



GOLDEN STATE BANCORP

**CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2023 and 2022

CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION .....	3
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME .....	4
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY .....	5
CONSOLIDATED STATEMENTS OF CASH FLOWS.....	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS .....	7

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Golden State Bancorp  
Glendale, California

**Opinion**

We have audited the consolidated financial statements of Golden State Bancorp, which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Golden State Bancorp as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**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 Golden State Bancorp and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Emphasis of Matter**

As discussed in Note 1 to the consolidated financial statements, in 2023, the entity adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326). Our opinion is not modified with respect to this matter.

**Responsibilities of Management for the Financial Statements**

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

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 Golden State Bancorp's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

---

(Continued)

## ***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 Golden State Bancorp'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Golden State Bancorp's ability to continue as a going concern for a reasonable period of time.

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



Crowe LLP

Costa Mesa, California  
April 23, 2024

GOLDEN STATE BANCORP  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 2,658,595	\$ 1,654,786
Interest-earning deposits	136,369,725	74,483,126
Total cash and cash equivalents	<u>139,028,320</u>	<u>76,137,912</u>
Interest-earning deposits in other financial institutions	3,250,000	-
Securities held-to-maturity, at amortized cost net of allowance for credit losses of \$0 and \$0 (fair value 2023 - \$15,539,500 and 2022 - \$25,508,340)	15,785,760	25,936,217
Loans		
Construction and land development	23,748,529	42,176,041
Commercial real estate	463,857,543	428,229,416
Commercial & industrial	78,586,029	74,453,297
Other	-	80
Total loans	<u>566,192,101</u>	<u>544,858,834</u>
Deferred loan fees, net of costs	(1,938,489)	(1,686,665)
Allowance for credit losses	<u>(7,691,455)</u>	<u>(7,493,299)</u>
Net loans	556,562,157	535,678,870
Federal Home Loan Bank stock, at cost	3,063,100	2,060,200
Premises and equipment	1,642,544	796,762
Other real estate owned	-	1,056,182
Operating lease right-of-use assets, net	2,805,685	780,967
Deferred tax asset, net	2,981,783	2,876,957
Accrued interest and other assets	<u>4,425,564</u>	<u>3,522,679</u>
Total assets	<u>\$ 729,544,913</u>	<u>\$ 648,846,746</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Noninterest-bearing demand	\$ 106,531,562	\$ 176,258,208
Savings, NOW and money market accounts	265,746,498	250,725,531
Time deposits under \$250,000	107,759,483	51,571,642
Time deposits \$250,000 and over	138,054,104	82,710,121
Total deposits	<u>618,091,647</u>	<u>561,265,502</u>
Federal Home Loan Bank advances	25,000,000	12,500,000
Subordinated notes, net	14,799,837	14,731,210
\$15,000,000 face amount (net of unamortized debt issuance costs of \$200,163 and \$268,790 at December 31, 2023 and 2022)		
Operating lease liabilities	3,539,240	967,571
Accrued interest and other liabilities	<u>5,434,554</u>	<u>4,871,427</u>
Total liabilities	666,865,278	594,335,710
Shareholders' equity		
Preferred stock - no par value; 500,000,000 shares authorized; issued and outstanding - 0 in 2023 and 2022	-	-
Common stock - no par value; 500,000,000 shares authorized and 10,000,000 non-voting common shares authorized; common stock issued and outstanding - 2,096,033 in 2023 and 2,082,729 in 2022; nonvoting common stock issued and outstanding - 492,086 in 2023 and 0 in 2022	45,628,315	45,405,087
Additional paid-in capital	9,631,883	9,308,589
Retained earnings (accumulated deficit)	<u>7,419,437</u>	<u>(202,640)</u>
Total shareholders' equity	<u>62,679,635</u>	<u>54,511,036</u>
Total liabilities and shareholders' equity	<u>\$ 729,544,913</u>	<u>\$ 648,846,746</u>

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

GOLDEN STATE BANCORP  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
For the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Interest income		
Loans	\$ 36,796,378	\$ 28,347,498
Investment securities	610,173	422,091
Interest-earning deposits	5,900,545	1,810,883
Dividend on Federal Home Loan Bank stock	190,744	111,518
Total interest income	43,497,840	30,691,990
Interest expense		
Savings, NOW and money market accounts	8,925,111	3,067,148
Time deposits	6,350,964	1,732,741
Federal Home Loan Bank advances	678,591	199,477
Subordinated notes	743,651	743,605
Total interest expense	16,698,317	5,742,971
Net interest income	26,799,523	24,949,019
Provision for credit losses	1,014,762	2,039,000
<b>Net interest income after provision for credit losses</b>	<b>25,784,761</b>	<b>22,910,019</b>
Noninterest income		
Service charges on deposits	314,947	284,841
Net loss on sales and write down of other real estate owned	(111,213)	(275,675)
Other fees and miscellaneous income	13,901	253,505
	217,635	262,671
Noninterest expense		
Salaries and employee benefits	8,908,489	7,440,811
Occupancy and equipment	983,215	788,277
Other expenses	5,314,157	4,068,988
	15,205,861	12,298,076
<b>Income before income taxes</b>	<b>10,796,535</b>	<b>10,874,614</b>
Income tax expense	3,174,458	3,189,595
<b>Net income and comprehensive income</b>	<b>\$ 7,622,077</b>	<b>\$ 7,685,019</b>
<b>Earnings per share:</b>		
Basic	\$ 2.96	\$ 3.22
Diluted	\$ 2.85	\$ 3.11

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

GOLDEN STATE BANCORP  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
For the years ended December 31, 2023 and 2022

	Common Stock		Non-Voting Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
	Number of Shares	Amount	Number of Shares	Amount			
Balance at January 1, 2022	2,047,146	\$ 45,192,815	-	\$ -	\$ 631,717	\$ (7,887,659)	\$ 37,936,873
Net Income	-	-	-	-	-	7,685,019	7,685,019
Stock-based compensation	-	-	-	-	310,704	-	310,704
Exercise of stock options	35,583	251,989	-	-	-	-	251,989
Issuance of common stock, net of expenses	-	(39,717)	-	-	-	-	(39,717)
Issuance of warrants, net of expenses	-	-	-	-	8,366,168	-	8,366,168
Balance at December 31, 2022	2,082,729	45,405,087	-	-	9,308,589	(202,640)	54,511,036
Net Income	-	-	-	-	-	7,622,077	7,622,077
Stock-based compensation	-	-	-	-	323,294	-	323,294
Exercise of warrants	-	-	492,086	4,921	-	-	4,921
Exercise of stock options	1,500	18,300	-	-	-	-	18,300
Exercise of right to purchase common stock	11,804	200,007	-	-	-	-	200,007
Balance at December 31, 2023	<u>2,096,033</u>	<u>\$ 45,623,394</u>	<u>492,086</u>	<u>\$ 4,921</u>	<u>\$ 9,631,883</u>	<u>\$ 7,419,437</u>	<u>\$ 62,679,635</u>

