REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

MOUNTAIN PACIFIC BANCORP, INC. AND SUBSIDIARIES

December 31, 2025 and 2024

Table of Contents

NOTE: This annual report serves as Mountain Pacific Bank's annual disclosure statement under the requirements of the Federal Deposit Insurance Corporation (FDIC). This statement has not been reviewed or confirmed for accuracy or relevance by the FDIC.

Report of Independent Auditors

The Board of Directors and Stockholders
Mountain Pacific Bancorp, Inc., and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Mountain Pacific Bancorp, Inc., and Subsidiaries which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Mountain Pacific Bancorp, Inc., and Subsidiaries as of December 31, 2025 and 2024, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mountain Pacific Bancorp, Inc., and Subsidiaries' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Baker Tilly US, LLP

Everett, Washington
February 24, 2026

in thousands (except share amounts)

ASSETS

	December 31, 2025	December 31, 2024
Cash and due from banks	$ 6,652	$ 16,442
Interest bearing deposits in banks	62,978	103,633
Total cash and cash equivalents	69,630	120,075
Investment securities available-for-sale at fair value (amortized cost of $20,467 and $22,233 at December 31, 2025 and 2024, respectively)	19,176	20,021
Investment securities held-to-maturity	997	999
Loans held-for-sale	1,331	-
Loans	718,672	647,561
Less allowance for credit losses on loans	13,461	11,750
Total loans, net	705,211	635,811
Premises and equipment, net	18,104	16,603
Right-of-use assets	1,035	1,269
Accrued interest receivable	3,297	3,453
Federal Home Loan Bank (FHLB) stock and Pacific Coast Bankers' Bank (PCBB) stock, at cost	4,272	4,194
Deferred tax asset, net	3,810	4,046
Other assets	1,869	2,217
Total assets	828,732	808,688

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2025	December 31, 2024
Deposits		
Noninterest-bearing	118,508	105,764
Interest-bearing	519,585	527,049
Total deposits	638,093	632,813
Borrowings	80,000	80,000
Subordinated notes	12,825	12,500
Accrued interest payable	1,516	2,311
Lease liabilities	1,182	1,506
Other liabilities	4,864	4,046
Total liabilities	738,480	733,176
Stockholders' equity		
Common stock, $1 par value, 50,000,000 shares authorized; 6,971,747 and 6,850,016 issued and outstanding at December 31, 2025 and 2024, respectively	6,972	6,850
Additional paid-in capital	33,255	31,819
Retained earnings	51,045	38,590
Accumulated other comprehensive loss, net of tax	(1,020)	(1,747)
Total stockholders' equity	90,252	75,512
Total liabilities and stockholder's equity	$ 828,732	$ 808,688

See accompanying notes.

in thousands

	Years Ended December 31, 2025	2024
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 50,790	$ 41,767
Interest-bearing deposits in banks	3,605	3,577
Investment securities	555	602
Dividends from FHLB stock and PCBB stock	347	280
Total interest and dividend income	55,297	46,226
INTEREST EXPENSE		
Deposits	17,005	16,089
Borrowings	3,067	2,678
Subordinated notes	806	778
Total interest expense	20,878	19,545
Net interest income	34,419	26,681
PROVISION FOR CREDIT LOSSES	1,698	2,037
Net interest income after provision for credit losses	32,721	24,644
NONINTEREST INCOME		
Service fees	2,829	2,279
Insurance income	361	263
Rental income	419	419
Gain on sale of OREO, net	-	14
Gain on sale of loans, net	2,368	1,989
Total noninterest income	5,977	4,964
NONINTEREST EXPENSES		
Salaries and employee benefits	13,957	12,396
Occupancy and equipment	1,603	1,480
Data processing	1,107	949
Advertising and business development	1,419	932
Professional fees	800	638
State and other taxes	52	307
Regulatory assessments	608	508
Other real estate owned, net	-	(52)
Other	2,567	2,502
Total noninterest expenses	22,113	19,660
INCOME BEFORE PROVISION FOR INCOME TAXES	16,585	9,948
PROVISION FOR INCOME TAXES	3,472	2,100
NET INCOME	$ 13,113	$ 7,848

in thousands

	Years Ended December 31,	
	2025	2024
NET INCOME	$ 13,113	$ 7,848
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized holding gain (loss) on securities		
Unrealized holding gain (loss)	921	(129)
Tax (expense) benefit on unrealized holding gain (loss)	(194)	28
Other comprehensive income (loss)	727	(101)
COMPREHENSIVE INCOME	$ 13,840	$ 7,747

See accompanying notes.

in thousands (except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
BALANCE, December 31, 2023	6,755,891	$ 6,756	$ 30,858	$ 30,741	$ (1,646)	$ 66,709
Net income	-	-	-	7,849	-	7,849
Other comprehensive loss, net	-	-	-	-	(101)	(101)
Restricted stock awards vested	22,500	22	(22)	-	-	-
Stock options exercised	71,625	72	205	-	-	277
Stock-based compensation expense	-	-	778	-	-	778
BALANCE, December 31, 2024	6,850,016	6,850	31,819	38,590	(1,747)	75,512
Net income	-	-	-	13,113		13,113
Other comprehensive Income, net	-	-	-	-	727	727
Restricted stock awards vested	20,250	20	(20)	-	-	-
Stock options exercised	157,460	157	635	-		792
Stock Repurchase	(55,979)	(55)		(658)		(713)
Stock-based compensation expense	-	-	821	-	-	821
BALANCE, December 31, 2025	6,971,747	$ 6,972	$ 33,255	$ 51,045	$ (1,020)	$ 90,252

in thousands

	Years Ended December 31, 2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 13,113	$ 7,848
Adjustments to reconcile net income to net cash flows from operating activities		
Provision for credit losses	1,698	2,037
Stock-based compensation expense	821	778
Depreciation and amortization	545	439
Amortization on investment securities	98	114
Amortization of right-of-use assets	234	373
Gain on sale of loans, net	(2,368)	(1,989)
Gain on sale of OREO, net	-	(14)
Proceeds from sale of loans	46,561	33,407
Originations of loans held-for-sale	(45,524)	(31,418)
Deferred federal income taxes	42	(575)
Changes in operating assets and liabilities		
Change in lease liabilities	(324)	(403)
Accrued interest receivable	157	(729)
Other assets	348	(121)
Accrued interest payable	(795)	772
Other liabilities	818	4
Net cash from operating activities	15,424	10,523
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans made to customers	(71,098)	(83,936)
Proceeds from principal paydowns of investment securities	1,669	1,969
Proceeds from sale of other real estate owned	-	732
Purchase of FHLB stock	(528)	(1,823)
Redemption of FHLB stock	450	630
Additions to premises and equipment, net	(2,046)	(6,655)
Net cash (used in) investing activities	(71,553)	(89,083)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	5,280	97,379
Proceeds from exercise of stock options	792	277
Stock repurchases	(713)	-
Redemption of subordinated notes payable	(5,000)	(7,500)
Issuance of subordinated notes payable	5,325	7,500
Activity from short term borrowings, net	(10,000)	10,000
Proceeds from borrowings	10,000	15,000
Net cash from financing activities	5,684	122,656
NET CHANGE IN CASH AND CASH EQUIVALENTS	(50,445)	44,096
CASH AND CASH EQUIVALENTS, beginning of year	120,075	75,979
CASH AND CASH EQUIVALENTS, end of year	$ 69,630	$ 120,075
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$ 21,674	$ 18,773
Cash paid during the period for federal income taxes, net of refund	$ 3,390	$ 2,840
SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS		
Unrealized gain (loss) on securities	$ 921	$ (129)
Assets obtained in exchange for lease liabilities for Ballard	$ 92	$ -

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of operations – Mountain Pacific Bancorp, Inc., a bank holding company (the Company), has principal activities which are the ownership and management of its wholly owned subsidiaries, Mountain Pacific Bank (the Bank) and Mountain Pacific Insurance Services, Inc (MPIS). The Bank provides a full range of banking services to individual and corporate customers through its headquarters in Everett, and full-service branches in Lynnwood, the Ballard neighborhood of Seattle, Burlington, and Bellingham.

During 2019, the Company formed Mountain Pacific Insurance Services, Inc., a wholly owned subsidiary, which is a specialty surplus lines insurance broker for Bank related insurance products and is licensed to operate in all 50 states. Insurance coverage is underwritten on a brokerage basis.

