assets						
Interest earning assets:						
Interest-bearing deposits with banks	$ 34,159	$ 1,405	5.48%	$ 94,778	$ 3,618	5.10%
Taxable investment securities	82,543	2,084	3.36%	83,798	2,143	3.42%
FHLB stock	5,751	386	8.94%	5,217	293	7.51%
Loans, net of unearned income (1)	934,261	39,952	5.70%	934,084	39,152	5.60%
Total earning assets/interest income	1,056,714	43,827	5.52%	1,117,877	45,206	5.41%
Non-earning assets	46,638			46,691		
Allowance for credit losses	(14,939)			(15,127)		
Total assets	$ 1,088,413			$ 1,149,441		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand deposits	$ 219,706	$ 5,340	3.24%	$ 171,124	$ 2,822	2.20%
Savings and money market	260,757	6,758	3.45%	219,151	3,728	2.27%
Time deposits	297,622	9,298	4.16%	402,439	10,564	3.51%
FHLB advances	7,850	332	5.63%	14,579	177	1.62%
Subordinated debt	5,925	325	7.31%	5,911	281	6.36%
Total interest-bearing liabilities/interest exp	791,860	22,053	3.71%	813,204	17,572	2.89%
Non interest-bearing deposits	188,814			230,879		
Other liabilities	9,406			11,897		
Total liabilities	990,080			1,055,980		
Shareholders' equity	98,333			93,461		
Total liabilities and shareholders' equity	$ 1,088,413			$ 1,149,441		
Net interest income and margin (2)		$ 21,774	2.74%		$ 27,634	3.31%
Net interest spread (3)			1.81%			2.52%

(1) Average balances on loans outstanding include non-performing loans. The net amortization of deferred fees on loans included in interest income was $175,000 and $456,000 for the nine months ended September 30, 2024 and 2023, respectively.

(2) Net interest margin is computed by dividing net interest income by average total earning assets.

(3) Net interest spread is the difference between the average rate earned on average total earning assets and the average rate paid on average total interest-bearing liabilities.

(4) Annualized.

The following tables show the change in interest income and interest expense and the amount of change attributable to variances in volume and rates. The unallocated change in rate or volume variance has been allocated between the rate and volume variances in proportion to the absolute dollar amount of the change of each.

Volume and Yield/Rate Variances

Comparison of the Three Months Ended
September 30, 2024 to September 30, 2023

	Change Due to		
(Dollars in thousands)	Net	Volume	Yield/Rate
Interest income:			
Interest-bearing deposits with banks	$ (671)	$ (672)	$ 1
Taxable investment securities	(45)	(13)	(32)
Dividends on FHLB stock	(1)	8	(9)
Loans, net	763	(160)	923
Total interest income	46	(837)	883
Interest expense:			
Interest-bearing demand deposits	$ 272	$ 55	$ 217
Savings and money market	555	167	388
Time deposits	(159)	(560)	401
FHLB advances	(6)	(6)	-
Subordinated Debt	44	-	44
Total interest expense	706	(344)	1,050
Decrease in net interest income	$ (660)	$ (493)	$ (167)

Volume and Yield/Rate Variances

Comparison of the Nine Months Ended
September 30, 2024 to September 30, 2023

(Dollars in thousands)	Change Due to Net	Volume	Yield/Rate
Interest income:			
Interest-bearing deposits with banks	$ (2,213)	$ (2,154)	$ (59)
Taxable investment securities	(59)	(32)	(27)
Dividends on FHLB stock	93	32	61
Loans, net	800	8	792
Total interest income	(1,379)	(2,146)	767
Interest expense:			
Interest-bearing demand deposits	$ 2,518	$ 944	$ 1,574
Savings and money market	3,030	806	2,224
Time deposits	(1,266)	(2,449)	1,183
FHLB advances	155	(50)	205
Subordinated Debt	44	-	44
Total interest expense	4,481	(749)	5,230
Decrease in net interest income	$ (5,860)	$ (1,397)	$ (4,463)

Provision for Credit Losses

The Bank maintains an allowance for credit losses to absorb expected credit losses associated with the Bank's loan portfolio. Adjustments to the allowance for credit losses are made through a charge or credit against income referred to as the provision for credit losses. Loan write-offs are charged against the allowance for credit losses and recoveries are credited to the allowance; the provision is not directly impacted in either case. The allowance is adjusted periodically to reflect changes in the volume of outstanding loans and estimated losses resulting from life of loan estimates of losses which are adjusted for economic forecasts and current conditions.