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

GOLDEN STATE BANCORP  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 7,622,077	\$ 7,685,019
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	484,578	326,817
Net discount on securities	(349,543)	(242,314)
Provision for credit losses	1,014,762	2,039,000
Stock-based compensation	323,294	310,704
Write down on other real estate owned	-	275,675
Loss on sale of other real estate owned	111,213	-
Gain on sale of loan	(4,802)	-
Loss on disposal of premises and equipment	398	3,229
Deferred income tax expense	(104,826)	1,374,948
Net change in ROU asset, accrued interest and other assets	(527,608)	(1,112,147)
Net change in lease liabilities, accrued interest and other liabilities	267,441	433,692
Net cash from operating activities	8,836,984	11,094,623
<b>Cash flows from investing activities</b>		
Net increase in loans	(22,130,048)	(127,438,307)
Purchases of premises and equipment	(1,262,131)	(32,774)
Proceeds from sale of premises and equipment	-	1,000
Purchase of Federal Home Loan Bank stock	(1,002,900)	(525,800)
Proceeds from sale of other real estate owned	944,969	-
Proceeds from sale of loan	704,161	-
Purchase of securities held-to-maturity	-	(33,193,904)
Interest-earning deposits in other financial institutions, net	(3,250,000)	-
Proceeds from maturities of securities held-to-maturity	10,500,000	7,500,000
Net cash from investing activities	(15,495,949)	(153,689,785)
<b>Cash flows from financing activities</b>		
Net increase in demand deposits and savings accounts	(54,705,679)	107,527,534
Net increase (decrease) in time deposits	111,531,824	10,508,640
Proceeds from Federal Home Loan Bank advances	35,000,000	-
Repayment on Federal Home Loan Bank advances	(22,500,000)	(12,500,000)
Net proceeds (expenses) from issuance of common stock	-	(39,717)
Net proceeds from issuance of warrants, net of issuance costs	-	8,366,168
Proceeds from exercise of right to purchase common stock	200,007	-
Proceeds from exercise of stock options	18,300	-
Proceeds from exercise of warrants	4,921	251,989
Net cash from financing activities	69,549,373	114,114,614
Net change in cash and cash equivalents	62,890,408	(28,480,548)
Beginning cash and cash equivalents	76,137,912	104,618,460
<b>Ending cash and cash equivalents</b>	\$ 139,028,320	\$ 76,137,912
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for:		
Income taxes	\$ 4,007,300	\$ 1,612,640
Interest	16,241,459	5,511,728
Non-cash operating activities:		
Lease liabilities arising from right-of-use assets	2,399,995	(59,802)

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



GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation: On October 30, 2015, Golden State Bank became the wholly owned subsidiary of Golden State Bancorp. The consolidated financial statements as of December 31, 2023 and 2022 include the accounts of Golden State Bancorp (Bancorp) and its wholly owned subsidiary, Golden State Bank (the "Bank"), collectively referred to herein as the "Company". All significant intercompany transactions have been eliminated.

Golden State Bancorp has no significant business activity other than its investment in Golden State Bank. Accordingly, no separate financial information on the Bancorp is provided.

On December 22, 2020, Golden State Bank formed a wholly owned subsidiary, GSB Service Corporation. The financial results of the Bank include the accounts of the Bank and GSB Service Corporation (the "Subsidiary").

Nature of Operations: The Company has been organized as a single reporting segment with headquarters and a branch in Glendale, California and a branch in Upland, California. The Company's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through April 23, 2024 which is the date the financial statements were available to be issued.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, cash due from financial institutions, interest earning deposits with the Federal Reserve Bank and other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions and interest earning deposits in other financial institutions.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions not included in cash and cash equivalents are carried at cost.

Debt Securities: Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities not classified as held-to-maturity or trading are classified as available-for-sale. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

As of December 31, 2023 and 2022, all the Company's securities are classified as held-to-maturity.

Interest income includes amortization of purchase premiums or discounts. Premiums and discounts on securities are amortized or accreted into interest income using the interest method. Premiums are amortized to the earlier of maturity or call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management measures expected credit losses for held-to-maturity debt securities on a collective basis by major security type when and any other risk characteristics exist.

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Effective January 1, 2023, upon the adoption of Accounting Standards Update (ASU) 2016-13, both held-to-maturity debt securities and available-for-sale debt securities are subject to the current expected credit losses (“CECL”) methodology. The assessment of expected credit losses for held-to-maturity debt securities under CECL is performed on a collective basis when similar risk characteristics exist, and expected credit losses must be recognized at the time of purchase or designation. CECL requires the consideration of credit losses even when the risk of loss is remote. The assessment of expected credit losses for available-for-sale debt securities is performed on an individual security basis, whether a decline in fair value below the amortized cost basis has resulted from a credit loss or other factors. As the Company’s securities portfolio is solely comprised of US Treasury securities, the Company has a loss expectation of zero.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the amortized cost. Amortized cost is the principal balance outstanding, net of deferred fees and costs. Accrued interest receivable totaled \$2.6 million at December 31, 2023 and was reported in Accrued interest and other assets on the consolidated statements of financial condition and is excluded from the estimated of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipated prepayments. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days or more based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received, and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

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

The Company estimates the allowance balance using the 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.

The allowance for credit losses is measured on a collective/pooled basis with similar risk characteristics, primarily based on regulatory call codes (collateral type) and loan risk ratings. The loan portfolio is segmented into the following categories:

*Construction and land development:* This category of loans consists of loans made to fund land acquisition, development and construction and/or carrying for sale after the completion of construction of owner occupied and non-owner occupied residential and commercial properties, and loans secured by raw or improved land. The repayment of these loans is generally dependent upon the successful completion of the construction by the builder for the end user, or sale of the property to a third-party, and the sale of the land as is, or the outside cash flow of the borrowers to support the retirement of the debt.

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Commercial real estate:* This category of loans consists of real estate loans for a variety of commercial property types and purposes, including owner-occupied and non-owner occupied primarily secured by commercial office or industrial buildings, warehouses or retail buildings and various special purpose properties. Commercial real estate loans depend on the global cash flow analysis of the borrower and the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. Generally, these types of loans are subject to adverse market conditions that cause a decrease in market value or lease rates, industry changes, geographic business changes, changes in the individual financial capacity of the business owner, general economic conditions, and changes in business cycles.

*Residential real estate:* This category of loans consists of 1) real estate loans secured by multifamily residential apartments or buildings, and 2) loans secured by first and junior liens on 1-4 family residential property for business purpose. Generally, these types of loans are subject to adverse employment conditions in a geographic area and changes in market conditions and business cycles of the related business.

*Commercial & Industrial:* This category of loans consists of loans for commercial, corporate and business purposes whether secured (other than those loans secured by real estate) or unsecured. These loans include loans to purchase inventory, equipment, and other business loans for working capital and operational purposes.

*Cash secured:* The Company stratifies loans secured by cash that do not require reserves.

*Others:* Other loans primarily include loans to non-financial institutions and others, typically on an unsecured basis, and overdrafts.