At periodic intervals, various banking regulatory agencies routinely examine the Company's consolidated financial statements as part of their legally prescribed oversight of the banking system. Based on these examinations, the regulators can direct the Company's consolidated financial statements to be adjusted in accordance with their findings.

Principles of consolidation – The consolidated financial statements include the accounts and transactions of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Operating segments – The Company and the Bank operate as a community bank, providing a range of financial services, including commercial and retail banking services, commercial and retail deposit accounts, commercial financing, consumer and mortgage lending, and treasury management services. The Bank's operations are managed on a consolidated basis, and the Chief Operating Decision Maker ("CODM") evaluates financial performance and makes strategic decisions based on consolidated financial results.

In accordance with Accounting Standards Codification (ASC) 280, *Segment Reporting*, management has determined that the Bank has a single reportable segment. The factors supporting this conclusion include:

- The Bank's organizational structure, which does not have separately managed business units generating discrete financial information.
- The manner in which financial information is presented to and reviewed by the Chief Operating Decision Maker (CODM).
- The uniform nature of the Bank's products and services, which are provided under a common strategy with integrated operations.

The Bank's Executive Management Committee (EMC) has been identified as the CODM. The EMC consists of the Chief Executive Officer (CEO), Chief Banking Officer (CBO), Chief Credit Officer (CCO), Chief Lending Officer (CLO) and Chief Financial Officer (CFO). The EMC is responsible for assessing financial performance, allocating resources, and making strategic decisions for the Bank.

Measure of profit or loss – The primary measure of profit or loss used by the CODM to assess performance and allocate resources is consolidated net income, which is consistent with the measure reported in the Bank's consolidated financial statements. The CODM reviews periodic financial reports that include:

- Consolidated Income Statement
- Consolidated Balance Sheet
- Loan and Deposit Growth Trends
- Net Interest Margin Analysis
- Asset Quality and Credit Risk Metrics
- Operating Expense Analysis

As the Bank operates as a single reportable segment, the segment measure of profit or loss is aligned with consolidated net income reported in the Statements of Income. No additional segment-level profit or loss measures are utilized for internal reporting purposes.

Significant expenses and other financial information – The EMC regularly reviews key expenses that impact overall profitability, including:

- Interest Expense on Deposits and Borrowings
- Provision for Credit Losses on Loans
- Salaries and Employee Benefits
- Non-Interest Expenses (including occupancy, technology, and regulatory compliance costs)

These financial metrics are used to guide management's decision-making but are not separately disclosed as they are fully reflected within the Company's consolidated financial statements.

Financial statement presentation and use of estimates – The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and reporting practices applicable to the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets, and revenues and expenses for the period. Actual results could differ from estimated amounts. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses, the valuation of collateral dependent loans, fair value of financial instruments, and deferred tax assets and liabilities.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before the consolidated financial statements are available to be issued. The Company has evaluated subsequent events through February 24, 2026, which is the date the consolidated financial statements are available to be issued.

Cash and cash equivalents – For purposes of reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks, federal funds sold, and interest-bearing deposits in banks, all with original maturities of three months or less. Generally, federal funds are purchased and sold for one day periods. The amounts on deposit fluctuate and, at times, may exceed the insured limit by the Federal Deposit Insurance Corporation (FDIC), which potentially subjects the Company to credit risk. Investments in federal funds sold are made with correspondent banks as approved by the Board of Directors.

Investment securities – Securities are classified as one of two categories: (1) held-to-maturity (HTM), or (2) available-for-sale (AFS). HTM securities, which management has the intent and ability to hold until maturity, are carried at amortized cost. AFS securities are carried at fair value and unrealized gains and losses are reported as net increases or decreases to accumulated other comprehensive income (AOCI), net of tax. Interest income includes amortization of premiums and discounts. Premiums and discounts are recognized in interest income using the interest method over the period to call date and maturity, respectively.

Allowance for credit losses – investment securities – For AFS securities, management evaluates securities for credit losses, as required by ASC Subtopic 326-30, *Financial Instruments – Credit Losses – Available for Sale Debt Securities*. Each reporting period, management evaluates impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value. For AFS securities, management assesses whether impairment is present on an individual security basis when the fair value of a debt security is less than its amortized cost basis at the balance sheet date. When determining if the fair value of an investment is less than the amortized cost basis, management has elected to exclude accrued interest from the amortized cost basis of the investment. If management has an intent to sell an identified security, or it is more likely than not management will be required to sell the security before recovery of its amortized cost basis, then management will recognize an impairment equal to any existing allowance written off against the security.

The Bank did not recognize any impairment on its AFS investment securities portfolio during the year 2025 and 2024. Unrealized losses relate to changes in interest rates subsequent to purchase and are not attributable to credit. On December 31, 2025, we had not initiated any sales of AFS securities, nor did we have an intent to sell any identified securities with unrealized losses, and we do not believe it is more likely than not we would be required to sell such securities before recovery of their amortized cost basis.

For HTM securities, management evaluates securities for credit losses as required by ASC Subtopic 326-20, *Financial Instruments – Credit Losses – Loans*. Management determined that no reserve requirements are necessary for the three municipal bonds held-to-maturity primarily due to lack of defaults in Aaa rated municipals which plays a large role in driving the results of the model to calculate the reserve and the size of the securities. HTM securities are intended to be held until maturity.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding principal adjusted for any charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on a cash basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably ensured.

Significant concentrations of credit risk – Most of the Bank's business activity is with customers located within Snohomish, King, Skagit, and Whatcom Counties, Washington. The Bank originates commercial, real estate, construction, and consumer loans. Generally, loans are secured by accounts receivable, inventory, deposit accounts, personal property, or real estate. Rights to collateral vary and are legally documented to the extent practicable. Local economic conditions may affect borrowers' ability to meet the stated repayment terms. Approximately 87% of the Bank's loan portfolio is secured by real estate (Note 3). The Bank does not have any significant concentrations to one customer.

Allowance for credit losses – loans – The Bank estimates the allowance for credit losses (ACL) using relevant and reliable information from internal and external sources, related to past events, current conditions, and a reasonable and supportable forecast. The ACL is measured on a collective (segment) basis when similar risk characteristics exist. Historical credit loss experience for both the Company and segment-specific peers provides the basis for the estimate of expected credit losses. Segments are based upon federal call report segmentation.

The Bank evaluates our ACL policy and judgments on an ongoing basis and updates as appropriate based on changing conditions. As part of our continuous enhancement to the ACL methodology, during the year ended December 31, 2024, an assessment of the loss rates utilized for each loan segment was performed and updated to use a Discounted Cash Flow model instead of the Remaining Life Method for the following loan pools: Construction, Residential, Multifamily, Commercial Real Estate, and Commercial & Industrial. Additionally, the Bank enhanced the inputs related to funding rates and prepayment speed to a reasonable and supportable rate studies performed by Abrigo using the Bank's data. This change in the ACL methodology was considered a change in accounting estimate as ASC 250-10, *Accounting Changes and Error Corrections - Overall* provisions, where adjustments should be made prospectively.

Management qualitatively adjusts model results for risk factors that are not considered within our modeling processes but are nonetheless relevant in assessing the expected credit losses within our loan pools. These qualitative factor ("Q-Factor") adjustments may increase management's estimate of expected credit losses based upon the estimated level of risk within the risk factor. The various risk factors that may be considered in making Q-Factor adjustments include, among other things, the impact of (i) changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, (ii) actual and expected changes in national, regional, and local economic and business conditions and developments that affect the collectability of the loan pools, (iii) changes in the nature, volume and size of a loan or the loan pools, and in the terms of the underlying loans, (iv) changes in the experience, ability, and depth of our lending management and staff, (v) changes in volume and severity of past due financial assets, the volume of nonaccrual assets, and the volume and severity of adversely classified or graded assets, (vi) changes in the quality of our credit review function, (vii) changes in the value of the underlying collateral for loans that are non-collateral dependent, (viii) the existence, growth, and effect of any concentrations of credit, and (ix) other factors such as the regulatory, legal and technological environments; competition; and events such as natural disasters or health pandemics.