There was $1,320,000 and $1,311,000 provision for credit losses for the three and nine months ended September 30, 2024, respectively compared to $27,000 reversal of credit losses and $373,000 provision for credit losses for the three and nine months ended September 30, 2023. Most of the increase in the allowance for credit loss was due to a $1,000,000 specific loan reserve. There were $41,971,000 in nonperforming assets at September 30, 2024 compared to $35,267,000 nonperforming assets at September 30, 2023. Nonperforming assets at September 30, 2024 include three specific relationships totaling $32,220,000 and one real estate owned for $5,130,000 that together make up 89% of the nonperforming asset portfolio. These three relationships are secured by farmland and the Bank has specific reserves set aside based on current appraised values. All nonperforming assets are individually assessed resulting in a corresponding reserve of $3,720,000. Many of the nonperforming loans were negatively impacted by an unprecedented rise in interest rates. Management is actively working with their customers to proactively identify loans that could become nonperforming, resolve problem credits in a timely manner where possible, and maintain adequate reserves. There were $1,347,000 in charge-offs for the nine months ended September 30, 2024 and no charge-offs for the same period in 2023. The increase in charge-offs is related to a write-down to market value of a foreclosed property recorded during the second quarter of 2024. There were gross recoveries of $281,000 during the nine months ended September 30, 2024 compared to $31,000 for the same period in 2023. See Balance Sheet Activity – Nonperforming Assets and Allowance for Credit Losses for additional discussion.

Future provisions for credit losses are dependent on factors such as asset quality trends, loan portfolio growth and the general condition of the economy, such as the potential for a recession or post-pandemic economic impacts. The Bank expects more variability in its quarterly provision for credit losses going forward due to the CECL model's sensitivity to changes in the economic forecast. Also, since a significant portion of the Bank's loan portfolio is collateralized by real estate, the valuation of the underlying collateral can have a significant impact on the adequacy of the allowance for credit losses and specific allocations for collateral dependent loans, which may require additional future credit loss provisions.

For the three and nine months ended September 30, 2024, the Bank identified two corporate investments with adverse conditions specific to those companies that indicate a credit loss could exist. As such, the Bank recorded the decline in fair value as an allowance for credit loss and provision for those investments totaling $38,000 as of September 30, 2024.

Non-interest Income

The following are the sources of non-interest income for the periods indicated:

	Three Months Ended			Nine Months Ended		
(in thousands)	September 30, 2024	September 30, 2023	Change	September 30, 2024	September 30, 2023	Change
Service charges on deposit accounts	$ 241	$ 231	$ 10	$ 701	$ 653	$ 48
Rental income	60	61	(1)	180	139	41
Net gain on loan sales	474	1,046	(572)	1,257	2,481	(1,224)
Other income	255	158	97	641	1,630	(989)
Total non-interest income	$ 1,030	$ 1,496	$ (466)	$ 2,779	$ 4,903	$ (2,124)

The decrease in non-interest income during the three months ended September 30, 2024 compared to 2023 was primarily due to lower loan sale activity on SBA and USDA guaranteed loans. The decrease in non-interest income during the nine months ended September 30, 2024 compared to 2023 was primarily due to a one-time FHLB fee income for prepayment of long term advances in 2023 and lower loan sale activity on SBA and USDA guaranteed loans.

Non-interest Expense

The following are the sources of non-interest expense for the periods indicated:

	Three Months Ended			Nine Months Ended		
(in thousands)	September 30, 2024	September 30, 2023	Change	September 30, 2024	September 30, 2023	Change
Salaries and employee benefits	$ 3,988	$ 4,362	$ (374)	$ 12,210	$ 12,354	$ (144)
Occupancy and equipment	420	432	(12)	1,348	1,326	22
Information technology	529	492	37	1,589	1,461	128
Director fees and expenses	200	293	(93)	373	667	(294)
Marketing and donations	213	352	(139)	710	964	(254)
Nasdaq listing and regulatory license expense	50	75	(25)	216	204	12
Professional fees	339	409	(70)	1,149	1,148	1
Other expenses	442	511	(69)	1,614	1,442	172
Total non-interest expense	$ 6,181	$ 6,926	$ (745)	$ 19,209	$ 19,566	$ (357)

Non-interest operating expenses decreased $745,000 and $357,000 between the three and nine month periods ending September 30, 2024 and 2023, respectively. The decrease for the three month period was primarily due to a reduction in employee incentive programs due to reduced earnings of $238,000, a reduction in the fair value of stock-based compensation plans due to reduced stock price at quarter end of $179,000, a decrease in marketing expenses of $139,000, and a decrease of $70,000 for professional fees. The decrease for the nine month period was primarily due to a reduction in the fair value of stock-based compensation plans due to reduced stock price at quarter end of $810,000 and a reduction in employee incentive programs due to reduced earnings of $655,000. This was offset by a $617,000 increase in overall salaries and commissions net of deferred fees and costs, a $259,000 increase in one-time insurance expenses, and a $222,000 one-time adjustment for employee benefit accruals.

Provision for Income Taxes

The Bank accrues income tax expense based on the anticipated annual tax rates during the financial period covered. The provision for income taxes for Federal and State corporate income tax and effective rates for the three and nine months ended September 30, 2024 were $202,000 (24.4%) and $1,203,000 (29.0%) compared to $686,000 (27.4%) and $3,652,000 (29.0%) for the same period in 2023. The decrease in the effective tax rate for the three months ended September 30, 2024 was due to a net tax credit of $76,000 taken for the investment in affordable housing.

