

**GREATER PACIFIC BANCSHARES  
AND SUBSIDIARY**

Audited Consolidated Financial Statements

December 31, 2024



550 Howe Avenue, Suite 210  
Sacramento, California 95825  
Telephone: (916) 564-8727  
FAX: (916) 564-8728

## INDEPENDENT AUDITOR'S REPORT

The Shareholders and  
Board of Directors  
Greater Pacific Bancshares and Subsidiary  
Whittier, California

### **Opinion**

We have audited the accompanying consolidated financial statements of Greater Pacific Bancshares (the Company) and its wholly-owned subsidiary, Bank of Whittier, N.A., which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company, as of December 31, 2024 and 2023, 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. 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 the Company, 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 opinions.

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

The Shareholders and  
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substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards, we:

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

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

*Richardson & Company, LLP*

March 14, 2025

GREATER PACIFIC BANCSHARES  
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CONSOLIDATED BALANCE SHEETS

December 31, 2024 and 2023

	2024	2023
<b>ASSETS</b>		
Cash and due from banks	\$ 1,034,346	\$ 1,991,778
Interest-bearing deposits in other banks	90,673,915	96,327,337
Loans, net of allowance of \$2,267,000 and \$2,100,000 as of December 31, 2024 and 2023, respectively	83,233,988	72,716,763
Premises and equipment, net	27,795	33,254
Operating leases, right-of-use asset	258,114	456,777
Federal Reserve stock, restricted, at cost	378,790	378,790
Accrued interest receivable and other assets	2,555,234	877,931
Mortgage servicing rights, at fair value	3,099,960	3,047,949
<b>TOTAL ASSETS</b>	<b>\$ 181,262,142</b>	<b>\$ 175,830,579</b>
<b>LIABILITIES</b>		
Deposits		
Noninterest-bearing demand	\$ 11,853,029	\$ 12,433,367
NOW, money market and savings	33,278,193	25,293,255
Time deposits	110,752,511	113,350,368
Total deposits	155,883,733	151,076,990
Accrued interest and other liabilities	1,328,015	1,869,930
<b>TOTAL LIABILITIES</b>	<b>157,211,748</b>	<b>152,946,920</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, no par value; 50,000,000 shares authorized; 2,356,392 shares at December 31, 2024 and 2023, issued and outstanding	12,987,757	12,987,757
Retained earnings	11,062,637	9,895,902
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>24,050,394</b>	<b>22,883,659</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 181,262,142</b>	<b>\$ 175,830,579</b>

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

GREATER PACIFIC BANCSHARES  
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CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2024 and 2023

	2024	2023
INTEREST INCOME		
Interest and fees on loans	\$ 4,633,400	\$ 3,573,171
Interest on taxable investment securities and other	49,231	41,930
Interest on interest-bearing deposits in other banks	5,037,753	4,934,741
Total interest income	9,720,384	8,549,842
INTEREST EXPENSE		
NOW, money market and savings	931,821	620,924
Time deposits	5,078,057	4,262,657
Total interest expense	6,009,878	4,883,581
NET INTEREST INCOME	3,710,506	3,666,261
Credit loss expense - loans	167,000	182,069
NET INTEREST INCOME AFTER CREDIT LOSS EXPENSE	3,543,506	3,484,192
NON-INTEREST INCOME		
Service charges and fees	50,373	55,795
Mortgage banking revenue, net	675,468	425,446
Gain on delivery of loans	491,743	399,496
Total non-interest income	1,217,584	880,737
NON-INTEREST EXPENSE		
Salaries and employee benefits	1,883,400	1,407,884
Occupancy and equipment	317,117	318,813
Other	992,807	939,599
Total non-interest expense	3,193,324	2,666,296
Income before taxes	1,567,766	1,698,633
Provision for income taxes	401,031	477,554
NET INCOME	\$ 1,166,735	\$ 1,221,079
NET INCOME PER SHARE	\$ 0.50	\$ 0.52
WEIGHTED AVERAGE SHARES OUTSTANDING	2,356,392	2,356,392

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

GREATER PACIFIC BANCSHARES  
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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2024 and 2023