Management believes it uses relevant information available to make determinations about the allowance and that it has established the existing allowance in accordance with GAAP. However, the determination of the allowance requires significant judgment, and estimates of expected lifetime losses in the loan portfolio can vary significantly from the amounts actually observed. While management uses available information to recognize expected losses, future additions to the allowance may be necessary based on changes in the loans comprising the portfolio, changes in the current and forecasted economic conditions, changes to the interest rate environment which may directly impact prepayment and curtailment rate assumptions, and changes in the financial condition of borrowers.

Allowance for credit losses – off-balance-sheet – The allowance for credit losses on off-balance-sheet credit exposures represents expected credit losses over the contractual period for which we are exposed to credit risk resulting from a contractual obligation to extend credit. These obligations include unfunded lines of credit, commitments to extend credit, federal funds sold to correspondent banks, and standby letters of credit. No allowance is recognized if we have the unconditional right to cancel the obligation. The allowance is reported as a component of other liabilities in our consolidated balance sheets. Adjustments to the allowance are reported in our income statement as a component of the provision for credit losses. For the year ended December 31, 2025, and 2024, the Bank's (release) provision for credit losses off-balance-sheet totaled ($25) and $35, respectively.

Transfers of financial assets – Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loan sales recognition – The Bank originates loans through the Small Business Administration (SBA) and United States Department of Agriculture (USDA) and sometimes sells the guaranteed portions. Loans held for sale consist of the guaranteed portion of SBA and USDA loans that the Bank intends to sell after origination and are reflected at the lower aggregate cost or fair value. The Bank retains the servicing on the sold guaranteed portion of SBA and USDA loans. The Bank receives a fee for servicing the loan. The Bank recognizes a sale on loans if the transferred portion (or portions) and any portion that continues to be held by the transferor are participating interests.

To determine the gain or loss on sale of loans, the Bank's investment in the loan is allocated among the retained portion of the loan, the servicing retained, and the sold portion of the loan, based on the relative fair market value of each portion. The gain or loss on the portion of the loan sold is based on the difference between the sale proceeds and the allocated investment in the portion of the loan sold. A discount is recorded against the carrying value of the retained portion of the loan to offset the fair value allocation of the retained portion.

SBA servicing asset – The Bank accounts for SBA servicing rights as separately recognized servicing rights and initially measures them at fair value. Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The Bank subsequently measures each SBA servicing asset using the amortization method. Under the amortization method, the servicing asset is amortized into noninterest income in proportion to, and over the period of, estimated net servicing income. The amortized asset is assessed for impairment or increased obligation, at the loan level, based on the fair value at each reporting date. As of December 31, 2025, and 2024, the SBA servicing asset is included in other assets on the consolidated balance sheets. Servicing fee income is recorded to non-interest income.

Federal Home Loan Bank (FHLB) stock – As a member of the FHLB system, the Bank is required to maintain a minimum investment level in FHLB stock based on specific percentages of the Bank's outstanding loans, total assets, or FHLB advances. This security is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. Management determined there was no impairment at December 31, 2025, and 2024. The Bank had $4,082 and $4,004 of FHLB stock at December 31, 2025, and 2024, respectively.

Pacific Coast Bankers' Bank (PCBB) stock – PCBB stock represents an investment by the Bank in the capital stock of PCBB of $190 at both December 31, 2025, and 2024, and is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Both cash and stock dividends are reported as income.

Premises and equipment – Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation or amortization, which is computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. Assets are reviewed for impairment when events indicate their carrying value may not be recoverable. If management determines impairment exists, the asset is reduced with an offsetting charge to expense.

Lease accounting – The Bank leases retail space under operating leases, which often require additional payments for real estate taxes, maintenance, insurance, and other related costs beyond the base rent. Some leases also include incentives such as tenant improvement allowances. Variable lease payments are recognized as expenses as they are incurred.

For leases with a term greater than 12 months, the Bank records:

- Right-of-Use (ROU) assets in Other Assets
- Lease liabilities in Other Liabilities

Recognition & Measurement

- ROU assets represent the Bank's right to use the leased asset for the lease term.
- Lease liabilities reflect the obligation to make lease payments.
- Both are recorded at the lease commencement date, based on the present value of future lease payments over the lease term.

Since most leases do not specify an implicit interest rate, the Bank typically applies its incremental borrowing rate—estimated based on the interest rate for collateralized borrowing over a comparable term at the lease start date.

Lease Payment Adjustments & Terms

- Many leases include escalation clauses that increase rental rates over time, which are factored into lease payment calculations.
- Most leases provide renewal options, and the ROU asset and liability calculations may include extension or termination options if the Bank is reasonably certain to exercise them.
- Lease expenses are recognized on a straight-line basis over the lease term.

Other real estate owned – Assets acquired through, or in lieu of, loan foreclosure is held-for-sale and are initially recorded at the lower of cost or estimated fair value at the date of foreclosure. Losses arising from the acquisition of property, in full or partial satisfaction of loans, are charged to the allowance for credit losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from other real estate, owned on the statements of income. Gains/losses on the sale of OREO are included in noninterest income and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at the time of each real estate closing.

Income taxes – The provision for income tax is recorded under the liability method. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred taxes result from temporary differences in the recognition of certain income and expense amounts between the Company's consolidated financial statements and its tax return. Deferred tax assets are reduced by a valuation allowance when, based on the weight of evidence available, it is more likely than not that some portion or all a deferred tax asset will not be realized.

Financial instruments – In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, standby letters of credit, and financial guarantees. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Advertising costs – The Company expenses advertising costs as they are incurred. Total advertising expense was $285 and $204 for the years ended December 31, 2025, and 2024, respectively.

Comprehensive income (loss) – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investments, are reported as a separate component of the stockholders' equity section of the consolidated balance sheets. Accumulated other comprehensive loss consists of only one component: unrealized gains or losses on investment securities available-for-sale.

Stock-based compensation plan – Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while a third-party valuation of the Company's common stock at the grant date is used for restricted stock awards.

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

Earnings per common share – Basic earnings per common share (EPS) are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflect the weighted-average potential dilution that could occur if all potentially dilutive shares or other commitments to issue common stock were exercised or converted into common stock using the treasury stock method.

Fair value measurements – Fair values of financial instruments are estimated using relevant market information and other assumptions as disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Fair value is defined as the exit price, the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions. It also establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. In determining fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs.

Valuation inputs refer to the assumptions market participants would use in pricing a given asset or liability using one of the three valuation techniques within the fair value hierarchy. Inputs can be observable or unobservable. Observable inputs are those assumptions that market participants would use in pricing the particular asset or liability. These inputs are based on market data and are obtained from a source independent of the Company.

Unobservable inputs are assumptions based on the Company's own information or estimate of assumptions used by market participants in pricing the asset or liability. Unobservable inputs are based on the best and most current information available on the measurement date.

All inputs, whether observable or unobservable, are ranked in accordance with a prescribed fair value hierarchy that gives the highest ranking to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest ranking to unobservable inputs (Level 3). Fair values for assets or liabilities classified as Level 2 are based on one or a combination of the following factors: (i) quoted prices for similar assets; (ii) observable inputs for the asset or liability, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data.

There were no transfers between Level 2 and Level 3 during 2025 and 2024.

Revenue recognition – The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers,* which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. Most of the Company's revenues come from interest income, including loans and securities, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented with non-interest income and are recognized as revenue as the Company satisfies its obligation to the customer.

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

Interchange income represents fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied, and the fees are earned when the cost of the transaction is charged to the cardholders' debit card. Certain expenses directly associated with the debit card are recorded on a net basis with the interchange income.

Reclassification – Certain reclassifications have been made to conform to the current-year presentation. The reclassifications had no impact on previously reported net income or stockholders' equity.

Recent accounting pronouncements
In December 2023, the Financial Accounting Standards Board issued *Accounting Standards Update (ASU) 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* This ASU requires public business entities to disclose in their rate reconciliation table additional categories of information to provide more detail about the reconciling items in some categories if items meet a quantitative threshold. This ASU also requires all entities to disclose additional information about income taxes paid. The amendments in this ASU are effective for fiscal years after December 15, 2025. The Company adopted this ASU on January 1, 2025.