Balance Sheet Activity

At September 30, 2024 and December 31, 2023

Investment Portfolio

Securities classified as available-for-sale for accounting purposes are recorded at their fair value on the balance sheet. Available-for-sale (AFS) investment securities carried at fair value totaled $76,205,000 and amortized cost of $86,225,000 at September 30, 2024 and comprised 6.8% of total assets. At December 31, 2023, investment securities comprised 7.5% of total assets with AFS investments at a fair value of $84,546,000 and amortized cost of $97,034,000. Changes in the fair value of AFS securities (e.g., unrealized holding gains or losses) are reported as "other comprehensive income (loss)," net of tax, and carried as accumulated other comprehensive income or loss, net of tax, within shareholders' equity until realized, unless a credit loss exists and an allowance for credit loss is recorded. The Bank's accumulated other comprehensive loss has decreased to $(7,027,000) at September 30, 2024, from $8,750,000 at December 31, 2023. The significant and sustained amount of the Bank's unrealized losses on its AFS investments has been caused by the drastic increase in interest rates in 2023 and 2024. Except for two securities that are below investment grade with a combined par value of $750,000, no other allowance for credit losses has been recognized on the available-for-sale securities in an unrealized loss position. Management does not believe any of the securities are impaired due to credit risk factors at either September 30, 2024 or December 31, 2023. In addition, for the available-for-sale securities in an unrealized loss position, the Bank assessed whether it intended to sell the securities, or if it was more likely than not that it would be required to sell the securities before recovery of its amortized cost basis, which would require a write-down to fair value through net income. Because the Bank did not intend to sell any of its securities, and it was not more-likely-than-not that the Bank would be required to sell the securities before recovery of their amortized cost bases, the Bank determined that no write-down was necessary as of the reporting date. As of September 30, 2024 the bank had an allowance for credit loss of $38,000 compared to an allowance for credit loss of $58,000 at December 31, 2023.

The Bank limits risk in its investment security portfolio by holding a modest portion of assets in security investments, diversifies investments across various types of securities, diversifies corporate investments across various industries, and limits exposure on corporate debt by capping investments to a maximum of $750,000 per issuer.

There were no bonds purchased, $10,827,000 in bonds called or matured and no bonds sold during the nine months ended September 30, 2024. For the nine months ended September 30, 2023, there were no bonds purchased, $927,000 in bonds were called or matured and no bonds sold. There were no net gains on the called bonds for the nine months ended September 30, 2024 or September 30, 2023.

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At September 30, 2024, investment securities with a fair value of $8,634,000 were pledged to secure public deposits and represented 11.3% of the investment portfolio. At December 31, 2023, investment securities with a fair value of $8,215,000, or 9.7% of the investment portfolio, were pledged. At September 30, 2024 investment securities with a fair value of $47,998,000 were callable within one year.

Loan Portfolio

The following table shows the composition of the loan portfolio by amount, percentage of total loans for each major loan category and the dollar volume and percentage change between the dates indicated.

(in thousands)	September 30, 2024	%	December 31, 2023	%	Net Change	Percent Change
Commercial & agricultural (1)	$ 144,336	15.5%	$ 133,389	14.0%	$ 10,947	8.2%
Real estate - commercial	688,172	73.8%	697,319	73.0%	(9,147)	(1.3)%
Real estate - construction and land	6,560	0.7%	23,773	2.5%	(17,213)	(72.4)%
Real estate - single family	55,968	6.0%	58,808	6.2%	(2,840)	(4.8)%
Real estate - multifamily	37,768	4.0%	40,547	4.3%	(2,779)	(6.9)%
Consumer & lease financing (2)	29	0.0%	11	0.0%	18	163.6%
	932,833	100%	953,847	100%	(21,014)	(2.2)%
LESS:						
Allowance for Credit Losses	(15,466)		(15,221)		(245)	1.6%
Total Loans, Net	$ 917,367		$ 938,626		$ (21,259)	(2.3)%

(1) Includes loans secured by farmland.
(2) Consumer & lease financing includes overdrafts of $29 as of September 30, 2024 and $9 as of December 31, 2023.

Gross loans decreased $21,014,000 (2.2%) to $932,833,000 at September 30, 2024 from December 31, 2023. The decrease was predominantly in the real estate – construction and land category.

At September 30, 2024, the Bank had approximately $89,930,000 in undisbursed loan commitments, of which approximately $44,210,000 were commercial and agricultural and $21,874,000 related to real estate loan types. At December 31, 2023, the Bank had approximately $98,509,000 in undisbursed loan commitments, of which approximately $53,437,000 were commercial and agricultural and $21,787,000 related to real estate loan types.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans and other real estate owned. Nonperforming loans are those for which the borrower fails to perform under the terms of the obligation and consist of nonaccrual loans and accruing loans past due 90 days or more.