For loans that do not share similar risk characteristics with other loans, the Company generally evaluates expected credit losses on an individual basis, considering expected repayment and conditions impacting that individual loan. Individually evaluated loans generally include loans that have been placed on nonaccrual status and collateral-dependent loans. If foreclosure is probable or the loan is collateral dependent, losses are measured using the fair value of the loan's collateral, less estimated costs to sell and others.

The allowance for credit losses is measured using the Weighted-Average Remaining Maturity (WARM) methodology. The Company generally utilizes historical loss trends and the remaining contractual lives of the loan portfolio, adjusted by the expected scheduled payments and prepayments to estimate the allowance for credit losses. Determining the amount of the allowance requires significant judgment on the part of management and the use of estimates related to estimated losses on pools of loans based on historical loss experience, as correlated to historical economic metrics and in consideration of current economic trends and conditions, and other qualitative factors, all of which may be susceptible to significant change. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in the loan sizing; ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, past due and criticized assets trend analysis; changes in the loan review quality and rating system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

As of December 31, 2023, the Company's nonaccrual loans comprised the entire population of loans individually evaluated. The Company believes that the allowance for credit losses at December 31, 2023, appropriately reflected expected credit losses inherent in the loan portfolio at that date.

The allowance for credit losses on unfunded commitments is estimated using the same loss rate calculated

---

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

on collectively evaluated loans following the application of utilization rate to the amount of the unfunded commitments. The utilization rate represents management's estimate of the amount of the current unfunded commitment that will be funded over the remaining contractual life of the commitment and is based on historical data. The allowance for credit losses on unfunded commitments is adjusted through a provision for credit loss expense and accrued interest and other liabilities.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets.

Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which ranges from three to ten years for furniture and equipment. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

Leases: The Company accounts for leases under ASU No. 2016-02 "Leases Topic 842" which requires the Company to recognize most leases in the Statement of Financial Condition. The right-of-use "ROU" assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. The ROU assets and lease liabilities on the Statement of Financial Condition are operating leases and are recognized on a straight-line basis over the lease term. ROU assets and lease liabilities are recognized upon commencement of the lease based on the estimated present value of the lease payments over the lease term. The Company uses its incremental borrowing rate at the lease adoption date or lease commencement date to calculate the present value of the lease payments when the rate implicit in a lease liability is unknown. The Company does not record short term leases with an anticipated lease term of one year or less on the Statement of Financial Condition.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If the fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred income taxes are computed using the asset and liability method, which recognizes an asset or liability representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established, if necessary, to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax asset or benefits will be realized. Realization of tax benefits

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

of deductible temporary differences and operating loss carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods.

The Company has adopted guidance issued by the Financial Accounting Standards Board (FASB) that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Revenue Recognition: The Company accounts for certain of its revenue streams in accordance with ASC 606 - Revenue from Contracts with Customers. Revenue streams within the scope of and accounted for under ASC 606 include: deposit-related fees and transactions, debit card interchange fees, and gains and losses from the sale of other real estate owned. ASC 606 requires revenue to be recognized when the Company satisfies related performance obligations by transferring to the customer a good or service. The recognition of revenue under ASC 606 requires the Company to first identify the contract with the customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations, and finally recognize revenue when the performance obligations have been satisfied and the good or service has been transferred. The majority of the Company's contracts with customers associated with revenue streams that are within the scope of ASC 606 are considered short-term in nature and can be canceled at any time by the customer or the Company, such as a deposit account agreement.

Financial Instruments: In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and commercial letters of credit as described in Note 11. Such financial instruments are recorded in the financial statements when they are funded.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated.

Earnings Per Share (EPS): Basic EPS is computed by dividing net income or loss by the weighted-average number of common shares outstanding and equivalents for the period. Diluted EPS includes the dilutive effect of additional potential common shares issuable under stock incentive plans.

Fair Value Measurement: Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

---

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

See Note 13 for more information and disclosures relating to the Company's fair value measurements.

**Stock-Based Compensation:** The Company recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period. See Note 12 for additional information on the Company's stock option plan.

**Reclassifications:** Some items in prior year financial statements have been reclassified to conform to the current year presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

**Adoption of New Accounting Standards:** On January 1, 2023, the Company adopted *ASU 2016-13 Financial Instruments - Credit Losses on (Topic 326): Measurement of, Credit Losses on Financial Instruments* as amended, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all of its financial assets measured at amortized cost, including securities held-to-maturity, net loans and leases, and reserve for unfunded commitments. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP. The Company recorded on the consolidated statements of financial condition a decrease to net loans of \$93,000 and an increase to other liabilities of \$93,000. There was no impact on retained earnings as of January 1, 2023 for the cumulative effect of adopting ASC 326.

The following table illustrates the impact of adopting ASC 326 on the allowance for credit losses.

	January 1, 2023		
	Pre-ASC 326 Adoption	As Reported Under ASC 326	Impact of ASC 326 Adoption
<b>Assets:</b>			
Allowance for credit losses on securities held-to-maturity			
U.S. Treasury securities	\$ -	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allowance for credit losses on loans			
Construction and land development	\$ 1,088,695	\$ 795,176	\$ (293,519)
Commercial real estate	\$ 6,011,196	\$ 5,456,858	\$ (554,338)
Commercial & industrial	\$ 393,408	\$ 1,148,132	\$ 754,724
	<u>\$ 7,493,299</u>	<u>\$ 7,400,166</u>	<u>\$ (93,133)</u>
<b>Liabilities:</b>			
Allowance for unfunded loan commitments	\$ 379,000	\$ 472,133	\$ 93,133
	<u>\$ 379,000</u>	<u>\$ 472,133</u>	<u>\$ 93,133</u>
<b>Total allowance for credit losses</b>	<u>\$ 7,872,299</u>	<u>\$ 7,872,299</u>	<u>\$ -</u>

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

**NOTE 2 –SECURITIES-HELD-TO-MATURITY**

The following table summarizes the amortized cost, estimated fair value and allowance for credit losses of securities held-to-maturity at December 31, 2023 and the corresponding amounts of gross unrecognized gains and losses:

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value	Allowance for Credit Losses
<u>2023</u>					
Held-to-maturity:					
U.S. Treasury securities	\$ 15,785,760	\$ -	\$ (246,260)	\$ 15,539,500	\$ -
	<u>\$ 15,785,760</u>	<u>\$ -</u>	<u>\$ (246,260)</u>	<u>\$ 15,539,500</u>	<u>\$ -</u>

The amortized cost and estimated fair value of debt securities at December 31, 2022 were as follows.

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
<u>2022</u>				
Held-to-maturity:				
U.S. Treasury securities	\$ 25,936,217	\$ -	\$ (427,877)	\$ 25,508,340
	<u>\$ 25,936,217</u>	<u>\$ -</u>	<u>\$ (427,877)</u>	<u>\$ 25,508,340</u>

As of December 31, 2023, all securities have been in an unrecognized loss position for greater than one year. At December 31, 2023 and December 31, 2022, there were no holdings of any one issuer, other than the U.S. Government, in an amount greater than 10% of our shareholders' equity.