Note 2 – Investment Securities

Amortized cost and estimated fair values of investment securities are summarized as follows (dollars in thousands):

December 31, 2025	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
Obligations of U.S. agencies	$ 1,500	$ -	$ (40)	$ 1,460
Agency mortgage-backed securities	11,119	18	(900)	10,237
Agency collateralized mortgage obligations	1,271	-	(179)	1,092
SBA participation certificates	1,446	-	(214)	1,232
Municipal bonds	5,131	24	-	5,155
	$ 20,467	$ 42	$ (1,333)	$ 19,176
Held to maturity securities				
Municipal bonds	$ 997	$ -	$ -	$ 997
December 31, 2024				
Available-for-sale securities				
Obligations of U.S. agencies	$ 1,500	$ -	$ (95)	$ 1,405
Agency mortgage-backed securities	12,408	-	(1,428)	10,980
Agency collateralized mortgage				-
obligations	1,422	-	(251)	1,171
SBA participation certificates	1,750	-	(284)	1,466
Municipal bonds	5,153	-	(154)	4,999
	$ 22,233	$ -	$ (2,212)	$ 20,021
Held to maturity securities				
Municipal bonds	$ 999	$ -	$ (35)	$ 964

The amortized cost and estimated fair value of investment securities at December 31, 2025, by contractual or expected maturity, are shown below. Expected maturities will differ from contractual maturity because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (dollars in thousands).

	Available-for-Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
1 to 5 years	$ 4,482	$ 4,460	$ 676	$ 676
More than 5 years	15,985	14,716	321	321
	$ 20,467	$ 19,176	$ 997	$ 997

Information pertaining to investment securities with gross unrealized losses aggregated by the investment category and length of time that individual securities have been in a continuous loss position is as follows (dollars in thousands):

	Less Than 12 Months		Greater Than 12 Months	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
December 31, 2025				
Available-for-sale securities				
Obligations of U.S. agencies	$ -	$ -	$ (40)	$ 1,460
Agency mortgage-backed securities	-	-	(900)	7,237
Agency collateralized mortgage obligations	-	-	(179)	1,092
SBA participation certificates	-	-	(214)	1,232
	$ -	$ -	$ (1,333)	$ 11,021
December 31, 2024				
Available-for-sale securities				
Obligations of U.S. agencies	$ -	$ -	$ (95)	$ 1,405
Agency mortgage-backed securities	-	-	(1,428)	10,980
Agency collateralized mortgage obligations	-	-	(251)	1,171
Municipal bonds	(154)	4,999	-	-
SBA participation certificates	-	-	(284)	1,466
	$ (154)	$ 4,999	$ (2,058)	$ 15,022

There were no securities in an unrealized loss position for less than 12 months and twenty securities in an unrealized loss position greater than 12 months on December 31, 2025. There was one security in an unrealized loss position for less than 12 months and twenty-one securities in an unrealized loss position greater than 12 months on December 31, 2024. Unrealized losses have not been recognized into income because management does not intend to sell and does not expect it will be required to sell the investments. The unrealized loss is largely due to changes in market conditions and interest rates, rather than credit quality. The fair value is expected to recover as the underlying securities in the portfolio approach maturity date and market conditions improve. There was no allowance for credit losses as of year ended December 31, 2025, and 2024.

There were no securities sold in 2025 or 2024.

Note 3 – Loans

The major classifications of loans at December 31 are summarized below (dollars in thousands):

	2025	2024
Residential Real Estate	$ 133,577	$ 120,439
Construction	80,052	82,028
Commercial & Industrial	75,735	67,910
Agriculture	21,969	28,665
Commercial Real Estate - OO	154,489	136,424
Commercial Real Estate - NOO	253,584	212,383
Consumer	1,679	1,667
Total Loans	721,085	649,516
Less deferred loan fees, net	(2,413)	(1,955)
Less allowance for credit losses	(13,461)	(11,750)
Total loans, net	$ 705,211	$ 635,811

Past due loans – The following table presents past due loans, net of partial loan charge-offs, by type as of December 31 (dollars in thousands):

2025	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
Residential Real Estate	$ 964	$ -	$ 250	$ 1,214	$ 132,363	$ 133,577
Construction	-	-	-	-	80,052	80,052
Commercial & Industrial	414	2,696	2,924	6,034	69,701	75,735
Agriculture	283	862	900	2,045	19,924	21,969
Commercial Real Estate - OO	-	1,906	-	1,906	152,583	154,489
Commercial Real Estate - NOO	-	-	-	-	253,584	253,584
Consumer	-	-	-	-	1,679	1,679
	$ 1,661	$ 5,464	$ 4,074	$ 11,199	$ 709,886	$ 721,085

2024	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
Residential Real Estate	$ 203	$ 450	$ -	$ 653	$ 119,786	$ 120,439
Construction	-	-	-	-	82,028	82,028
Commercial & Industrial	-	2,750	-	2,750	65,160	67,910
Agriculture	-	-	1,252	1,252	27,413	28,665
Commercial Real Estate - OO	-	-	-	-	136,424	136,424
Commercial Real Estate - NOO	10	-	16	26	212,357	212,383
Consumer	-	-	-	-	1,667	1,667
	$ 213	$ 3,200	$ 1,268	$ 4,681	$ 644,835	$ 649,516

The following table presents the amortized cost of nonaccrual loans at December 31 (dollars in thousands):

2025	Nonaccrual with no Allowance for Credit Losses	Nonaccrual with Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Residential Real Estate	$ 250	$ 964	$ 1,214	$ -
Commercial & Industrial	2,924	-	2,924	-
Agriculture	2,306	200	2,506	-
Commercial Real Estate - OO	1,906	-	1,906	-
Total	$ 7,386	$ 1,164	$ 8,550	$ -

2024	Nonaccrual with no Allowance for Credit Losses	Nonaccrual with Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial & Industrial	$ 16	$ -	$ 16	$ -
Agriculture	2,343	-	2,343	-
Commercial Real Estate - OO	463	-	463	-
Commercial Real Estate - NOO	4,122	-	4,122	-
Total	$ 6,944	$ -	$ 6,944	$ -

There was $265 and $68 of interest income recognized on nonaccrual loans as of December 31, 2025, and 2024, respectively.

Credit quality indicator – Federal regulations provide for the classification of lower quality loans and other assets, such as debt and equity securities, as substandard, doubtful, or loss. An asset is considered substandard if it is inadequately protected by the current net worth and pay capacity of the borrower or of any collateral pledged. Substandard assets include those characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions, and values. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

Risk ratings are assigned to each loan. These numeric ratings range in value from 1 to 10 and are based on the following criteria:

1. Ratings of 1-5 indicate low to minimal credit risk (pass).

2. Rating of 6 indicates an average to above average credit risk with adequate repayment capacity when prolonged periods of adversity do not exist (watch).

3. Rating of 7 indicates potential weaknesses and higher credit risk requiring greater attention by Bank personnel and management to help prevent further deterioration (special mention).

4. Rating of 8 indicates a loss is possible if loan weaknesses are not corrected (substandard).

5. Rating of 9 indicates loss is highly probable; however, the amount of the loss has not yet been determined (doubtful).

6. Rating of 10 indicates the loan is uncollectible and, when identified, is charged off (loss).

Periodically, all loans are reviewed to assess the ability of the borrowers to service all interest and principal obligations and, as a result, the risk rating may be adjusted accordingly. Risk ratings should be reviewed and updated whenever appropriate, with more periodic reviews as the risk and dollar value of loss on the loan increases. In the event that full collection of principal and interest is not reasonably ensured, the loan is appropriately downgraded and, if warranted, placed on nonaccrual status even though the loan may be current as to principal and interest payments. Additionally, loans that are individually evaluated require an impairment analysis to assess the amount of allowance associated with the individually evaluated or collateral dependent loans.