The following are the nonperforming assets for the respective periods:

(in thousands)	September 30, 2024	December 31, 2023
Nonaccrual loans	$ 36,841	$ 44,158
Accruing loans past due 90 days or more	-	48
Total nonperforming loans	36,841	44,206
Other real estate owned	5,130	-
Total nonperforming assets	$ 41,971	$ 44,206
Nonperforming loans to total loans	3.95%	4.63%
Nonperforming assets to total assets	3.75%	3.94%
Allowance for credit losses to nonperforming loans	41.98%	34.43%

Nonperforming assets were $41,971,000, or 3.75% of total assets, at September 30, 2024, and consisted primarily of three specific relationships totaling $32,125,000 and one OREO for $5,130,000. There was $44,206,000 in nonperforming assets at December 31, 2023 all of which were nonperforming loans.

Allowance for Credit Losses

The Bank's processes for determining the adequacy of the allowance for credit losses are set forth in a formal credit policy. Loans with similar risk characteristics are evaluated on a collective basis with similar risk characteristics and the allowance for credit losses is calculated using an estimate of the life of loan losses based on actual historical losses adjusted for economic forecasts and current conditions. The allowance for credit losses was $15,466,000 at September 30, 2024 compared to $15,221,000 at December 31, 2023.

The Bank maintains the allowance for credit losses to absorb expected credit losses associated with the Bank's loan portfolio. Additions to the allowance for credit losses are established through a provision for credit losses on its statements of income. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank's policy is to charge-off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged-off in total. Collateral-dependent loans are individually evaluated for impairment to determine the ultimate loss potential to the Bank subsequent to the liquidation of collateral. In those cases where management believes the Bank is inadequately protected, a charge-off will generally be made to reduce the loan balance to a level equal to the liquidation value of the collateral, unless management believes the collateral deficiency may be overcome by borrower cash flows.

The Bank's credit policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, enable the Bank to assess such credit risk factors prior to granting new loans, evaluate the sufficiency of the allowance for credit losses and maintain the allowance for credit losses at an appropriate level. The Bank conducts an assessment of the allowance for credit losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors examines and formally approves the adequacy of the allowance. Management estimates the allowance for credit losses using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses is maintained at a level sufficient to provide for expected credit losses over the life of the loan based on evaluating historical credit loss experience and making adjustments to historical loss information for differences in the specific risk characteristics in the current loan portfolio. These adjustments to historical loss factors include, among others, changes in the size and composition of the loan portfolio, delinquent and nonaccrual loans, and current and projected economic conditions, as well as changes in economic factors including unemployment rates, property values, Consumer Price Index, Gross Domestic Product, and treasury yields.

A portion of the allowance for credit losses is based on qualitative factors that are adjusted due to volatility and uncertainty in the Bank's loan portfolio and the market that management believes is reasonable and supportable. These qualitative factors include the economic forecast scenarios, economic forecast weighting, and net-term loan loss stabilization.

The following table summarizes the activity in the Allowance for Credit Losses during the periods indicated.

SUMMARY OF ACTIVITY IN ALLOWANCE FOR CREDIT LOSSES

(Dollars in thousands)	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Balance at beginning of period	$ 15,221	$ 14,839
Charge-offs:		
Commercial & agricultural	-	-
Real estate - commercial	(1,347)	-
Real estate - construction and land	-	-
Real estate - single family	-	-
Real estate - multifamily	-	-
Consumer & lease financing	-	-
Total loans charged-off	(1,347)	-
Recoveries:		
Commercial & agricultural	281	31
Real estate - commercial	-	-
Real estate - construction and land	-	-
Real estate - single family	-	-
Real estate - multifamily	-	-
Consumer & lease financing	-	-
Total recoveries	281	31
Net loans (charged-off) recovered	(1,066)	31
Provision for credit losses on loans	1,311	373
Allowance for credit losses - end of period	$ 15,466	$ 15,243
Loans:		
Average loans outstanding during period, net of unearned income	$ 934,261	$ 934,084
Total loans at end of period, net of unearned income	$ 932,833	$ 947,469
Ratios:		
Net loans (charged-off) recovered to average net loans (1)	-0.15%	0.00%
Net loans (charged-off) recovered to total loans (1)	-0.15%	0.00%
Allowance for credit losses to average net loans	1.66%	1.63%
Allowance for credit losses to total loans	1.66%	1.61%

(1) Annualized

Allocation of Allowance for Credit Losses

(in thousands)	September 30, 2024 Allowance Allocation	September 30, 2024 Amount of Category Loans to Total Loans	December 31, 2023 Allowance Allocation	December 31, 2023 Amount of Category Loans to Total Loans
Commercial & agricultural	$ 5,338	15.5%	$ 1,395	14.0%
Real estate - commercial	7,857	73.8%	8,812	73.0%
Real estate - construction and land	862	0.7%	3,413	2.5%
Real estate - single family	631	6.0%	721	6.2%
Real estate - multifamily	540	4.0%	634	4.3%
Consumer, lease financing & other	238	0.0%	246	0.0%
Total	$ 15,466	100%	$ 15,221	100%

The allowance allocation is highly dependent on the current loan balance, net charge-off rate, and contractual loan terms, adjusted for expected prepayments when appropriate. The specific loan pools evaluated at one period versus another can result in variations in the allocations. Different loan pools have different loss expectations in a rising rate environment and at times of economic uncertainty.