	2024	2023
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,166,735	\$ 1,221,079
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	13,658	14,486
Credit loss expense	167,000	182,069
Amortization of operating lease right of use asset	198,663	188,777
Net change in mortgage servicing rights capitalized	(65,507)	(7,498)
Change in fair value of mortgage servicing rights	13,496	202,196
Net change in accrued interest receivable and other assets	(1,677,303)	(47,366)
Net change in accrued interest payable and other liabilities	(541,915)	75,772
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(725,173)</b>	<b>1,829,515</b>
<b>INVESTING ACTIVITIES</b>		
Change in interest-bearing deposits in other financial institutions	5,653,422	21,646,261
Loan originations and repayments, net	(10,684,225)	(15,135,665)
Purchases of premises and equipment	(8,199)	(1,697)
<b>NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(5,039,002)</b>	<b>6,508,899</b>
<b>FINANCING ACTIVITIES</b>		
Net change in deposits	4,806,743	(7,188,578)
Issuance of common stock		
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>4,806,743</b>	<b>(7,188,578)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(957,432)</b>	<b>1,149,836</b>
Cash and cash equivalents at beginning of year	1,991,778	841,942
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 1,034,346</b>	<b>\$ 1,991,778</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Interest paid	\$ 6,118,003	\$ 4,694,485
Income taxes paid	\$ 495,000	\$ 378,500

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

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2024 and 2023

	Common Stock		Retained	Total
	Shares	Amount	Earnings	
BALANCE AT JANUARY 1, 2023	2,356,392	\$ 12,987,757	\$ 8,674,823	\$ 21,662,580
Net income for the year			1,221,079	1,221,079
BALANCE AT DECEMBER 31, 2023	2,356,392	12,987,757	9,895,902	22,883,659
Net income for the year			1,166,735	1,166,735
BALANCE AT DECEMBER 31, 2024	2,356,392	\$ 12,987,757	\$ 11,062,637	\$ 24,050,394

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Greater Pacific Bancshares (the Company), formed in 1987, is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Bank of Whittier, N.A. (the Bank). The Bank was incorporated in 1982 as a National Bank and, as such, is regulated by the Office of the Comptroller of the Currency. The regulations of this agency govern most aspects of the Bank's business. The Company opened a new branch in Richardson, Texas in June 2011. The financial statements of the Company are prepared in conformity with generally accepted accounting principles (GAAP) and general practice within the banking industry. The following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Bank of Whittier, N.A. All material intercompany accounts and transactions have been eliminated.

Nature of Operations: The Company provides a variety of banking services to individuals and businesses in its primary service areas of Los Angeles and Orange counties, California, Dallas-Fort Worth Metroplex, Texas and the immediate surrounding areas. The Company offers depository and lending services primarily to meet the needs of its business and professional clientele. These services include a variety of demand deposit, savings and time deposit, IRA and retirement account alternatives. The Company's lending activities are directed primarily towards granting short and medium-term real estate, commercial and consumer loans for such purposes as operating capital, business and professional financing, mortgage financing and personal financing.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains estimated market values from reliable sources such as: Interthinx, tax assessed values from the county or Loopnet.com as part of its annual evaluation of its loan portfolio. Only under special cases where the credit facility is rated "substandard – grade 5" and is collateral dependent would management obtain an appraised value from an independent appraiser. The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

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

Mortgage loans held for delivery are generally delivered with servicing rights retained. The carrying value of mortgage loans delivered is reduced by the amount allocated to the servicing right. Gains and losses on deliveries of mortgage loans are based on the difference between the agreed premium and the carrying value of the related loan delivered.

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



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

As discussed in Note D, management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, and forward looking adjustments.

The allowance for credit losses is measured on a collective basis when similar risk characteristics exist. The Company has identified portfolio segments estimating losses based on the type of borrower and collateral which is generally based upon Call Report segmentation. The segments have been combined or sub-segments have been added as needed to ensure loans of similar risk profiles are appropriately pooled.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. When the discounted cash flow method is used to determine the allowance for credit losses, management does not adjust the effective interest rate used to discount expected cash flows to incorporate expected prepayments. Management discounts the expected future cash flows on the loans using a factor that considers the number of defaults that have occurred on the individual loan in previous periods.