The amortized cost and estimated fair value of investment securities at December 31, 2023, by contractual maturities are shown below.

	Amortized Cost	Estimated Fair Value
Held-to-maturity:		
Within one year	\$ 13,826,014	\$ 13,607,800
One to three years	1,959,746	1,931,700
	<u>\$ 15,785,760</u>	<u>\$ 15,539,500</u>

There were no purchases or sales of investment securities during the year ended December 31, 2023.

There were \$10,500,000 securities held-to-maturity matured during the year ended December 31, 2023.

At December 31, 2023, securities held-to-maturity with a carrying amount of \$15.8 million were pledged to the Federal Reserve Bank for access to the Company's borrowing lines as discussed in Note 6 – Borrowing Arrangements.

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

**NOTE 3 - LOANS**

The Company's loan portfolio consists of loans to borrowers within Los Angeles, Orange, Riverside, San Bernardino, San Diego, Ventura counties and small portfolio out of state. Although the Company seeks to avoid concentrations of loans to a single class of collateral, loans secured by real estate collateral are among the principal loans in the Company's loan portfolio and, as a result, the Company's loan and collateral portfolios are to some degree, concentrated in real estate collateral.

In the below tables, the recorded investment in loans excludes deferred fees and costs and accrued interest receivable. The unpaid principal balance of loans is not adjusted for partial charge-offs.

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

<u>December 31, 2023</u>	<u>Construction and Land Development</u>	<u>Commercial Real Estate</u>	<u>Commercial &amp; Industrial</u>	<u>Total</u>
Allowance for credit losses:				
Beginning balance, prior to adoption of ASC 326	\$ 1,088,695	\$ 6,011,196	\$ 393,408	\$ 7,493,299
Impact of adopting ASC 326	(293,519)	(554,338)	754,724	(93,133)
Provision for credit losses	141,936	227,593	271,006	640,535
Loan charge-offs	-	(381,746)	-	(381,746)
Recoveries collected	-	-	32,500	32,500
Ending allowance for credit losses	<u>937,112</u>	<u>5,302,705</u>	<u>1,451,638</u>	<u>7,691,455</u>
Allowance for unfunded commitments:				
Beginning balance, prior to adoption of ASC 326	67,021	89,260	222,719	379,000
Impact of adopting ASC 326	72,447	(51,605)	72,291	93,133
Provision (reversal of) credit losses	122,896	(7,094)	258,425	374,227
Ending allowance for unfunded commitments	<u>262,364</u>	<u>30,561</u>	<u>553,435</u>	<u>846,360</u>
Total ending allowance balances	<u>\$ 1,199,476</u>	<u>\$ 5,333,266</u>	<u>\$ 2,005,073</u>	<u>\$ 8,537,815</u>
Allowance for credit losses by impairment methodology:				
Individually evaluated	\$ -	\$ 19,269	\$ 49,102	\$ 68,371
Collectively evaluated	937,112	5,283,436	1,402,536	7,623,084
	<u>\$ 937,112</u>	<u>\$ 5,302,705</u>	<u>\$ 1,451,638</u>	<u>\$ 7,691,455</u>



GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

**NOTE 3 - LOANS** (Continued)

The following table presents the activity in the allowance for loan losses for the year 2022, and the recorded investment in loans and impairment method as of December 31, 2022, by portfolio segment:

<u>December 31, 2022</u>	<u>Construction and Land Development</u>	<u>Commercial Real Estate</u>	<u>Commercial &amp; Industrial</u>	<u>Others</u>	<u>Total</u>
Allowance for loan losses:					
Beginning balance	\$ 1,348,225	\$ 4,085,155	\$ 303,292	\$ -	\$ 5,736,672
Provision (reversal of) loan losses	(259,530)	2,183,871	114,659	-	2,039,000
Loan charge-offs	-	(257,830)	(54,543)	-	(312,373)
Recoveries collected	-	-	30,000	-	30,000
Ending allowance for loan losses	<u>\$ 1,088,695</u>	<u>\$ 6,011,196</u>	<u>\$ 393,408</u>	<u>\$ -</u>	<u>\$ 7,493,299</u>
Reserves:					
Specific	\$ -	\$ -	\$ -	\$ -	\$ -
General	1,088,695	6,011,196	393,408	-	7,493,299
	<u>\$ 1,088,695</u>	<u>\$ 6,011,196</u>	<u>\$ 393,408</u>	<u>\$ -</u>	<u>\$ 7,493,299</u>
Loans evaluated for impairment:					
Individually	\$ -	\$ 1,420,472	\$ 1,007,815	\$ -	\$ 2,428,287
Collectively	42,176,041	426,808,944	73,445,482	80	542,430,547
	<u>\$ 42,176,041</u>	<u>\$428,229,416</u>	<u>\$ 74,453,297</u>	<u>\$ 80</u>	<u>\$544,858,834</u>

The following tables present the amortized cost basis of loans on nonaccrual status and loans past due 90 days or more still accruing as of December 31, 2023:

	<u>Nonaccrual With No Allowance for Credit Loss</u>	<u>Nonaccrual</u>	<u>Loans Past Due 90 Days Or More Still Accruing</u>
Commercial real estate	1,420,472	4,004,245	-
Commercial & industrial	325,966	2,251,895	-
Total	<u>\$ 1,746,438</u>	<u>\$ 6,256,140</u>	<u>\$ -</u>

The Company recognized \$357,229 of interest income on nonaccrual loans during the year ended December 31, 2023. As of December 31, 2023, the carrying value of individually analyzed loans was \$6.3 million and \$4.0 million individually analyzed loans were considered collateral dependent. At December 31, 2023, all collateral dependent loans were in the commercial real estate segment and were secured by residential properties.

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

**NOTE 3 - LOANS** (Continued)

The following tables present the recorded investment in non-accrual and loans past due 90 days or more still accruing as of December 31, 2022:

	Nonaccrual	Loans Past Due 90 Days Or More Still Accruing
Construction and land development	\$ -	\$ -
Commercial real estate	1,420,472	-
Commercial & industrial	1,007,815	-
Others	-	-
Total	<u>\$ 2,428,287</u>	<u>\$ -</u>

At December 31, 2023 and 2022, all loans past due 90 days or more were on nonaccrual status.

As of December 31, 2022, three nonaccrual loans for \$2.4 million did not require a specific allowance. The average balance of nonaccrual loans was \$1.8 million, and no interest income was recognized for the year ended December 31, 2022.