In addition to the allowance for credit losses, the Bank maintains a reserve for undisbursed loan commitments, which is reported in other liabilities on the balance sheets. This allowance was $268,000 at September 30, 2024 and $367,000 at December 31, 2023.

Deposits

At September 30, 2024, the Bank had a deposit mix of 33% in time deposits, 27% in money market and savings accounts, and 40% in demand accounts. At December 31, 2023, the Bank had a deposit mix of 29% in time deposits, 27% in money market and savings accounts, and 43% in demand accounts.

The following table sets forth the maturities of time deposits of $250,000 or more outstanding at September 30, 2024 and December 31, 2023.

Maturity of Time Deposits of $250,000 or More

(in thousands)	September 30, 2024	December 31, 2023
Time deposits of $250,000 or more maturing in:		
Three months or less	$ 44,950	$ 21,161
Over three through six months	21,253	13,992
Over six to twelve months	14,598	28,006
Over twelve months	-	-
Total time deposits of $250,000 or more	$ 80,801	$ 63,159

At September 30, 2024, the Bank had $62,347,000 in wholesale brokered deposits compared to $37,380,000 at December 31, 2023.

The Bank also obtains time deposits through an internet listing service. These deposits are primarily from other financial institutions. There were $1,145,000 and $2,488,000 of internet obtained deposits at September 30, 2024 and December 31, 2023, respectively.

The Bank's strategy is actively focused on increasing its funding from local deposits, lower its dependance on wholesale funding, increase liquidity and increase market share. Strategies employed to increase local deposits include non-profit business accounts that provides annual donation awards for average balances, offering time deposit products with competitive rates, promoting 12-month term time deposits, and continued focus on increasing customer retention and new customers through training staff.

Approximately 76% of the Bank's deposit balances are insured by the FDIC as of September 30, 2024. The Bank holds a high percentage of insured deposits because it offers local customers with deposits in excess of $250,000 the option to enroll in deposit placement service programs called Certificate of Deposit Accounts Registry Services ("CDARS") and Insured Cash Sweep ("ICS"). Enrolling in these programs allows customer funds to go into certificates of deposit or demand accounts issued by other banks in the CDARS and ICS network in increments of less than $250,000, so that both principal and interest are eligible for complete FDIC protection. The network banks exchange deposits on a dollar-for-dollar basis, bringing the full amount of the original deposit back to the originating bank. Because the originating bank comes out "whole," it can make the full amount of deposits received available for community lending purposes or other initiatives of its choosing. Deposits placed using CDARS and ICS meet the pass-through insurance coverage guidelines established by the FDIC and the depositor can obtain up to a total of $150,000,000 in FDIC insurance coverage. The deposits received by the Bank from other network members in exchange for the Bank's customers' deposits placed in the program are not considered as brokered deposits for FFIEC Call Report purposes. At September 30, 2024 there was $54,839,000 in CDARS time deposits and $171,827,000 in ICS demand deposits.

The following table sets forth the estimated deposits exceeding the FDIC insurance limit at September 30, 2024 and December 31, 2023.

(in thousands)	September 30, 2024	December 31, 2023
Uninsured deposits	$ 243,028	$ 219,404

Shareholders' Equity

Total shareholders' equity increased $2,984,000 to $100,662,000 at September 30, 2024 compared to $97,678,000 at December 31, 2023. The increase in shareholders' equity was primarily a result of net income for the third quarter of 2024, a decrease of $1,723,000 in accumulated other comprehensive loss offset by a $1,894,000 payout of cash dividends.

Liquidity and Capital Resources

Maintenance of adequate liquidity requires that sufficient resources be available at all times to meet cash flow requirements of the Bank. Liquidity in a banking institution is required primarily to provide for deposit withdrawals and the credit needs of customers and to take advantage of investment opportunities as they arise. A bank may achieve desired liquidity from both assets and liabilities. Cash and deposits held in other banks, Federal funds sold, other short-term investments, maturing loans and investments, payments of principal and interest on loans and investments, and potential loan and investment securities sales are sources of asset liquidity. Deposit growth and access to credit lines established with correspondent banks, primarily with the FHLB and FRB, and access to brokered certificates of deposit are sources of liability liquidity. The Bank reviews and manages its liquidity position on a regular basis based upon its current position and expected trends of loans and deposits. Management believes that the Bank maintains adequate sources of liquidity to meet its liquidity needs.

The Bank can borrow from the Federal Reserve Discount Window by pledging investment securities or loans. The Bank is eligible to pledge the value of its unpledged agency securities at an amount that is dependent on the value of the security. As of September 30, 2024, the value of the unpledged agency securities that are eligible to be pledged to the Federal Reserve was $36,039,000. As of September 30, 2024, no securities were pledged to the Federal Reserve.

The Bank's liquid assets, defined as cash and cash equivalents, deposits with banks, Federal funds sold and the market value of unpledged available-for-sale investment securities, totaled $148,499,000 and constituted 13% of total assets at September 30, 2024 compared to $160,036,000 or 14% of total assets at September 30, 2023.