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

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based and account maintenance services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the point in time the Company fulfills the customer's request. Account maintenance fees, which related primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Service charges on deposits are withdrawn from the customer's account balance.

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

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

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

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

Operating Segments: Reportable segments are based on products and services, geography, legal structure, management structure and any other manner in which management desegregates a company for making operating decisions and assessing performance. The Company has determined that its business is comprised of a single operating segment. The Company's subsidiary and its operations are considered to be an immaterial component of the Company's operations and have not been reported as a separate operating segment.

Cash and Cash Equivalents: For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and due from banks".

Subsequent events: The Company has evaluated subsequent events for recognition and disclosure through March 14, 2025, which is the date the financial statements were available to be issued.

New Pronouncements: In December 2023, the FASB issued Accounting Standards Update (ASU) 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The amendments in this Update enhance the transparency and decision usefulness of income tax disclosures. This Update requires that public business entities disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. All entities will be required to disclose 1) the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes; 2) the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than five percent of total income taxes paid (net of refunds received). The amendments also require entities to disclose 1) income (or loss) from continuing operations before income tax expense (or benefit)

GREATER PACIFIC BANCSHARES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

disaggregated between domestic and foreign and 2) income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign. This standard should be applied on a prospective basis, but retrospective application is permitted. The amendments in this Update are effective for annual periods beginning after December 15, 2025.

NOTE B – RESTRICTIONS ON CASH AND DUE FROM BANKS

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

NOTE C – LOANS, NET

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

	<u>2024</u>	<u>2023</u>
Commercial real estate	\$ 54,997,653	\$ 43,285,179
Home equity	27,884,685	28,818,986
Commercial	336,454	366,242
Consumer	1,143,024	1,202,386
	<u>84,361,816</u>	<u>73,672,793</u>
Deferred loan costs, net	1,139,172	1,143,970
Allowance for credit losses	<u>(2,267,000)</u>	<u>(2,100,000)</u>
	<u>\$ 83,233,988</u>	<u>\$ 72,716,763</u>

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

	<u>2024</u>	<u>2023</u>
Three months or less	\$ 11,725,097	\$ 3,887,445
Over three months to twelve months		68,122
Over one year to three years	731,622	417,733
Over three years to five years	761,402	1,356,266
Over five years to fifteen years		
Variable rate loans at floor	33,874,926	30,337,729
Fixed rate loans	28,041,782	30,813,600
Over fifteen years		
Variable rate loans at floor	7,410,312	1,895,850
Fixed rate loans	1,816,675	4,896,048
	<u>\$ 84,361,816</u>	<u>\$ 73,672,793</u>

Variable rate loans that have reached their interest rate floor are presented in the table above based on the maturity date rather than the repricing date.

GREATER PACIFIC BANCSHARES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE C – LOANS, NET (Continued)

The Bank receives fees for servicing retained on mortgages delivered to Fannie Mae and Freddie Mac and for participations sold. Loans being serviced by the Bank for others, including participations sold, totaled approximately \$255,329,898 and \$249,934,296 for the years ended December 31, 2024 and 2023, respectively.

NOTE D – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

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

Historical credit loss experience provides the basis for the estimation of credit losses, which captures loan balances as of a point in time to form a cohort, then tracks the respective losses generated by that cohort of loans over the remaining life. In situations where the Company's actual loss history was not statistically relevant, loss history of peers and qualitative factors (described below) were utilized to create a minimum loss rate using the weighted-average maturity method (WARM). WARM is a simplified methodology for the implementation of the CECL standard and is intended for community institutions with non-complex and homogenous loan pools. The calculation is based on the expected loss rate and the estimated life of each pool of assets.

Loans are considered impaired, based on current information and events, if it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Allowances on impaired loans are established based on the present value of expected future cash flows discounted at the loan's effective interest rate or, for collateral-dependent loans, on the fair value of the collateral. Cash receipts on impaired loans are used to reduce principal.