The following table represents the principal balance, net of charge-offs of loans classified by internally assigned grade as of December 31, 2025 (dollars in thousands):

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term	
December 31, 2025	2025	2024	2023	2022	2021	Prior			Total
Residential Real Estate									
Pass	$ 20,182	$ 25,168	$ 16,478	$ 11,199	$ 19,435	$ 12,760	$ 21,770	$ -	$ 126,992
Special mention	762	3,019	-	-	-	-	1,249	-	5,030
Substandard	233	-	-	-	-	358	-	-	591
Doubtful	-	-	-	964	-	-	-	-	964
Total Residential Real Estate	21,177	28,187	16,478	12,163	19,435	13,118	23,019	-	133,577
Construction									
Pass	43,717	12,223	16,032	-	2,500	11	-	-	74,483
Special mention	-	1,125	1,013	-	-	-	2,698	-	4,836
Substandard	-	-	733	-	-	-	-	-	733
Total Construction	43,717	13,348	17,778	-	2,500	11	2,698	-	80,052
Commercial & Industrial									
Pass	6,217	4,036	2,022	6,036	5,990	7,821	18,853	-	50,975
Special mention	789	185	1,012	252	-	930	14,055	-	17,223
Substandard	-	-	271	-	-	3,798	3,140	328	7,537
Total Commercial & Industrial	7,006	4,221	3,305	6,288	5,990	12,549	36,048	328	75,735
Agriculture									
Pass	1,215	1,672	1,151	2,523	777	5,654	-	-	12,992
Special mention	-	-	-	-	-	2,118	-	-	2,118
Substandard	-	565	700	98	3,875	1,621	-	-	6,859
Total Agriculture	1,215	2,237	1,851	2,621	4,652	9,393	-	-	21,969
Commercial Real Estate - OO									
Pass	35,390	16,220	26,281	8,456	9,286	39,564	655	-	135,852
Special mention	342	-	338	-	5,137	6,051	-	-	11,868
Substandard	-	-	1,906	2,184	-	2,679	-	-	6,769
Total CRE - OO	35,732	16,220	28,525	10,640	14,423	48,294	655	-	154,489
Commercial Real Estate - NOO									
Pass	53,189	35,326	37,535	21,970	20,005	60,356	3,918	-	232,299
Special mention	-	-	-	-	6,553	8,766	-	-	15,319
Substandard	-	-	-	-	-	5,966	-	-	5,966
Total CRE - NOO	53,189	35,326	37,535	21,970	26,558	75,088	3,918	-	253,584
Consumer									
Pass	-	38	36	318	-	10	1,277	-	1,679
Total Consumer	-	38	36	318	-	10	1,277	-	1,679
Total loans	162,036	99,577	105,508	54,000	73,558	158,463	67,615	328	721,085
Total loans									
Pass	159,910	94,683	99,535	50,502	57,993	126,176	46,473	-	635,272
Special mention	1,893	4,329	2,363	252	11,690	17,865	18,002	-	56,394
Substandard	233	565	3,610	2,282	3,875	14,422	3,140	328	28,455
Doubtful	-	-	-	964	-	-	-	-	964
Total loans	$ 162,036	$ 99,577	$ 105,508	$ 54,000	$ 73,558	$ 158,463	$ 67,615	$ 328	$ 721,085

The following table represents the principal balance, net of charge-offs of loans classified by internally assigned grade as of December 31, 2024 (dollars in thousands):

	Term Loans Amortized Cost Basis by Origination Year								
December 31, 2024	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term	Total
Residential Real Estate									
Pass	$ 26,555	$ 20,636	$ 14,737	$ 20,999	$ 4,416	$ 10,580	$ 21,096	$ 48	$ 119,067
Special mention	-	-	-	-	-	373	-	-	373
Substandard	-	-	-	-	-	-	999	-	999
Total Residential Real Estate	26,555	20,636	14,737	20,999	4,416	10,953	22,095	48	120,439
Construction									
Pass	38,303	28,696	4,961	2,611	1,085	21	6,351	-	82,028
Total Construction	38,303	28,696	4,961	2,611	1,085	21	6,351	-	82,028
Commercial & Industrial									
Pass	8,572	3,928	6,939	6,562	6,237	3,573	23,592	407	59,810
Special mention	-	-	-	-	953	528	600	-	2,081
Substandard	-	307	-	-	100	2,862	2,750	-	6,019
Total Commercial & Industrial	8,572	4,235	6,939	6,562	7,290	6,963	26,942	407	67,910
Agriculture									
Pass	2,308	2,015	2,646	4,736	5,121	3,794	11	-	20,631
Special mention	-	-	-	-	314	409	-	-	723
Substandard	385	-	183	477	-	4,766	1,500	-	7,311
Total Agriculture	2,693	2,015	2,829	5,213	5,435	8,969	1,511	-	28,665
Commercial Real Estate - OO									
Pass	23,249	30,040	11,524	11,266	15,773	26,341	799	823	119,815
Special mention	-	-	2,221	5,240	-	4,981	-	-	12,442
Substandard	-	1,920	336	-	1,448	463	-	-	4,167
Total CRE - OO	23,249	31,960	14,081	16,506	17,221	31,785	799	823	136,424
Commercial Real Estate - NOO									
Pass	28,723	38,558	20,813	32,932	31,169	35,915	2,779	-	190,889
Special mention	-	-	-	5,586	-	6,570	-	-	12,156
Substandard	-	-	-	-	219	9,119	-	-	9,338
Total CRE - NOO	28,723	38,558	20,813	38,518	31,388	51,604	2,779	-	212,383
Consumer									
Pass	99	48	350	-	-	12	1,158	-	1,667
Total Consumer	99	48	350	-	-	12	1,158	-	1,667
Total loans	128,194	126,148	64,710	90,409	66,835	110,307	61,635	1,278	649,516
Total loans									
Pass	127,809	123,921	61,970	79,106	63,801	80,236	55,786	1,278	593,907
Special mention	-	-	2,221	10,826	1,267	12,861	600	-	27,775
Substandard	385	2,227	519	477	1,767	17,210	5,249	-	27,834
Total loans	$ 128,194	$ 126,148	$ 64,710	$ 90,409	$ 66,835	$ 110,307	$ 61,635	$ 1,278	$ 649,516

There were no modifications made to borrowers experiencing financial difficulty in 2025 or 2024.

The following table presents the principal balance, net of charge-offs of collateral dependent loans by class of loans and collateral type as of December 31 (dollars in thousands):

2025	Real Estate	Other Non-Real Estate Assets	Total
Residential Real Estate	$ 1,214	$ -	$ 1,214
Commercial & Industrial	-	271	271
Agriculture	-	2,420	2,420
Commercial Real Estate - OO	1,906	-	1,906
Commercial Real Estate - NOO	215	-	215
	$ 3,335	$ 2,691	$ 6,026

2024	Real Estate	Other Non-Real Estate Assets	Total
Commercial & Industrial	$ -	$ 100	$ 100
Agriculture	-	2,370	2,370
Commercial Real Estate - OO	463	-	463
Commercial Real Estate - NOO	4,340	-	4,340
	$ 4,803	$ 2,470	$ 7,273

The following table presents the activity in the allowance for credit losses by class for the years ended December 31 (dollars in thousands):

2025	Beginning Balance	Provision for Credit Losses	Charge-offs	Recoveries	Ending Balance
Residential Real Estate	$ 2,118	$ 311	$ -	$ -	$ 2,429
Construction	1,934	284	-	-	2,218
Commercial & Industrial	1,207	177	(15)	-	1,369
Agriculture	364	53	-	4	421
Commercial Real Estate - OO	2,962	434	-	-	3,396
Commercial Real Estate - NOO	3,164	464	-	-	3,628
Consumer	1	0	(1)	-	-
	$ 11,750	$ 1,723	$ (16)	$ 4	$ 13,461

2024	Beginning Balance	Provision for Credit Losses	Charge-offs	Recoveries	Ending Balance
Residential Real Estate	$ 1,754	$ 364	$ -	$ -	$ 2,118
Construction	1,602	332	-	-	1,934
Commercial & Industrial	860	178	(9)	178	1,207
Agriculture	302	63	-	-	365
Commercial Real Estate - OO	2,452	509	-	-	2,961
Commercial Real Estate - NOO	2,611	542	-	11	3,164
Consumer	68	14	(81)	-	1
	$ 9,649	$ 2,002	$ (90)	$ 189	$ 11,750

The following table represents the gross charge-offs for the year ending December 31, 2025, by type of loans (dollars in thousands):

	Term Loans by Origination Year							
	2025	2024	2023	2022	2021	Prior	Revolving Loans	Total
Commercial & Industrial	$ -	$ -	$ -	$ -	$ -	$ 15	$ -	$ 15
Consumer	-	-	-	-	-	-	1	1
Total loans	$ -	$ -	$ -	$ -	$ -	$ 15	$ 1	$ 16

The following table represents the gross charge-offs for the year ending December 31, 2024, by type of loans (dollars in thousands):

	Term Loans by Origination Year							
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Total
Commercial & Industrial	$ -	$ -	$ -	$ -	$ 9	$ -	$ -	$ 9
Consumer	-	-	-	-	-	-	81	81
Total loans	$ -	$ -	$ -	$ -	$ 9	$ -	$ 81	$ 90

Note 4 – Premises and Equipment

Premises and equipment at December 31 are classified as follows (dollars in thousands):

	2025	2024
Land and buildings	$ 17,133	$ 16,950
Leasehold improvements	4,260	2,404
Furniture, fixtures, and office equipment	2,254	1,873
Capital - Work in progress	-	375
	23,647	21,602
Accumulated depreciation and amortization	(5,543)	(4,999)
	$ 18,104	$ 16,603

Depreciation and amortization expense totaled $545 and $439 for the years ended at December 31, 2025 and 2024, respectively.