At September 30, 2024, the Bank had $360,055,000 in borrowing lines of credit from the FHLB, FRB, and correspondent banks with no outstanding FHLB advances. At December 31, 2023, the borrowing lines of credit available were $332,458,000 with no outstanding FHLB advances.

Cash was primarily provided in the first nine months of 2024 by $24,185,000 in proceeds from SBA loan sales, $10,827 in proceeds from calls and maturities of AFS investment securities and a net change of $36,341,000 in certificates of deposits. Cash was used in the first nine months of 2024 due to a net change in demand, savings and money markets of $43,264,000, to fund $6,663,000 of loan originations net of repayments and dividends paid on common stock of $1,894,000.

Cash was primarily provided in the first nine months of 2023 by $51,448,000 in proceeds from SBA loan sales, $9,289,000 increase in certificates of deposits and $58,892,000 increase in demand, savings, and money market deposits. Cash was used in the first nine months of 2023 to fund $65,419,000 of loan originations net of repayments and $41,000,000 in repayment of long term FHLB advances.

Additional information on the Bank's cash flows can be reviewed in the *Statement of Cash Flows* in Part I, Item 1 of this report.

The following table presents the capital ratios for the Bank and the corresponding regulatory minimum requirements:

	September 30, 2024		December 31, 2023	
(in thousands)	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital Ratio				
Summit State Bank	$ 100,186	10.4%	$ 98,690	9.9%
Minimum requirement with capital conservation buffer	$ 67,529	7.0%	$ 69,760	7.0%
Minimum requirement for "Well-Capitalized" institution	$ 62,706	6.5%	$ 64,778	6.5%
Minimum regulatory requirement	$ 43,412	4.5%	$ 44,846	4.5%
Tier 1 Capital Ratio				
Summit State Bank	$ 100,186	10.4%	$ 98,690	9.9%
Minimum requirement with capital conservation buffer	$ 82,000	8.5%	$ 84,709	8.5%
Minimum requirement for "Well-Capitalized" institution	$ 77,176	8.0%	$ 79,726	8.0%
Minimum regulatory requirement	$ 57,882	6.0%	$ 59,795	6.0%
Total Capital Ratio				
Summit State Bank	$ 117,035	12.1%	$ 117,105	11.8%
Minimum requirement with capital conservation buffer	$ 101,294	10.5%	$ 104,641	10.5%
Minimum requirement for "Well-Capitalized" institution	$ 96,470	10.0%	$ 99,658	10.0%
Minimum regulatory requirement	$ 77,176	8.0%	$ 79,726	8.0%
Tier 1 Leverage Ratio				
Summit State Bank	$ 100,186	9.2%	$ 98,690	8.9%
Minimum requirement for "Well-Capitalized" institution	$ 54,548	5.0%	$ 55,766	5.0%
Minimum regulatory requirement	$ 43,639	4.0%	$ 44,613	4.0%

The Bank's capital is supplemented through the retention of net income less dividends paid.

Impact of Inflation

The primary impact of inflation on the Bank is its effect on interest rates. The Bank's primary source of income is net interest income, which is affected by changes in interest rates. The Bank attempts to limit the impact of inflation on its net interest margin through management of rate-sensitive assets and liabilities and analyses of interest rate sensitivity. The effect of inflation on premises and equipment as well as on non-interest expenses has not been significant for the periods presented.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

Proper management of the rate sensitivity and maturities of assets and liabilities is required to provide an optimum and stable net interest margin. Interest rate sensitivity spread management is an important tool for achieving this objective and for developing ways in which to improve profitability. Management has assessed its market risk at September 30, 2024 and believes that there has been no material change in its liability-sensitive position since December 31, 2023.

The Bank constantly monitors earning asset and deposit levels, developments and trends in interest rates, liquidity, capital adequacy and marketplace opportunities. Management responds to all of these to protect and possibly enhance net interest income while managing risks within acceptable levels as set forth in the Bank's policies. In addition, alternative business plans and transactions are contemplated for their potential impact. This process is known as asset/liability management and is carried out by changing the maturities and relative proportions of the various types of loans, investments, deposits and borrowings in the ways described above. Risks associated with interest rate changes and market risk are managed through the Bank's Interest Rate Risk Management Policy. This policy is reviewed and approved at least annually by the Board. The Board also monitors and establishes target positions for interest rate and market value risks through the Asset Liability Committee of the Board.

The tool most used to manage and analyze the interest rate sensitivity of a bank is known as a computer simulation model. To quantify the extent of risks in both the Bank's current position and transactions it might make in the future, the Bank uses a model to simulate the impact of different interest rate scenarios on net interest income. The hypothetical impact of an interest rate shock for incremental interest rate changes up to +/- 4.00% is modeled quarterly, representing the primary means the Bank uses for interest rate risk management decisions.