A loan is considered to be collateral dependent when repayment is expected to be provided substantially through the operation or sale of the collateral. The ACL on collateral dependent loans is measured using the fair value of the underlying collateral, adjusted for costs to sell when applicable, less the amortized cost basis of the financial asset. If the value of underlying collateral is determined to be less than the recorded amount of the loan, a charge-off is taken.

The Company has identified the following portfolio segments to evaluate and measure the allowance for credit loss:

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

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

**Home Equity**—The home equity loan portfolio is for 2<sup>nd</sup> mortgage jumbo financing/refinancing and home improvements. These are secured by 1-4 family residential property.

**Consumer**—The consumer loan portfolio is comprised of a large number of small loans scheduled to be amortized over a specific period. Consumer loans are made directly for consumer purchases.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE D – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY (Continued)

Specific Allowance: Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. A loan is considered impaired when, based on current information and events, the Company determines that they will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When the Company identifies a loan as impaired, it measures the impairment using discounted cash flows, except when the sole remaining source of repayment for the loans is the liquidation of the collateral. In these cases, it uses the current fair value of the collateral, less estimated foreclosure and selling costs. If the Company determines that the value of the impaired loan is less than the recorded investment in the loan, it either recognizes an impairment reserve as a specific allowance to be provided for in the allowance or charges off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. Loans determined to be impaired with a specific allowance are excluded from the general allowance so as not to double-count the loss exposure.

Qualitative Factors: This component of the allowance is management’s best estimate of the probable impact that various qualitative factors may have on the loan portfolio. It is not allocated to specific loans or groups of loans, but rather is intended to absorb losses caused by several factors, including changes in the nature and volume of the portfolio, changes in the terms of loans, changes in lending policies and procedures, underwriting collection practices, changes in international, national, regional, and local economic and business conditions, changes in the experience and ability of lending management and staff, changes in the volume and severity of past due loans, changes in the volume of non-accrual loans, changes in the volume and severity of adversely classified or graded loans, changes in the quality of the Company’s loan review system, changes in the value of underlying collateral, the existence and effect of any concentrations of credit, changes in the level of concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. The Board of Directors reviews the adequacy of the allowance quarterly, including consideration of current economic conditions, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, or past loan experience and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company’s primary regulators, the OCC, review the adequacy of the allowance as an integral part of their examination process. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

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

	2024				
	Commercial Real Estate	Home Equity	Commercial	Consumer	Total
<u>Allowance for credit losses</u>					
Beginning balance	\$ 1,325,919	\$ 719,564	\$ 907	\$ 53,610	\$ 2,100,000
Credit loss expense	108,821	55,247	667	2,265	167,000
Ending balance	<u>\$ 1,434,740</u>	<u>\$ 774,811</u>	<u>\$ 1,574</u>	<u>\$ 55,875</u>	<u>\$ 2,267,000</u>

GREATER PACIFIC BANCSHARES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE D – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY (Continued)

	2023				
	Commercial Real Estate	Home Equity	Commercial	Consumer	Total
<u>Allowance for credit losses</u>					
Beginning balance, prior to adoption of ASC 326	\$ 1,221,531	\$ 645,768		\$ 50,632	\$ 1,917,931
Impact of adopting ASC 326					
Credit loss expense	104,388	73,796	\$ 907	2,978	182,069
Ending balance	\$ 1,325,919	\$ 719,564	\$ 907	\$ 53,610	\$ 2,100,000

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

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

Watch List—A watch list loan possesses some uncertainty as the borrower’s financial condition is perceived to be in a state of transition and require closer monitoring.

Special Mention—A special mention loan has potential weaknesses that deserve management’s close attention.

Substandard—A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. These loans have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt and are characterized by distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful—Loans classified as doubtful have characteristics of those classified as substandard, but the weaknesses make collection or liquidation in full questionable and improbable based on currently existing facts, conditions, and collateral values.

Loss—Loans classified as loss are considered uncollectible or of such little value.