Note 5 – Leases

The Bank has operating leases for its branches. The maturities of these leases vary throughout 2029. The Bank's leases generally exclude extension clauses until it is reasonably certain the Bank will exercise the option.

The components of lease cost (included in occupancy and equipment expenses on the consolidated statements of income) are as follows for the years ending December 31:

	2025	2024
Lease cost		
Minimum rent payments	$ 474	$ 452
Other operating costs	(51)	(37)
	$ 423	$ 415

The following table provides supplemental information related to operating leases for the purpose of the measurement of lease liabilities at or for the years ended December 31 (dollars in thousands):

	2025	2024
Operating cash flows from operating leases	$ 474	$ 452
Weighted average remaining lease term	2.65 years	3.56 years
Weighted average discount rate	3.17%	3.18%

The Bank's leases typically do not contain a discount rate implicit in the lease contract. As an alternative, the Bank uses the incremental borrowing rate at the date the lease begins.

The following table presents minimum lease payments under the terms of the leases for future years ending December 31 (dollars in thousands):

2026	$ 505
2027	416
2028	245
2029	55
Total lease payments	1,221
Less imputed interest	(39)
Total	$ 1,182

A portion of the Bank's owned premises are leased to unaffiliated third parties. Minimum rental receipts under sublease agreements for future years ending December 31 are as follows (dollars in thousands):

2026	$ 383
2027	362
2028	361
2029	369
2030	377
Thereafter	551
Total lease payments	$ 2,403

Note 6 – Other Real Estate Owned

There was no activity in OREO in the year ending December 31, 2025. The following table presents the activity in other real estate owned for the year ending December 31, 2024 (dollars in thousands).

	2024
Balance, beginning of year	$ 718
Transfer	-
Sales	(718)
Ending balance	$ -

Note 7 – Servicing Asset

Loans serviced for others totaled $126,815 and $111,190 at December 31, 2025, and 2024, respectively. The fair value of the servicing asset held at December 31, 2025, and 2024, was $2,376 and $1,908, respectively.

Changes in the balance of the servicing asset was as follows for the years ending December 31 (dollars in thousands):

	2025	2024
Balance, beginning of year	$ 1,208	$ 1,193
Additions	844	504
Amortization	(579)	(489)
Balance, end of year	$ 1,473	$ 1,208

The key economic assumptions used in determining the fair value of the servicing asset as of December 31 are as follows:

	2025	2024
Discount rate	9.14%	11.20%
Expected weighted-average life	3.91 years	3.41 years
Constant prepayment rate	19.39%	22.54%

Projected amortization expense of the servicing asset at December 31, 2025, is estimated to be as follows (dollars in thousands):

2026	$ 515
2027	387
2028	272
2029	172
2030	88
Thereafter	39
Carrying value of servicing asset	$ 1,473

The following represents servicing fees earned in connection with the servicing asset and is included in the accompanying consolidated financial statements as a component of non-interest income for the years ended December 31 (dollars in thousands):

	2025	2024
Servicing fees	$ 1,098	$ 831

Late fees associated with the servicing asset are immaterial for the years ended December 31, 2025, and 2024.

Note 8 – Deposits

Deposits as of December 31 consisted of the following (dollars in thousands):

	2025	2024
Demand accounts		
Noninterest-bearing	$ 118,508	$ 105,764
Interest-bearing	99,698	86,949
Savings accounts	9,335	9,507
Money market accounts	149,082	152,676
Certificates of deposit	261,470	277,917
	$ 638,093	$ 632,813

At December 31, 2025, scheduled maturities of certificates of deposit are as follows (dollars in thousands):

2026	$ 205,902
2027	15,555
2028	7,036
2029	29,343
2030	3,634
	$ 261,470

At December 31, 2025, the scheduled maturities of the $10,000 in brokered certificates of deposits as included in the above table is July 19, 2029.

Certificates of deposit that met or exceeded the $250 federally insured limit were $86,409 and $108,613 at December 31, 2025, and 2024, respectively. All brokered deposits are under the $250, FDIC insured limit at December 31, 2025 and 2024, respectively.

Note 9 – Credit Arrangements

Borrowings – The Bank has line-of-credit agreements with separate unaffiliated banks totaling $40,000. These two lines-of-credit provide for lending at the corresponding bank's federal fund rates. There were no borrowings outstanding on either of these lines at December 31, 2025, and 2024.

The Bank is a member of the FHLB of Des Moines and, as such, has a committed credit line of up to 45% of total eligible assets, subject to certain collateral requirements. Borrowings generally provide interest at the then-current published rates. Certain commercial, multi-family, 1-4 family residential loans, and agri-business loans of $259,207 and $265,285 were pledged to the FHLB as collateral at December 31, 2025, and 2024, respectively. This equated to a borrowing capacity after indebtedness of $91,920 and $89,296 at December 31, 2025, and 2024, respectively. At December 31, 2025, and 2024, the Bank had $80,000 in borrowings, outstanding with the FHLB, with fixed rates ranging from 3.81% to 4.62% under these agreements. The borrowings had a weighted-average interest rate of 4.02% and 3.55% as of December 31, 2025, and 2024, respectively.

The borrowings will mature as follows (dollars in thousands):

2028	$ 55,000
2029	15,000
2030	10,000
	$ 80,000

The Bank maintains their eligibility as a borrower at the Federal Reserve Discount Window. The Bank pledged investment securities of $5,635 at December 31, 2025 and 2024, and certain construction loans of $41,404 and $60,747 as collateral to the Discount Window as of December 31, 2025 and 2024, respectively. There were no outstanding borrowings in 2025 or 2024.

Subordinated Notes – On June 24, 2025, the Board of Directors approved the Company to redeem the existing 2020 Subordinated Notes totaling $5,000 and approved the issuance on October 1, 2025 of new unsecured subordinated term notes (the 2025 Subordinated Notes) in the aggregate principal amount of $5,325 due October 1, 2032 (maturity date), pursuant to the Subordinated Loan Agreements with various investors, one of which is a Director of the Company.

The 2025 Subordinated Notes bear interest at an annual interest rate of 7.00%, payable by the Company quarterly in arrears beginning March 31, June 30, September 30, and December 31, of each year, until September 30, 2030. Thereafter, the Company will pay interest in arrears on the principal amount of the Note at a variable rate equal to the 90-Day Average Secured Overnight Financing Rate ("SOFR") plus 350 basis points payable quarterly beginning December 31, 2030.

On January 2, 2024, the Company issued unsecured subordinated term notes (the 2024 Subordinated Notes) in the aggregate principal amount of $7,500 due January 2, 2031 (maturity date), pursuant to the Subordinated Loan Agreements with various investors, five of which are Directors of the Company.

The 2024 Subordinated Notes bear interest at an annual interest rate of 7.00%, payable by the Company quarterly in arrears beginning March 31, June 30, September 30, and December 31, of each year, until December 31, 2028. Thereafter, the Company will pay interest in arrears on the principal amount of the Note at a variable rate equal to the 90-Day Average Secured Overnight Financing Rate ("SOFR") plus 475 basis points payable quarterly beginning March 31, 2029.

The Subordinated Notes may be prepaid at the Company's option at any time in whole or in part on or after five years after the closing date of each respective series or at any time upon certain events.