In addition to measuring net interest income changes, the Bank also uses the economic value of equity ("EVE") ratio to stress test longer-term interest rate risk exposure on capital. Stress testing EVE will show the impact that fluctuating interest rates will have on the Bank's capital and give insight into the Bank's earning capacity and risk. This ratio is calculated by taking in difference in the net present value of asset cash flows (loan and investment securities) and liability cash flows (deposits and borrowings). Major assumptions used in determining fair values include maturities, repricing periods, and decay rates of non-maturity deposits. As the calculation is highly dependent on assumptions, as well as the change in the shape of the yield curve being modeled, it is not considered to be an exact calculation and instead is used as an interest rate risk monitoring tool.

Based on results of the quarterly model, the Bank is liability sensitive during a one and two-year period, meaning that during that timeframe more liabilities will reprice than assets. Liability sensitive banks typically expect a decrease in the net interest margin if rates increase and the net interest margin would increase when rates decline. If the Bank were asset sensitive, the opposite would occur and the bank would expect a decrease in the net interest margin if rates decline, and an increase in the net interest margin when rates increase. Various factors influence the change in the Bank's margin when general market interest rates change. These factors include, but are not limited to, the growth and mix of new assets, deposit liabilities and borrowings, pricing changes, the extension or contraction of maturities of new and renewed assets and liabilities, the shape of the general economic yield curve, and the general influence on pricing by competition in the local market for loans and deposits. Additionally, when economic rates change, there may be an immediate impact to non-maturing deposits tied to an index rate and from loans that are tied to a daily prime lending rate or other index rate. Also, the repricing of term liabilities to offset this change requires time for those term deposits to mature and renew.

When preparing the model, the Bank makes assumptions about the lag in the rate of change and impacts of optionality in various asset and liability categories. The Bank bases its assumptions on past experience, current projections, comparisons with other banks, and annually tests to verify the validity of its assumptions by reviewing actual results with projected expectations. As the impact of changing interest rates depends on assumptions, actual experience can materially differ from projections. The purpose of the model is to forecast the likely impact of changing interest rates so management can monitor potential exposures to interest rate risk and make adjustments to the balance sheet if needed.

The computer simulation model projects at September 30, 2024 the following changes over a one-year period in net interest income:

Interest Rate Risk Simulation Model

(in thousands)

Interest Rate Shock	-4%	-3%	-2%	-1%	1%	2%	3%	4%
Net interest income change	$ 6,661	$ 5,203	$ 3,543	$ 1,731	$ (1,709)	$ (3,908)	$ (5,753)	$ (7,607)
Net interest percent change	20.0%	15.6%	10.6%	5.2%	-5.1%	-11.7%	-17.2%	-22.8%

The Bank's investment portfolio has an average maturity of 9.0 years and would be susceptible to a material decline in market value if interest rates were to materially rise. Management monitors this exposure in relation to the Bank's capital ratios and the interaction of the projected changes in other interest sensitive assets and liabilities to reach a desired balance between current earnings and market risk.

Item 4 Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Bank's management, including its Chief Executive Officer and Chief Financial Officer, the Bank conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as defined by Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act (the "Act") of 1934 as of September 30, 2024. The term disclosure controls and procedures means controls and other procedures that are designed to ensure that the information the Bank is required to disclose in its reports that are filed or submitted under the Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information the Bank is required to disclose in the reports that is filed or submitted under the Act is accumulated and communicated to management, including the principal executive and principal financial officers, or persons performing similar functions as applicable, to allow for timely decisions regarding required disclosures.

Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Bank's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2024, there were no significant changes that materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting. The term internal control over financial reporting, as defined by Rule 15d-15(f) of the Act, is a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

The nature of our business causes us to be involved in legal proceedings from time to time. As of the date of this report, the Bank is not a party to any litigation where management anticipates that the outcome will have a material adverse effect on the financial position or results of operations.

Item 1A Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the risk factors that appeared under Item 1A, "Risk Factors" in the Bank's 2023 Annual Report on Form 10-K (the "2023 Form 10-K"). A risk factor appearing on page 17 of the 2023 Form 10-K discusses risks related to regulatory applications filed by Big Poppy Holdings ("Big Poppy"), a competing bank holding company, in which Big Poppy sought regulatory approval to acquire up to 24.9% of the Bank's common stock. On March 28, 2024, Big Poppy withdrew its application seeking the prior approval of the Board of Governors of the Federal Reserve System to acquire such up to 24.9% of the Bank's common stock. There are no other material changes from the risk factors included within the Bank's 2023 Annual Report.

Item 1B Cybersecurity

As a financial institution, the Bank's business depends on the continuous operation of its information and data processing systems and the security of information received from customers, employees and others. The Bank has developed and implemented a cybersecurity program intended to protect the reliability of its critical systems and the confidentiality of nonpublic information.

The Bank's cybersecurity program is designed to assess, identify and manage the material risks from cybersecurity threats, including threats associated with third-party service providers, such as technology providers and cloud-based platforms. The program is based on the National Institute of Standards and Technology Cybersecurity Framework ("NIST CSF") and the guidance of banking and other regulatory agencies. As part of the program, the Bank has a cybersecurity incident response plan that includes procedures for responding to cybersecurity incidents and facilitates coordination and communication across multiple parts of the Bank.