GREATER PACIFIC BANCSHARES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE D – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY (Continued)

The following table shows the loan portfolio allocated by management’s internal risk ratings at December 31, 2024 and 2023:

	2024				
	Commercial Real Estate	Home Equity	Commercial	Consumer	Total
Grade:					
Pass	\$ 54,997,653	\$ 27,884,685	\$ 336,454	\$ 1,143,024	\$ 84,361,816
Watch					-
Special Mention					-
Substandard					-
Doubtful					-
Total	<u>\$ 54,997,653</u>	<u>\$ 27,884,685</u>	<u>\$ 336,454</u>	<u>\$ 1,143,024</u>	<u>\$ 84,361,816</u>
	2023				
	Commercial Real Estate	Home Equity	Commercial	Consumer	Total
Grade:					
Pass	\$ 43,285,179	\$ 28,818,986	\$ 366,242	\$ 1,202,386	\$ 73,672,793
Watch					-
Special Mention					-
Substandard					-
Doubtful					-
Total	<u>\$ 43,285,179</u>	<u>\$ 28,818,986</u>	<u>\$ 366,242</u>	<u>\$ 1,202,386</u>	<u>\$ 73,672,793</u>

There were no impaired loans at December 31, 2024 and 2023. There were no past due loans or loans on nonaccrual at December 31, 2024 and 2023.

NOTE E – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

	2024	2023
Leasehold improvements	\$ 242,440	\$ 242,440
Furniture, fixtures and equipment	741,139	732,940
	<u>983,579</u>	<u>975,380</u>
Less: Accumulated depreciation	<u>(955,784)</u>	<u>(942,126)</u>
	<u>\$ 27,795</u>	<u>\$ 33,254</u>

Depreciation and amortization included in occupancy and equipment expense totaled \$13,658 and \$14,486 respectively, in 2024 and 2023.



GREATER PACIFIC BANCSHARES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE F - LEASES

The Bank leases all of its facilities under noncancellable operating leases. In November 2019, the Bank extended its Whittier lease through October 30, 2025. The Bank leases a facility in Richardson, Texas and operates a second full service banking facility. In October 2021, the bank extended its Richardson lease through December 31, 2026.

Right-of-use assets and lease liabilities, all of which are operating leases, and the associated balance sheet classifications, are as follows:

		<u>Balance Sheet Classification</u>	<u>2024</u>	<u>2023</u>
Right-of-use asset	Right-of-use asset		<u>\$ 258,114</u>	<u>\$ 456,777</u>
Lease liabilities	Accrued interest payable and other liabilities		<u>\$ 268,548</u>	<u>\$ 473,221</u>

Operating lease cost for the years ended December 31, 2024 and 2023 were \$223,696 and \$220,832 respectively. The weighted average remaining lease term at December 31, 2024 and 2023 was 1.47 years and 2.33 years, respectively. The weighted average discount rate was 5.0% at December 31, 2024 and 2023.

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

Year ended December 31:	
2025	\$ 201,390
2026	<u>77,760</u>
Total undiscounted lease payments	<u>279,150</u>
Less: imputed interest	<u>(10,602)</u>
Net lease liabilities	<u>\$ 268,548</u>

NOTE G – MORTGAGE SERVICING RIGHTS

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

	<u>2024</u>	<u>2023</u>
Fair value, beginning of year	\$ 3,047,949	\$ 3,242,647
Additions for new mortgage servicing rights capitalized	69,654	15,017
Reduction of servicing assets	(4,147)	(7,519)
Changes in fair value:		
Due to changes in model inputs and assumptions	<u>(13,496)</u>	<u>(202,196)</u>
Fair value, end of year	<u>\$ 3,099,960</u>	<u>\$ 3,047,949</u>
Balance of loans serviced for others	\$ 255,329,898	\$ 249,934,296
Mortgage servicing rights as a percentage of serviced loans	1.21%	1.22%

The amounts of contractually specified servicing fees, late fees and ancillary fees earned, recorded in mortgage banking revenue on the consolidated statements of operations, were \$623,456 and \$620,143 for the years ended December 31, 2024 and 2023, respectively. Changes in fair value are also included in mortgage banking revenue on the consolidated statements of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE G – MORTGAGE SERVICING RIGHTS (Continued)