Note 10 – Federal Income Taxes

The components of the federal income tax expense are as follows at December 31 (dollars in thousands):

	2025	2024
Current	$ 3,430	$ 2,662
Deferred	42	(562)
	$ 3,472	$ 2,100

Reconciliation of the provision for income tax expense based on the statutory income tax rate to actual income tax expense is provided as follows (dollars in thousands):

	2025		2024	
	Amount	Percent	Amount	Percent
Federal income tax at statutory rate	$ 3,570	21.0%	$ 2,089	21.0%
Tax exempt interest	(84)	-0.50%	(87)	-0.87%
Permanent Items	15	0.09%	19	0.19%
Equity compensation	(17)	-0.10%	65	0.65%
Other	(12)	-0.07%	14	0.01%
	$ 3,472	20.42%	$ 2,100	20.98%

The following are the significant components of the Company's deferred tax assets and liabilities at December 31 (dollars in thousands):

	2025	2024
Deferred tax asset		
Allowance for credit losses	$ 2,827	$ 2,467
Net operating loss carryforward	539	628
Nonaccrual interest	431	316
Unrealized losses on securities	270	464
Deferred lease liability	248	316
Accrued expenses	339	309
Equity compensation	195	134
Other	200	209
SBA loan discount	268	243
Subtotal	5,317	5,086
Deferred tax liabilities		
Deferred loan costs	234	229
SBA servicing asset	309	254
Property and equipment depreciation	747	291
Deferred right-of-use asset	217	266
Subtotal	1,507	1,040
Net deferred tax asset	$ 3,810	$ 4,046

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of net operating loss and credit carryforwards may be limited in the event a cumulative change in ownership of more than 50% occurs within a three-year period. The Bank determined such an ownership change occurred as of December 12, 2011, as a result of the exercise of stock warrants. This ownership change results in annual limitations on the use of net operating loss carryforwards and limits the Bank's ability to fully utilize its deferred tax assets. The Bank's net operating loss deferred tax asset has been reduced to account for Section 382 limitations.

The Bank has federal net non-current operating loss carryforwards of approximately $2.6 million at December 31, 2025, resulting in tax savings of $424 after the consideration of any Section 382 limits. Federal net operating loss carryforwards, to the extent not used, will begin to expire in 2030. At December 31, 2025, and 2024, the Company had no unrecognized tax benefits. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2025, and 2024, the Company recognized no interest and penalties. The Company files income tax returns in the U.S. federal jurisdiction.

Note 11 – Employee Benefits

401(k) – The Company has a 401(k) defined contribution plan (the 401k Plan) for those employees who meet the eligibility requirements set forth in the 401(k) Plan. Eligible employees can contribute up to 100% of compensation subject to certain limits based on federal tax laws. The 401(k) Plan also allows for employer matching contributions equal to 100% up to the first 3%, and 50% up to the next 2% of compensation. Matching contributions vest immediately. The Company's contribution for the years ended December 31, 2025, and 2024, was $326 and $300, respectively.

Self-Insured – In 2024, the Company elected to transition to a self-insured model for our health benefits and workers' compensation liabilities. We have established a reserve for anticipated claims based on historical data and actuarial estimates, with stop-loss coverage or deductibles mitigating the Company's exposure to any significant level of claims. The expense recognized for the year ending December 31, 2025, and 2024, was $736 and $61, respectively.

Note 12 – Stockholders' Equity

Regulatory capital – The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, common equity Tier I, and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I (as defined) capital to average assets (as defined). As of December 31, 2025, management believes that the Company and the Bank meet all capital adequacy requirements to which it is subject.

To be categorized as adequately capitalized, the Bank must maintain minimum total risk-based, common equity Tier I risk-based, Tier I risk-based, and Tier I leverage ratios, as set forth in the table. The institution is well capitalized under the prompt corrective action provisions. There are no conditions or events that management believes have changed the Bank's category. The Company's consolidated assets are less than $3 billion at the beginning of the year, therefore consolidated ratios are not required to be disclosed.

The Bank's actual capital amounts and ratios as of December 31 are also presented in thousands in the table below.

	Actual		For Capital Adequacy Purposes		For Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2025								
Total capital								
(to risk-weighted assets)	$ 106,665	14.26%	59,848	≥ 8.00%	$ 78,551	≥ 10.50%	$ 74,810	≥ 10.00%
Tier I capital								
(to risk-weighted assets)	97,251	13.00%	44,886	≥ 6.00%	63,589	≥ 8.50%	59,848	≥ 8.00%
Common equity Tier 1 capital								
(to risk-weighted assets)	97,251	13.00%	33,665	≥ 4.50%	52,367	≥ 7.00%	48,627	≥ 6.50%
Tier I capital (to average assets)	97,251	11.38%	34,200	≥ 4.00%	N/A		42,751	≥ 5.00%
As of December 31, 2024								
Total capital								
(to risk-weighted assets)	$ 91,856	13.68%	53,715	≥ 8.00%	$ 70,501	≥ 10.50%	$ 67,144	≥ 10.00%
Tier I capital								
(to risk-weighted assets)	83,411	12.42%	40,286	≥ 6.00%	57,072	≥ 8.50%	53,715	≥ 8.00%
Common equity Tier 1 capital								
(to risk-weighted assets)	83,411	12.42%	30,215	≥ 4.50%	47,001	≥ 7.00%	43,644	≥ 6.50%
Tier I capital (to average assets)	83,411	10.62%	31,429	≥ 4.00%	N/A		39,287	≥ 5.00%

Under the Basel III rules, the Bank must hold a capital conservation buffer of 2.5% above the adequately capitalized risk-based capital ratios. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

Note 13 – Stock-Based Compensation Plan

The Company has a stockholder approved plan, the 2017 Mountain Pacific Bancorp Inc. Plan (the "Plan") as amended, is authorized to issue 2,000,000 shares, of which 200,000 may be issued as restricted stock awards. The Plan is to promote the best interest of the Company by providing an incentive to those key employees who contribute to its success. The Plan permits the grant of incentive stock options for employees, nonqualified stock options for directors, and restricted stock awards for directors. As of December 31, 2025, 247,365 shares remained available to grant out of the Plan of which 61,500 are available for restricted stock awards. The Plan will expire in 2027. There was no compensation cost capitalized, and no income tax benefits realized on these stock-based compensation arrangements in 2025 or 2024.

Stock option plan – Incentive stock and nonqualified stock option awards are generally granted with an exercise price equal to the grant date fair value; those option awards generally vest and become exercisable in incremental percentages from one to five years of continuous service from the grant date and expire after 10 years. Certain option and share awards provide for accelerated vesting upon death of the optionee or if there is a change in control (as defined in the Plan).

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton valuation model that uses the assumptions noted in the following table. Expected volatilities are based on historical volatility of the Company's stock and other factors. The expected term of options granted was evaluated by a calculation that factored in the contractual term and vesting period and considered different employee segments. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2025	2024
Risk-free interest rate	4.42 - 4.52%	3.97 - 3.99%
Dividend yield rate	0.00%	0.00%
Expected volatility	32-35%	35-36%
Expected term (in years)	5.8 - 6.5 years	5.8 - 6.5 years

A summary of incentives and non-qualified stock option activity is presented below:

	Granted Options for Common Stock	Weighted-Average Exercise Price of Shares Under Plan	Weighted-Average Remaining Contractual Term (Years)
Outstanding at December 31, 2024	1,417,800	$ 6.45	
Granted	152,500	10.58	
Exercised	(157,460)	5.04	
Forfeited	(16,840)	7.18	
Outstanding at December 31, 2025	1,396,000	$ 7.03	5.43
Options exercisable at December 31, 2025	985,390	$ 6.11	4.01

The weighted-average grant-date fair value of options granted were $5.20 and $4.69 for each of the years ended December 31, 2025, and 2024, respectively. As of December 31, 2025, there was $1,197 total unrecognized compensation cost related to incentive and nonqualified stock options granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.21 years. There were no tax benefits realized from the exercise of options in 2025 or 2024.

Restricted stock awards – Restricted stock awards vest over three years from the date of grant. The fair value of restricted stock awards is determined based on the most recent stock valuation on the grant date. A summary of nonvested restricted stock awards activity is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2024	34,875	$ 9.26
Granted	18,000	10.58
Vested	(20,250)	9.09
Forfeited	-	-
Nonvested at December 31, 2025	32,625	$ 10.09

As of December 31, 2025, there was $201 of total unrecognized compensation cost related to restricted stock awards granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately 1.69 years.