The following table presents the aging of the amortized cost basis in past due loans as of December 31, 2023 and 2022 by class of loans:

	Loans not Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total	Nonaccrual
<u>December 31, 2023</u>						
Construction and land development	\$ 23,748,529	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	459,853,298	-	231,776	3,772,469	4,004,245	4,004,245
Commercial & industrial	74,935,982	1,398,152	-	2,251,895	3,650,047	2,251,895
Others	-	-	-	-	-	-
Total	<u>\$558,537,809</u>	<u>\$ 1,398,152</u>	<u>\$ 231,776</u>	<u>\$ 6,024,364</u>	<u>\$ 7,654,292</u>	<u>\$ 6,256,140</u>
<u>December 31, 2022</u>						
Construction and land development	\$ 42,176,041	\$ -	\$ -	\$ -	\$ 42,176,041	\$ -
Commercial real estate	426,808,944	-	-	1,420,472	428,229,416	1,420,472
Commercial & industrial	73,445,482	-	-	1,007,815	74,453,297	1,007,815
Others	80	-	-	-	80	-
Total	<u>\$542,430,547</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,428,287</u>	<u>\$544,858,834</u>	<u>\$ 2,428,287</u>

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, other than insignificant payment deferrals, other than insignificant term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. The Company had one commercial real estate loan modification for \$231,776, 0.05% of this loan type, including interest rate reduction and term extension to a borrower experiencing financial difficulty as of December 31, 2023.

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 3 - LOANS** (Continued)

**Credit Quality Indicators:**

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

*Pass* - Loans classified as pass include loans not meeting the risk ratings defined below.

*Special Mention* - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

*Substandard* - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

**NOTE 3 - LOANS (Continued)**

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2023:

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	Prior			
<u>As of December 31, 2023</u>							
Construction and land development							
Risk rating							
Pass	\$ 9,455,499	\$ 13,373,117	\$ -	\$ 919,913	\$ -	\$ -	\$ 23,748,529
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 9,455,499</u>	<u>\$ 13,373,117</u>	<u>\$ -</u>	<u>\$ 919,913</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,748,529</u>
Commercial real estate:							
Risk rating							
Pass	\$ 49,575,477	\$170,275,716	\$ 93,994,806	\$109,706,017	\$ 6,964,554	\$ 1,253,406	\$431,769,976
Special mention	16,208,708	8,000,000	-	3,514,859	359,755	-	28,083,322
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	1,420,472	2,583,773	-	-	4,004,245
Total	<u>\$ 65,784,185</u>	<u>\$178,275,716</u>	<u>\$ 95,415,278</u>	<u>\$115,804,649</u>	<u>\$ 7,324,309</u>	<u>\$ 1,253,406</u>	<u>\$463,857,543</u>
Commercial real estate:							
Current period gross write offs	\$ -	\$ -	\$ -	\$ 381,746	\$ -	\$ -	\$ 381,746
Commercial & industrial:							
Risk rating							
Pass	\$ 5,086,534	\$ 14,310,515	\$ 8,494,504	\$ 10,706,684	\$ 34,319,967	\$ -	\$ 72,918,204
Special mention	950,000	-	1,398,152	-	1,067,778	-	3,415,930
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	2,251,895	-	-	2,251,895
Total	<u>\$ 6,036,534</u>	<u>\$ 14,310,515</u>	<u>\$ 9,892,656</u>	<u>\$ 12,958,579</u>	<u>\$ 35,387,745</u>	<u>\$ -</u>	<u>\$ 78,586,029</u>

The risk category of loans by class of loans was as follows as of December 31, 2022:

	Pass	Special Mention	Substandard	Doubtful	Total
<u>December 31, 2022</u>					
Construction and land development	\$ 42,176,041	\$ -	\$ -	\$ -	\$ 42,176,041
Commercial real estate	426,808,944	-	-	1,420,472	428,229,416
Commercial & industrial	71,489,744	-	1,955,738	1,007,815	74,453,297
Others	80	-	-	-	80
	<u>\$540,474,809</u>	<u>\$ -</u>	<u>\$ 1,955,738</u>	<u>\$ 2,428,287</u>	<u>\$544,858,834</u>

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 3 - LOANS** (Continued)

During 2021, the Bank strategically purchased a \$1,578,000 note with credit deterioration at the time of purchase which it also did to protect its interest in the commercial and industrial impaired loan disclosed above. The purchased loan was recorded at cost, placed on nonaccrual status and classified as impaired. The purchased loan was collateralized by a second position in the property that also secures the commercial and industrial impaired loan. Simultaneous to this loan purchase, the Bank entered into two Participation Agreements with a third-party participant to cash collateralize and transfer participation interests in these impaired loans with funds on deposit and frozen at the Bank until the ultimate resolution of the impaired loans per the terms and conditions set forth in the Participant Agreements. The Bank bears no credit risk on the participation interest. Since the transfer of the participating interest does not meet all the characteristics of a sale for accounting and reporting purposes, the transfer of the participating interests was accounted for as secured borrowings.

During 2022, the Bank charged off the un-collateralized portion of \$312,373. The Bank bears no credit risk on the participation interest at of December 31, 2023 and 2022.

The balance of secured borrowings of \$1,746,439 at December 31, 2023 and 2022 is included in accrued interest and other liabilities on the Consolidated Statements of Financial Condition.

**NOTE 4 - PREMISES AND EQUIPMENT AND LEASES**

*Premises and Equipment:*

A summary of premises and equipment as of December 31 follows:

	<u>2023</u>	<u>2022</u>
Furniture, fixtures, and equipment	\$ 1,875,396	\$ 1,303,191
Leasehold improvements	<u>1,390,796</u>	<u>740,912</u>
	3,266,192	2,044,103
Less accumulated depreciation and amortization	<u>(1,623,648)</u>	<u>(1,247,341)</u>
	<u>\$ 1,642,544</u>	<u>\$ 796,762</u>

Depreciation expenses were \$415,951 and \$253,134 for 2023 and 2022, respectively.

*Leases:*

The Company enters leases in the normal course of business primarily for its headquarters, branch locations, and regional office. The Company's three operating leases have remaining terms ranging from 1 to 10 years, as of December 31, 2023. The leases provide for increases in future minimum annual rental payments as defined in the lease agreements.

The Company estimated the discount rate for each lease based on its estimated incremental borrowing rate at the lease adoption date or commencement date of the lease. The Company's weighted average incremental borrowing rate used in the calculation of the ROU assets and lease liabilities were estimated at 2.49% and 2.10% for 2023 and 2022, respectively.

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 4 - PREMISES AND EQUIPMENT AND LEASES** (Continued)

In 2023, the Company entered into an amendment of its lease of office space in Glendale to extend the terms of the lease for an additional 105 months commencing as of January 1, 2025 and expiring as of September 30, 2033. As a result of these lease amendments, the Company obtained operating lease ROU assets in exchange for lease obligations of \$2.4 million in 2023.

Both the Upland regional office and Upland branch leases expire in October 2024 and provide for two five-year options to renew. These leases include provisions for periodic rent increases as well as payment of certain operating expenses. After considering relevant economic and operating factors. It was determined that the exercise of the renewal options was not reasonably certain and subsequently is not included in the ROU asset and lease liabilities as of December 31, 2023 and 2022.

Future undiscounted lease payments under operating lease with initial terms of one year or more as of December 31, 2023 are as follows:

2024	\$ 488,186
2025	356,775
2026	404,226
2027	416,353
2028	428,843
Thereafter	<u>2,254,701</u>
Total undisbursed lease payments	4,349,085
Less: imputed interest	<u>(809,845)</u>
Net lease liability	<u>\$ 3,539,240</u>

Total lease expenses were approximately \$450,000 and \$433,000 for the years ended December 31, 2023 and 2022, respectively.