The fair value of servicing rights is calculated through a discounted cash flow analysis using a computer pricing model. The valuation is based on the objective characteristics of the portfolio (loan amount, note rate, current loan age, amortization period, escrow balance, etc.), commonly used industry assumptions (prepayment speeds, float earnings rates, discount rates, cost to service, cost of advances) and supplemented by actual portfolio performance characteristics unique to the Bank. The assumptions taken into account are those that are typically employed by entities who own the mortgage servicing asset. The valuation takes into account the unique characteristics of the secondary servicing market. The market value of the servicing can vary based upon the level of prepayments, especially when rates fall. Higher prepayments would negatively impact the recorded value of the mortgage servicing rights.

NOTE H – TIME DEPOSITS

Time deposits that exceed the FDIC insurance limit of \$250,000 at December 31, 2024 and 2023 were \$52,256,251 and \$54,821,397, respectively.

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

	2024	2023
Due in one year or less	\$ 99,525,222	\$ 101,512,599
Due from one to three years	11,196,656	11,646,486
Due from three to five years	30,633	191,283
	\$ 110,752,511	\$ 113,350,368

NOTE I – FEDERAL FUNDS CREDIT LINE

The Company had a federal funds line of credit agreement through June 30, 2024. The maximum borrowings available under this line amounted to \$5,000,000 at December 31, 2024 and 2023, respectively. At December 31, 2024 and 2023, there were no borrowings outstanding under this agreement.

NOTE J – OTHER EXPENSES

Other expenses consisted of the following at December 31:

	2024	2023
Data processing	\$ 222,259	\$ 263,387
Regulatory assessments	109,682	109,333
Professional services	140,689	117,450
Office expenses	87,844	76,517
Marketing expense	53,886	34,731
Messenger and courier expenses	9,396	10,607
Directors' fees and expenses	23,292	18,105
Other expenses	345,759	309,469
	\$ 992,807	\$ 939,599

GREATER PACIFIC BANCSHARES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE J – OTHER EXPENSES (Continued)

Other expenses in 2024 consists primarily of loan origination-related expenses (\$123,650), software license and internet fees (\$93,453), bank and other fees (\$63,715), insurance (\$40,371) and offsite storage (\$14,554).

Other expenses in 2023 consists primarily of loan origination-related expenses (\$104,908), software license and internet fees (\$78,476), bank and other fees (\$60,798), and insurance (\$33,486) and offsite storage (\$11,557).

NOTE K – RETIREMENT PLANS

The Company had a defined contribution retirement plan covering substantially all of the Company's employees. Employees may elect to have a portion of their compensation contributed to the plan in conformity with the requirements of Section 401(k) of the Internal Revenue Code. The Company may make contributions to the plan at the discretion of the Board of Directors in an amount not to exceed the maximum amount deductible under the profit sharing plan rules of the Internal Revenue Service. All employees are eligible for participation following 12 months of employment and 1,000 hours of service each plan year. The Company's contributions vest over a three-year period. The Company made contributions totaling \$39,703 and \$39,184 for the years ended December 31, 2024 and 2023, respectively.

NOTE L – INCOME TAXES

The components of income tax expense included in the statements of operations were as follows for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Currently payable:		
Federal	\$ 257,554	\$ 382,004
State	<u>105,454</u>	<u>196,243</u>
	363,008	578,247
Deferred tax (benefit) expense:		
Federal	23,392	(67,736)
State	<u>14,631</u>	<u>(32,957)</u>
	<u>38,023</u>	<u>(100,693)</u>
Net provision for income taxes	<u>\$ 401,031</u>	<u>\$ 477,554</u>

The following is a reconciliation of income taxes computed at the Federal statutory rate of 21% to the effective income tax rate used for the provision for income taxes:

	<u>2024</u>	<u>2023</u>
Income tax at Federal statutory rate	\$ 329,231	\$ 356,713
State franchise taxes, less Federal income tax benefit	84,246	128,364
Meals and entertainment	360	172
Nondeductible expenses and other	<u>(12,806)</u>	<u>(7,695)</u>
Provision for income taxes	<u>\$ 401,031</u>	<u>\$ 477,554</u>