Note 14 – Related Party Transactions

Certain directors, executive officers, and principal stockholders are Bank customers and have had banking transactions with the Bank. All loans and commitments included in such transactions were made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other people and do not involve more than the normal risk of collectability or present any other unfavorable features. The following summarizes these transactions with directors, executive officers, principal stockholders, and companies with which they are associated at December 31 (dollars in thousands):

	2025	2024
Beginning balance	$ 6,095	$ 6,494
New loans	34	3
Repayments	(394)	(402)
Ending balance	$ 5,735	$ 6,095
Deposits	$ 15,277	$ 17,645

Five directors were investors in the Company's subordinated debt offering in 2024. One director was an investor in the Company's subordinated debt offering in 2025. Rates and terms are consistent for all investors.

From time to time, a director may purchase a participating interest in certain lending relationships with the Bank. At December 31, 2025, two directors are involved in a single participation of a loan with the total loan balance of $9,258, and no director was involved in participations as of December 31, 2024.

Note 15 – Commitments and Contingent Liabilities

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees.

Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit and financial guarantees – Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's experience has been that approximately 77% of loan commitments are drawn upon by customers. The Company evaluates customers' creditworthiness on a case-by-case basis and follows the Bank's normal credit policies. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include cash, accounts receivable, inventory, property, plant and equipment, income-producing commercial properties, and other real estate.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers. The Company, as a matter of policy, does not extend credit in excess of 20% of Tier One Capital plus ACL or approximately $22.1 million, to any single borrower or group of related borrowers.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company maintains various levels of collateral supporting those commitments for which collateral is deemed necessary.

The Company has not been required to perform on any financial guarantees. The Company has not incurred any losses on its commitments in 2025 or 2024.

A summary of the notional amounts of the Company's financial instruments with off-balance-sheet risk at December 31 follows (dollars in thousands):

	2025	2024
Commitments to extend credit	$ 121,115	$ 101,579
Standby letters of credit	$ 300	$ 989

Legal contingencies – Various legal claims also arise from time to time in the normal course of business that, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

Note 16 – Fair Value of Financial Instruments

Fair value is the price to sell an asset or transfer a liability in an orderly transaction between market participants in the Company's principal market. The Company has established and documented its process for determining the fair values of its assets and liabilities, where applicable.

Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, management determines the fair value of the Company's assets and liabilities using valuation models or third-party pricing services, both of which rely on market-based parameters when available, such as interest rate yield curves, option volatilities and credit spreads, or unobservable inputs. Unobservable inputs may be based on management's judgment, assumptions, and estimates related to credit quality, liquidity, interest rates, and other relevant inputs.

Valuation adjustments, such as those pertaining to counterparty and the Company's own credit quality and liquidity, may be necessary to ensure that assets and liabilities are recorded at fair value. Credit valuation adjustments are made when market pricing is not indicative of the counterparty's credit quality.

Any changes to valuation methodologies are reviewed by management to ensure that they are relevant and justified. Valuation methodologies are refined as more market-based data becomes available.

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Either (i) quoted prices for similar assets or liabilities; (ii) observable inputs, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data.

Level 3 – Unobservable inputs.

The hierarchy gives the highest ranking to Level 1 inputs and the lowest ranking to Level 3 inputs. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the overall fair value measurement.

Qualitative disclosures of valuation techniques

Investment securities – Where quoted prices are available in an active market, securities are classified as Level 1. Level 1 instruments include highly liquid government bonds, securities issued by the U.S. Treasury, and exchange-traded equity securities. If quoted prices are not available, management determines fair value using pricing models, quoted prices of similar securities, or discounted cash flows. Such instruments are classified as Level 2. In certain cases, where there is limited activity in the market for a particular instrument, assumptions must be made to determine its fair value. Such instruments are classified as Level 3.

Assets measured at fair value on a recurring basis – Assets are considered to be fair valued on a recurring basis if fair value is measured regularly (i.e., daily, weekly, monthly, or quarterly). The following table shows the Company's assets measured at fair value on a recurring basis as of December 31 (dollars in thousands):

2025	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Obligations of U.S. agencies	$ -	$ 1,460	$ -	$ 1,460
Agency mortgage-backed securities	-	10,237	-	10,237
Agency collateralized mortgage obligations	-	1,092	-	1,092
SBA participation certificates	-	1,232	-	1,232
Municipal bonds	-	5,155	-	5,155

2024	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Obligations of U.S. agencies	$ -	$ 1,405	$ -	$ 1,405
Agency mortgage-backed securities	-	10,980	-	10,980
Agency collateralized mortgage obligations	-	1,171	-	1,171
SBA participation certificates	-	1,466	-	1,466
Municipal bonds	-	4,999	-	4,999

Assets measured at fair value on a nonrecurring basis – Assets are considered to be fair valued on a nonrecurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the balance sheets. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements that require assets or liabilities to be assessed for impairment or recorded at the lower of cost or fair value.

The following table presents the Company's assets measured at fair value on a nonrecurring basis (dollars in thousands):

	Level 1	Level 2	Level 3	Total
December 31, 2025				
Collateral dependent loans*	$ -	$ -	$ 5,804	$ 5,804
December 31, 2024				
Collateral dependent loans*	$ -	$ -	$ 7,204	$ 7,204

*Net of reserves

Valuations of collateral dependent loans are periodically performed by management, and the fair value of the loans is carried at the fair value of the underlying collateral less cost to foreclose, sell, and carry the collateral. Fair value of the underlying collateral is determined by an appraisal performed by a qualified independent appraiser. Other real estate owned is valued in a similar manner as collateral dependent loans.

Quantitative information about Level 3 fair value measurements – The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets during the years ending December 31, 2025 and 2024, along with the valuation techniques used, are shown in the following table:

	Fair Value at December 31, 2025*	Valuation Technique	Unobservable Input	Range[1]
Collateral dependent loans	$ 5,804	Market comparable	Adjustment to appraisal value	0% - 10% (5%)

	Fair Value at December 31, 2024*	Valuation Technique	Unobservable Input	Range[1]
Collateral dependent loans	$ 7,204	Market comparable	Adjustment to appraisal value	0% - 10% (5%)

*Net of reserves
[1] Discount for selling costs.

Carrying amounts and estimated fair values of financial instruments, not previously presented, as of December 31 are as follows (dollars in thousands):

2025	Carrying Amount	Estimated Fair Value	Fair Value Level Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 69,630	$ 69,630	$ 69,630	$ -	$ -
Interest-bearing deposits in banks	62,978	62,978	62,978	-	-
Securities available-for-sale	19,176	19,176	-	19,176	-
Securities held-to-maturity	997	997	-	997	-
Loans receivable	718,672	706,455	-	-	706,455
Loans held for sale	1,331	1,331	-	-	1,331
Servicing asset	1,472	2,376	-	-	2,376
Financial liabilities					
Time deposits	261,470	260,751	-	260,751	-
Borrowings	80,000	80,160	-	80,160	-
Subordinated notes	12,825	14,063	-	14,063	-

2024	Carrying Amount	Estimated Fair Value	Fair Value Level Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 120,075	$ 120,075	$ 120,075	$ -	$ -
Interest-bearing deposits in banks	103,633	103,633	103,633	-	-
Securities available-for-sale	20,021	20,021	-	20,021	-
Securities held-to-maturity	999	963	-	963	-
Loans receivable	647,561	626,191	-	-	626,191
Loans held for sale	-	-	-	-	-
Servicing asset	1,208	1,533	-	-	1,533
Financial liabilities					
Time deposits	277,917	276,401	-	276,401	-
Borrowings	80,000	78,640	-	78,640	-
Subordinated notes	12,500	13,560	-	13,560	-

Note 17 – Earnings Per Common Share

The following table presents a reconciliation of the components used to compute basic and diluted earnings per common share (dollars in thousands):

	2025	2024
Net income	$ 13,113	$ 7,848
Basic weighted-average common shares outstanding	6,962	6,850
Plus dilutive incremental shares	557	468
Diluted weighted-average common shares outstanding	7,519	7,318
Basic earnings per common share	$ 1.88	$ 1.15
Diluted earnings per common share	$ 1.74	$ 1.07

There were no antidilutive options, and no antidilutive restricted stock awards for the year ending December 31, 2025, and 23,025 antidilutive options, and no antidilutive restricted stock awards for the year ending December 31, 2024.