**NOTE 5 - DEPOSITS**

At December 31, 2023, the scheduled maturities of time deposits are as follows:

2024	\$ 178,902,564
2025	22,916,895
2026	10,109,362
2027	25,467,606
2028	7,674,164
Thereafter	<u>743,000</u>
	<u>\$ 245,813,587</u>

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 6 – BORROWING ARRANGEMENTS**

*Federal Home Loan Bank advances*

At December 31, 2023, the Company had total borrowing capacity of \$135.0 million from the FHLB San Francisco (“FHLBSF”) of which \$110.0 million was available. This secured borrowing arrangement is collateralized under a blanket lien and is subject to the Company providing adequate collateral and continued compliance with the Advances and Security Agreement and other eligibility requirements established by the FHLBSF. At December 31, 2023, the Company had pledged \$208.8 million of eligible loans under the blanket lien. Each advance is payable at its maturity date, with a prepayment penalty or benefit for fixed rate advances.

The following table shows the interest rates and maturity dates of FHLB advances at the periods indicated:

<u>2023</u>	<u>2022</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
\$ -	\$ 2,500,000	0.99 %	March 3, 2023
-	2,500,000	0.90	March 6, 2023
-	2,500,000	0.85	March 6, 2023
5,000,000	5,000,000	1.08	March 3, 2025
2,500,000	-	4.54	April 18, 2025
2,500,000	-	4.25	April 20, 2026
2,500,000	-	4.01	April 18, 2028
2,500,000	-	4.39	April 28, 2025
2,500,000	-	4.09	April 28, 2026
2,500,000	-	3.86	April 28, 2028
5,000,000	-	5.08	May 1, 2024
<u>\$ 25,000,000</u>	<u>\$ 12,500,000</u>		

*Federal Reserve Bank*

The Company had pledged \$15.8 million of investment securities with a carrying amount of \$15.8 million to the Federal Reserve Bank for access to the Company’s borrowing lines.

*Federal Funds Unsecured Lines of Credit*

The Company may borrow up to \$20,000,000 overnight on an unsecured basis from one of its correspondent banks. At December 31, 2023 and 2020, the Company had no balance outstanding under this arrangement.

*Subordinated Notes*

On November 23, 2021, the Company issued \$15.0 million of 4.50% fixed to floating rate subordinated notes, due December 15, 2031. The interest rate is fixed through December 15, 2026 and floats at three-month SOFR plus 335 basis points thereafter. The Company can redeem these subordinated notes on or after the fifth anniversary of the issue date, which is November 23, 2026.

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

**NOTE 7 - INCOME TAXES**

The provision for income taxes for the years ended December 31, 2023 and 2022 consists of the following:

	<u>2023</u>	<u>2022</u>
Current:		
Federal	\$ 2,291,874	\$ 1,766,450
State	987,410	48,197
Total current	<u>3,279,284</u>	<u>1,814,647</u>
Deferred:		
Federal	(210,217)	254,561
State	105,391	1,120,387
Total deferred	<u>(104,826)</u>	<u>1,374,948</u>
Total income tax expense	<u>\$ 3,174,458</u>	<u>\$ 3,189,595</u>

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition.

The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying statements of financial condition at December 31:

	<u>2023</u>	<u>2022</u>
Deferred tax assets		
Operating loss carryforward	\$ -	\$ 99,206
Allowance for credit losses	2,046,725	1,817,785
Lease liability	1,046,327	286,049
Accrued expenses	384,226	400,713
Other real estate owned reserve	-	310,583
State taxes	208,726	19,786
Tax credit carryforwards	-	74,432
Other assets	614,236	379,805
Total deferred tax assets	<u>4,300,240</u>	<u>3,388,359</u>
Deferred tax liabilities:		
Depreciation differences	(199,006)	(24,127)
Right of use asset	(829,462)	(230,882)
Prepaid expenses	(54,135)	(11,872)
Other liabilities	(235,854)	(244,521)
Total deferred tax liabilities	<u>(1,318,457)</u>	<u>(511,402)</u>
Net deferred tax assets	<u>\$ 2,981,783</u>	<u>\$ 2,876,957</u>



GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

**NOTE 7 - INCOME TAXES** (Continued)

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. At December 31, 2023 and December 31, 2022, the Company's management evaluated whether the valuation allowance is required based on the assessment of all positive and negative evidence that existed at the time. Management concluded from its assessment that it was more likely than not that the deferred tax assets would be realizable as a result of sufficient projected future taxable income.

A comparison of the federal statutory income tax rates to the Company's effective income tax rates at December 31 follow:

	2023		2022	
	Amount	Rate	Amount	Rate
Statutory federal tax	\$ 2,267,273	21.00 %	\$ 2,283,669	21.00 %
State franchise tax, net of federal benefit	907,053	8.40	923,182	8.49
Other Items, net	132	-	(17,256)	(0.16)
Actual tax expense	\$ 3,174,458	29.40 %	\$ 3,189,595	29.33 %

The Company has no significant unrecognized tax benefits as of December 31, 2023 or 2022, and the Company does not expect any significant increase or decrease in unrecognized tax benefits in the next twelve months.

The Company has no net operating loss carryforwards for Federal and California and no remaining California alternative minimum tax credits to be carried forward as of December 31, 2023.

The Company is subject to federal income tax and income tax of California. The Company is no longer subject to examination by taxing authorities for tax years before 2020 for federal taxes and before 2019 for state jurisdictions.

**NOTE 8 - RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Company grants loans to certain directors and the companies with which they are associated. There were six loans to related parties with a total balance of \$7.2 million outstanding as of December 31, 2023. There were five loans to related parties with a total balance of \$5.9 million outstanding as of December 31, 2022.

Deposits from certain officers and directors and their related interests with which they are associated held by the Company at December 31, 2023 and 2022, amounted to approximately \$25.4 million and \$24.7 million, respectively.

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 9 - EMPLOYEE BENEFIT PLAN**

The Company adopted a 401(k) for its employees in 2007. Under the plan, eligible employees may defer a portion of their salaries. The plan also provides for discretionary Company profit sharing contributions. Company contributions to the plan on behalf of employees totaled \$160,000 in 2023 and \$133,000 in 2022.

**NOTE 10 - EARNINGS PER SHARE (EPS)**

The factors used in the earnings per share calculation are as follows:

	2023	2022
Basic EPS:		
Net income available to common shareholders	\$ 7,622,077	\$ 7,685,019
Weighted average common shares outstanding	2,575,051	2,055,229
Weighted average common shares equivalents	-	331,874
	2,575,051	2,387,103
Basic earnings per common share	\$ 2.96	\$ 3.22
Diluted EPS:		
Net income available to common shareholders	\$ 7,622,077	\$ 7,685,019
Weighted average common shares outstanding and equivalents	2,575,051	2,387,103
Add: Dilutive effects of assumed exercises of stock options	101,848	81,118
Average shares and dilutive potential common shares	2,676,899	2,468,221
Diluted earnings per common share	\$ 2.85	\$ 3.11

492,086 warrant shares were exercised into the Company's non-voting common shares effective as of the close of business on August 13, 2023. This resulted in a dilutive effect of assumed exercises of stock options totaling 101,848 shares. Common stock options totaling 40,000 were not considered in computing earnings per share in 2023 as they were antidilutive.