GREATER PACIFIC BANCSHARES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE L – INCOME TAXES (Continued)

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

	2024	2023
Deferred tax assets:		
Allowance for loan losses	\$ 485,488	\$ 436,117
Lease liability	79,392	139,901
Reserve for mortgage servicing rights	79,338	79,338
Depreciation	15,619	15,692
State franchise tax		2,976
Total deferred tax assets	659,837	674,024
Deferred tax liabilities:		
Mortgage servicing rights	(916,460)	(901,082)
Adjustment to cash basis	(451,018)	(378,104)
Right-of-use asset	(76,308)	(135,040)
State franchise tax	(1,181)	
Total deferred tax liabilities	(1,444,967)	(1,414,226)
Net deferred tax liabilities	\$ (785,130)	\$ (740,202)

Amounts presented for the tax effects of temporary differences are based upon estimates and assumptions and could vary from amounts ultimately reflected on the Company's tax returns. Accordingly, the variances from amounts reported for prior years are primarily the result of adjustments to conform to the tax returns as filed.

Income taxes refundable was \$(257,122) and \$(12,744), at December 31, 2024 and 2023, respectively.

The Company and its subsidiary file an income tax return in the U.S. federal jurisdiction and file a franchise and/or corporate tax returns in the States of California, Texas, eleven other state jurisdictions listed below and the District of Columbia. The Company is no longer subject to U.S. federal income tax examinations and State franchise and/or corporate tax examinations by taxing authorities in the States of Alabama, Alaska, District of Columbia, Florida, Georgia, Maryland, Mississippi, Missouri, New Mexico, and Oklahoma for years prior to 2021 and State franchise and/or corporate tax examinations by taxing authorities in the States of California, Texas, Washington, and Wisconsin for years prior to 2020.

There have been no adjustments identified for unrecognized tax benefits requiring an adjustment to the income statement under FASB ASC 740-10. The Bank recognizes interest accrued and penalties related to unrecognized tax benefits, if any, in tax expense.

NOTE M – RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank has entered into transactions with its directors, executive officers, significant shareholders, and their affiliates (related parties). The Bank's policy prohibits loans to related parties. As of December 31, 2024 and 2023, the Bank had no outstanding loans to any officers, directors, or companies with which they are associated. The Bank sold a 53.51% participating interest in a loan to a company in which one of the Senior Management has an ownership interest with a principal balance of \$1,227,290 at December 31, 2024. The Bank has received deposits from directors and officers and their related interests totaling \$1,718,147 and \$2,874,203 at December 31, 2024 and 2023, respectively.

GREATER PACIFIC BANCSHARES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE N – CONTINGENT LIABILITIES AND COMMITMENTS

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

	Contractual Amounts	
	2024	2023
Commitments to extend credit	\$ 100,000	\$ 2,295,000

Commitments to extend credit include exposure to some credit loss in the event of nonperformance of the customer. The Bank’s credit policies and procedures for credit commitments and financial guarantees are the same as those for extension of credit that are recorded on the balance sheet. Because most of these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Bank.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer’s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management’s credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, deeds of trust on residential real estate and income-producing commercial properties.

Contractual Commitments: On June 1, 2020, the Bank entered into a five-year agreement with Fiserv Solutions, LLC to provide data processing services. The contract includes fixed and variable charges depending on the type of service and number of transactions. Contract provides an early termination penalty and has an option for a three-year extension.

NOTE O – CONCENTRATIONS OF CREDIT RISK

Most of the Company’s business activity is with customers located within the State of California, primarily within Los Angeles, Orange, Riverside, and San Bernardino Counties, and the State of Texas in the Dallas/Fort Worth area. While a significant amount of the Company’s loans have been granted to customers in the Company’s market area, 55% and 61% of the loans were made outside of the area as of December 31, 2024 and 2023, respectively. General economic conditions or natural disasters affecting the primary market area could affect the ability of customers to repay loans and the value of real property used as collateral. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers. The Company requires that all loans have adequate collateral to secure the loans or that the borrower have evidence of sufficient cash flows to repay loans when the loans are made. All collateral must have an appraisal, if applicable, and collateral is generally secured by liens. The Company’s access to this collateral is through judicial procedures.