The Bank's cybersecurity risk management process is integrated as part of its overall risk management program. The Bank's information security professionals have primary responsibility for overall cybersecurity risk management. The Bank's cybersecurity professionals are led by the Director of Information Technology who has over 20 years of experience in the information technology field, including experience with cybersecurity. The Bank's Director of Information Technology reports to the Chief Operating Officer and in conjunction they develop and maintain the cybersecurity program. In addition to its own employees, the Bank engages third party service providers to provide security products and services as needed, using their technology and expertise to evaluate and enhance its cybersecurity program, perform penetration testing and security audits, and to inform employees regarding evolving threats, risks and defensive measures. Generally, these third-party service providers are managed by the Director of Information Technology.

The Bank periodically reviews, tests and assesses its cybersecurity systems, using both internal resources and third-party service providers with cybersecurity expertise. At least once per year, the Bank reviews and tests its incident response plan through simulations and assessments.

The Bank has developed processes to identify and oversee risks from cybersecurity threats associated with third-party service providers, which includes the Director of Information Technology assisting with and evaluating cybersecurity readiness during vendor selection and onboarding, and the Finance Manager overseeing the risk-based monitoring of vendors on an ongoing basis.

The Bank requires periodic cybersecurity training for employees to learn about data security, how to identify and mitigate potential cybersecurity risks and how to protect our resources and information. Members of the risk management, cybersecurity and technology teams receive specialized training about evolving cybersecurity threats and new risk mitigation and detection technologies.

Cybersecurity Governance

The Bank's Board of Directors and its Information Technology Steering Committee are responsible for overseeing the Bank's cybersecurity program and polices. The Bank's management, led by the Director of Information Technology, is responsible for designing and implementing the program. The Director of Information Technology regularly reports to the Information Technology Steering Committee regarding management's implementation of the cybersecurity program, cybersecurity risks and threats, assessments of the Bank's cybersecurity systems and the planning and status project to strength the Bank's information security. The Finance Manager also regularly tracks and reports to the Enterprise Risk Management Committee general cybersecurity risks and threats to the Bank. The Bank's cybersecurity incident response plan requires that management promptly advise the Director of Information Technology, Chief Operating Officer and Board of any material cybersecurity incident. The Chair of the Information Technology Steering Committee and Chair of the Enterprise Risk Management Committee regularly reports to the Board on cybersecurity risks and other matters reviewed by the Committee. Board members may attend both the Information Technology Steering Committee and Enterprise Risk Management Committee meetings where cybersecurity issues are discussed and have access to the materials for each meeting.

Cybersecurity Incidents

Like many financial institutions, the Bank has experienced cyber-based attacks and other attempts to compromise its information systems and expects that it will continue to experience these attacks and attempts in the future. In October 2023, the Bank was the target of a "phishing" scheme which led to a Business Email Compromise where an external actor initiated a fraudulent outgoing wire transfer causing a loss of $470,000. The Bank investigated this incident and determined the external actor illegally accessed and/or acquired nonpublic data within one employee's email account. Impacted customers were notified in accordance with California law and provided optional credit monitoring services. While the Bank has not identified cybersecurity threats that have materially affected or are reasonably likely to materially affect the Bank, like all financial institutions, the Bank faces ongoing risks from cybersecurity threats that, if realized, are reasonably likely to materially affect its business, results of operations, or financial condition.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

Not applicable.

Item 5 Other Information

None.

Item 6 Exhibit Index

The exhibits filed as part of this report are listed on the Exhibit Index filed as part of this report.

Exhibit Number	Description
31.01	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Principal Financial and Accounting Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
32.01	Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Summit State Bank

(registrant)

November 19, 2024	*/s/ Brian J. Reed*
Date	Brian J. Reed President and Chief Executive Officer (Principal Executive Officer)

November 19, 2024	*/s/ Camille D. Kazarian*
Date	Camille D. Kazarian Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.01

Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002

I, Brian J. Reed, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended September 30, 2024;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 19, 2024 *\/s/ Brian J. Reed*

Date

Brian J. Reed
President and Chief Executive Officer
(Principal Executive Officer)
Summit State Bank

Exhibit 31.02

Certification of Principal Financial and Accounting Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002

I, Camille D. Kazarian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended September 30, 2024;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 19, 2024 *<u>/s/ Camille D. Kazarian</u>*

Date

Camille D. Kazarian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
Summit State Bank

EXHIBIT 32.01

Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report on Form 10-Q of Summit State Bank (the Registrant) for the quarter ended September 30, 2024, as filed with the Federal Deposit Insurance Corporation, the undersigned hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1) such Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

November 19, 2024 — Date

/s/ Brian J. Reed
Brian J. Reed
President and Chief Executive Officer
(Principal Executive Officer)

November 19 2024 — Date

/s/ Camille D. Kazarian
Camille D. Kazarian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

This certification accompanies each report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of §18 of the Securities Exchange Act of 1934, as amended.