Common shares equivalents of 492,086 shares were considered in computing basic earnings per shares for 492,086 warrant shares issuable for little to no cash consideration which do not contain any vesting conditions in 2022. Common stock options totaling 383,620 shares were considered in computing diluted earnings per share in 2022.

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 11 - COMMITMENTS**

In the ordinary course of business, the Company enters into financial commitments to meet the financing needs of its customers. These financial commitments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk not recognized in the Company's financial statements.

The Company's exposure to loan loss in the event of nonperformance on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for loans reflected in the financial statements.

As of December 31, 2023 and 2022, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	<u>2023</u>	<u>2022</u>
Commitments to extend credit	\$ 48,870,179	\$ 39,100,260
Commercial letters of credit	451,118	1,973,277
	<u>\$ 49,321,297</u>	<u>\$ 41,073,537</u>

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. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Company evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company is based on management's credit evaluation of the customer. The majority of the Company's commitments to extend credit and standby letters of credit are secured by real estate.

The allowance for credit losses on commitments to extend credit is primarily related to commercial lines of credit and commercial real estate lending. The inherent risk associated with the loan is evaluated at the same time the credit is extended. However, the allowance held for commitments is reported in other liabilities within the accompanying consolidated statements of financial condition and not as part of the allowance for credit losses. The allowance for losses on commitments to extend credit was \$846,360 and \$379,000 at December 31, 2023 and 2022.

**NOTE 12 – STOCKHOLDERS' EQUITY AND STOCK PLAN**

*Stockholders' Equity*

The Company raised \$8.4 million, net of expenses in capital in 2022, through sale of Prefunded Warrants representing the right to purchase an aggregate 492,086 shares of Series B Preferred Stock (initially convertible into the same number of shares of voting common stock and/or non-voting common stock if and when a class of such non-voting common stock is authorized for issuance) at the exercise price of \$0.01 per share, warrants to purchase 34,721 shares of common stock at the price of \$22.00 per share, and warrants to purchase 34,721 shares of common stock at the price of \$20.00 per share.

The Company down-streamed cash proceeds from such capital raise in the amount of \$6.0 million to Golden State Bank, its wholly owned subsidiary, as additional paid-in capital of the Bank on March 30, 2022.

**NOTE 12 - STOCKHOLDERS' EQUITY AND STOCK PLAN (Continued)**

Following shareholder approval obtained on April 25, 2023 to approve an amendment to the Company's Articles of Incorporation authorizing a new class of non-voting common stock, on August 14, 2023, the Company filed Amendment to Articles of Incorporation with the California Secretary of State to issue three classes of shares designated "Preferred Stock", "Common Stock", and "Non-Voting Common Stock", respectively. As a result, the Prefunded Warrants right converted from the purchase of Series B Preferred Stock to the purchase of non-voting common stock. On August 18, 2023, an investor exercised its right to purchase an aggregate 492,086 shares of non-voting common stock at the exercise price of \$0.01 per share.

*Stock Plan*

The Company's 2007 Omnibus Stock Incentive Plan (the "2007 Plan") was approved by its shareholders on July 5, 2007. Under the terms of the 2007 Plan, directors, officers, employees, and consultants may be granted options, stock appreciation rights, restricted stock awards, deferred stock awards and performance units and also allows for performance objectives upon which awards may be conditioned. The reserved share amount is subject to adjustments for stock splits, stock dividends, recapitalization, or similar transactions. The 2007 Plan also provides for accelerated vesting if there is a change in control, as defined in the 2007 Plan. The 2007 Plan allows awards to be in the form of common shares and preferred shares that are convertible into 15% of issued and outstanding shares of common shares. On July 25, 2017, the 2007 Plan expired pursuant to its terms. Upon adoption of the 2019 Omnibus Stock Incentive Plan, all stock options granted under the 2007 Plan were included in the 2019 Omnibus Stock Incentive Plan.

The Company's 2019 Omnibus Stock Incentive Plan (the "2019 Plan") was approved by its shareholders on June 25, 2019. Under the terms of the 2019 Plan, directors, officers, employees, and consultants may be granted options, stock appreciation rights, restricted stock awards, deferred stock awards and performance units and also allows for performance objectives upon which awards may be conditioned. The reserved share amount is subject to adjustments for stock splits, stock dividends, recapitalization, or similar transactions. The 2019 Plan also provides for accelerated vesting if there is a change in control, as defined in the 2019 Plan. The 2019 Plan allows awards to be in the form of common shares, which is equal to 30% of the outstanding shares of Common Stock and Common Stock Equivalents of the Company.

The Company's 2019 Plan was amended and restated effective as of April 25, 2023 to increase the number of shares available for awards by 221,484 shares, an increase from 550,961 to 772,445. The amended and restated 2019 Omnibus Stock Incentive Plan ("Amended and Restated 2019 Plan") was approved by its shareholders on April 25, 2023.

The maximum remaining number of common shares as to which awards may be granted under the Amended and Restated 2019 Plan are 275,325 shares as of December 31, 2023. Options granted generally vest over 3 to 4 years.

The Company recognized \$323,000 and \$311,000 in stock compensation expense associated with options issued to various directors, officers, and employees of the Company for the years of 2023 and 2022, respectively.

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

**NOTE 12 - STOCKHOLDERS' EQUITY AND STOCK PLAN** (Continued)

The fair value of options granted was determined using the following weighted-average assumptions as of grant date.

	2023	2022
Risk-free interest rate	4.18	2.08 %
Expected term	6.25	6.25 years
Expected stock price volatility	34.00	34.00 %
Dividend yield	-	- %
Weighted average fair value	\$ 9.05	\$ 6.50

The fair value of each option granted is estimated on the date of grant using a Black-Scholes valuation model that uses the assumptions noted in the table above. The Company used peer historical data for determining the volatility assumption in the model. The expected term of options granted was estimated using the average of vesting and expiration dates. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury notes in effect at the time of grant.

A summary of the status of the Company's stock option plan as of December 31, 2023 and changes in the common stock options during the year ending thereon is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	478,620	\$ 13.47		
Granted	40,000	19.67		
Exercise	(1,500)	12.80		
Forfeited or expired	(20,000)	18.00		
Outstanding at end of year and expected to vest	497,120	\$ 13.96	3.8 years	\$ 3,303,807
Options exercisable	355,995	\$ 12.02	2.0 years	\$ 3,646,539

Options granted in 2023 vest ratably over a 4 years period. As of December 31, 2023, unrecognized compensation expense was \$702,000. Annual compensation expense expected to be recognized in years 2024 through 2027 is \$303,000, 246,000, \$91,000 and \$62,000, respectively. 40,000 common stock options were granted during the year ended December 31, 2023. Cash proceeds from options exercised during 2023 totaled \$18,300. The intrinsic value and tax benefit associated with the options exercises were not material.