The concentrations of credit by type of loan are set forth in Note D. While the Company has a diversified loan portfolio, approximately 98% and 98% of these loans are secured by real estate at December 31, 2024 and 2023, respectively. The distribution of commitments to extend credit approximates the distribution of loans outstanding. The Company has loan commitments in the following industries at December 31, 2024: retail trade, 3%; commercial building, 24%; consumer credit facilities, 34%; educational services, 15%; non-profit and faith-based organizations, 16%; health care and social assistance, 5%; accommodation and food services, 2%; and technical services, 1%. The Company has loan commitments in the following industries at December 31, 2023: retail trade, 4%; commercial building, 26%; consumer credit facilities, 42%; educational services, 7%; non-profit and faith-based organizations, 14%; health care and social assistance, 5%; and accommodation and food services, 2%. The National Banking Laws, Title 12 of the United States Code, generally restricts loans to a single borrower or group of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE O – CONCENTRATIONS OF CREDIT RISK (Continued)

related borrowers and investments by the Company to 25% of the sum of the Company's equity capital plus the allowance for loan losses, subject to certain adjustments. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include residential and commercial real property, marketable securities, accounts receivable, inventory, equipment and savings accounts.

NOTE P – REGULATORY MATTERS

The Bank, as a national bank, is subject to the dividend restrictions set forth by the Office of the Comptroller of the Currency (OCC). Under such restrictions, the Bank may not, without the prior approval of the OCC, declare dividends in excess of the sum of the current year's net income plus the retained earnings from the prior two years. As of December 31, 2024 and 2023, \$3,513,065 and \$3,670,637 was available for dividend distribution without prior approval, which has been reinvested into the Bank.

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the OCC. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Management believes, as of December 31, 2024, that the Bank meets all capital adequacy requirements to which it is subject.

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

The Bank follows the community bank leverage ratio framework, which removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act.

The Bank can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2024, both the Company and Bank were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE P – REGULATORY MATTERS (Continued)

Actual and required capital amounts (in thousands) and ratios are presented below at year-end.

	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
As of December 31, 2024				
Tier I (Core) Capital				
(to Average Total Assets)	\$ 23,927	13.14%	\$ 15,476	≥ 9.00%
	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
As of December 31, 2023				
Tier I (Core) Capital				
(to Average Total Assets)	\$ 22,744	13.09%	\$ 14,773	≥ 9.00%

NOTE Q – FAIR VALUE MEASUREMENT

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

In general, fair values are determined by:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2024 and 2023

NOTE Q – FAIR VALUE MEASUREMENT (Continued)

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Gains (Losses)</u>
December 31, 2024:					
Mortgage servicing rights	\$ 3,099,960			\$ 3,099,960	\$ (13,496)
December 31, 2023:					
Mortgage servicing rights	\$ 3,047,949			\$ 3,047,949	\$ (202,196)

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

*Mortgage Servicing Rights* – Mortgage servicing rights do not trade in an active market with readily observable prices. Accordingly, the Company determines the fair value of mortgage servicing rights using a valuation model that calculates the present value of estimated future net servicing income. Fair value measurements of the mortgage servicing rights use significant unobservable inputs and, accordingly, are classified as Level 3.

The following table presents quantitative information about level 3 fair value measurements for assets measured at fair value on a non-recurring basis at December 31, 2024 and 2023:

	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range</u>	<u>Weighted Average</u>
December 31, 2024:					
Mortgage servicing rights	\$ 3,099,960	Discounted cash flow approach	Constant prepayment rate Discount rate	3.9% 8.50% to 10.50%	3.9%
December 31, 2023:					
Mortgage servicing rights	\$ 3,047,949	Discounted cash flow approach	Constant prepayment rate Discount rate	3.3% 8.50% to 10.50%	3.3%