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

The Company used the following methods and significant assumptions to estimate fair value:

*Cash and Due from Financial Institutions.* The carrying amounts of cash and short-term instruments approximate fair values because of the liquidity of these instruments.

*Interest Earning Deposits.* The carrying amount is assumed to be the fair value given the short-term nature of these deposits.

*Securities.* The fair values of securities available-for-sale and held-to-maturity are determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

*Loans.* The fair value of loans, which is based on an exit price notion, is generally determined using an income-based approach based on discounted cash flow analysis. This approach utilizes the contractual maturity of the loans and market indications of interest rates, prepayment speeds, defaults and credit risk in determining fair value. For collateral dependent loans, an asset-based approach is applied to determine the estimated fair values of the underlying collateral. This approach utilizes the estimated net sales proceeds to determine the fair value of the loans when deemed appropriate. The implied sales proceeds value provides a better indication of value than using an income-based approach as these loans are not performing or exhibit strong signs indicative of non-performance.

*Federal Home Loan Bank Stock.* The fair value of FHLB stock is measured based on unobservable inputs at the reporting date due to the restrictions placed on its transferability. Purchases and sales of these securities are at par value with the issuer.

*Deposits.* The fair values disclosed for deposits, including interest and non-interest demand accounts, savings, and certain types of money market accounts are, by definition based on carrying value. Fair value for fixed-rate certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities on time deposits. Early withdrawal of fixed-rate certificates of deposit is not expected to be significant.

*Federal Home Loan Bank Advances.* The fair value of the Company's overnight borrowings from Federal Home Loan Bank approximates their carrying value as the advances were recently borrowed at market rate. The fair value of fixed-rated term borrowings is estimated using a discounted cash flow through the remaining maturity dates based on the current borrowing rates for similar types of borrowing arrangements.

*Subordinated Notes.* The fair value of the subordinated notes is estimated by discounting the cash flows through the call date based on observable market rates which the Company would pay for new issuances, a Level 2 measurement.

*Accrued Interest Receivable and Payable.* The fair value of accrued interest receivable and payable approximates their carrying amounts.

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

**NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

*Unused Commitment Financial Instruments.* The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. The fair value of these financial instruments is not material.

There were no material financial instruments carried at fair value on a recurring or non-recurring basis at December 31, 2023 or 2022.

The carrying amount and estimated fair values of financial instruments not carried at fair value, at December 31, 2023 and 2022 are as follows (dollar in thousands):

	Fair Value Measurements at December 31, 2023 Using:				
	Carrying Value	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
Cash and cash equivalents	\$ 139,028	\$ 139,028	\$ -	\$ -	\$ 139,028
Interest-earning deposits in other financial institutions	3,250	-	3,250	-	3,250
Securities held-to-maturity	15,786	-	15,540	-	15,540
Loans, net	556,562	-	-	546,625	546,625
Federal Home Loan Bank stock	3,063	-	-	3,063	3,063
Accrued interest receivable	2,849	-	2,849	-	2,849
<b>Financial liabilities</b>					
Deposits (excluding noninterest-bearing deposits)	\$ 511,560	\$ -	\$ 506,931	\$ -	\$ 506,931
Federal Home Loan Bank advances	25,000	-	24,666	-	24,666
Subordinated notes	14,800	-	13,519	-	13,519
Accrued interest payable	678	-	678	-	678
Fair Value Measurements at December 31, 2022 Using:					
	Carrying Value	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
Cash and cash equivalents	\$ 76,138	\$ 1,655	\$ -	\$ -	\$ 1,655
Securities held-to-maturity	25,936	-	25,508	-	25,508
Loans, net	535,679	-	-	519,155	519,155
Federal Home Loan Bank stock	2,060	-	-	2,060	2,060
Accrued interest receivable	2,357	-	2,357	-	2,357
<b>Financial liabilities</b>					
Deposits (excluding noninterest-bearing deposits)	\$ 385,007	\$ -	\$ 368,482	\$ -	\$ 368,482
Federal Home Loan Bank advances	12,500	-	12,137	-	12,137
Subordinated notes	14,731	-	13,540	-	13,540
Accrued interest payable	290	-	290	-	290

GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

---

**NOTE 14 - REGULATORY MATTERS**

The Bank is 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 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 regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In July 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. The new rules became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule. Under the rules, minimum requirements increased for both the quantity and quality of capital held by the Bank. The rules

include a new common equity Tier 1 (CET1) capital to risk-weighted assets ratio with minimums for capital adequacy and prompt corrective action purposes of 4.5% and 6.5%, respectively. The minimum Tier 1 capital to risk-weighted assets ratio was raised from 4.0% to 6.0% under the capital adequacy framework and from 6.0% to 8.0% to be well-capitalized under the prompt corrective action framework.

In addition, the rules introduced the concept of a "conservation buffer" of 2.5%, which was fully phased-in as of January 1, 2019, applicable to the three capital adequacy risk-weighted asset ratios (CET1, Tier 1 and Total). If the capital adequacy minimum ratios plus the phased-in conservation buffer amount exceed actual risk-weighted capital ratios, then dividends, share buybacks and discretionary bonuses to executives could be limited in amount.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and CET1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

The most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum ratios as set forth in the table below.



GOLDEN STATE BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the years ended December 31, 2023 and 2022

**NOTE 14 - REGULATORY MATTERS** (Continued)

The following table sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands). The conservation buffer is excluded from the adequately capitalized risk-based capital ratios.

	Actual		Amount of Capital Required			
			To Be Adequately Capitalized		To Be Well-Capitalized Under Prompt Corrective Action Framework	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>As of December 31, 2023:</u>						
Total Capital (to Risk-Weighted Assets)	\$ 79,707	14.10 %	\$ 45,215	8.00 %	\$ 56,519	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	72,623	12.85	33,911	6.00	45,215	8.00
CET1 Capital (to Risk-Weighted Assets)	72,623	12.85	25,433	4.50	36,737	6.50
Tier 1 Capital (to Average Assets)	72,623	9.99	29,073	4.00	36,342	5.00
<u>As of December 31, 2022:</u>						
Total Capital (to Risk-Weighted Assets)	\$ 70,563	13.38 %	\$ 42,182	8.00 %	\$ 52,728	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	63,956	12.13	31,637	6.00	42,182	8.00
CET1 Capital (to Risk-Weighted Assets)	63,956	12.13	23,728	4.50	34,273	6.50
Tier 1 Capital (to Average Assets)	63,956	9.86	25,957	4.00	32,446	5.00

The Bank is restricted as to the amount of dividends that can be paid to the Holding Company. Dividends declared in excess of the lesser of the Bank's undivided profits or the Bank's net income for its last three fiscal years less the amount of any distribution made to the Bank's shareholders during the same period must be approved by the California Department of Financial Protection & Innovation. With certain exceptions, the Company may not pay a dividend to its shareholders unless its retained earnings equal at least the amount of the proposed dividend.