GOLDEN STATE BANCORP

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

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CONTENTS

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, 2021 and 2020, and the related consolidated statements of operations and comprehensive income (loss), 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of Golden State Bancorp as of December 31, 2021 and 2020, 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.

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 26, 2022

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2021 and 2020

	2021	2020
ASSETS		
Cash and due from banks	$ 6,642,406	$ 7,259,821
Interest-bearing deposits in other banks	97,976,054	98,551,443
Federal Funds Sold	-	-
Total cash and cash equivalents	104,618,460	105,811,264
Loans		
Construction and land development	45,803,243	43,147,470
Real Estate	308,952,586	236,152,598
Commercial	62,159,969	46,886,099
Other	95,113	199,236
Total loans	417,010,911	326,385,403
Deferred loan fees, net of costs	(994,676)	(915,289)
Allowance for loan losses	(5,736,672)	(4,291,813)
Net loans	410,279,563	321,178,301
Federal Home Loan Bank stock, at cost	1,534,400	1,137,600
Premises and equipment	1,021,351	1,110,425
Other real estate owned	1,331,857	1,331,857
Operating lease right-of-use assets, net	1,250,081	1,421,486
Deferred tax asset	4,251,905	5,011,426
Accrued interest and other assets	2,001,221	2,069,404
Total assets	$ 526,288,838	$ 439,071,763
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing demand	$ 76,407,218	$ 60,471,407
Savings, NOW and money market accounts	243,048,987	174,618,926
Time deposits under $250,000	58,266,895	64,876,838
Time deposits $250,000 and over	65,506,228	69,698,706
Total deposits	443,229,328	369,665,877
Federal Home Loan Bank advances	25,000,000	25,000,000
Long-term debt, net	14,662,605	9,920,757
Operating lease liabilities	1,425,856	1,631,398
Accrued interest and other liabilities	4,034,176	1,912,920
Total liabilities	488,351,965	408,130,952
Shareholders' equity		
Preferred stock - 500,000,000 shares authorized; issued and outstanding - 0 in 2021 and 2020	-	-
Common stock - 500,000,000 shares authorized; issued and outstanding – 2,047,146 in 2021 and 1,836,538 in 2020	45,192,815	41,818,151
Additional paid-in capital	631,717	562,873
Accumulated deficit	(7,887,659)	(11,440,213)
Total shareholders' equity	37,936,873	30,940,811
Total liabilities and shareholders' equity	$ 526,288,838	$ 439,071,763

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

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the years ended December 31, 2021 and 2020

	2021	2020
Interest income		
Interest and fees on loans	$ 22,116,302	$ 16,836,613
Interest on federal funds sold and other	277,013	498,443
Total interest income	22,393,315	17,335,056
Interest expense		
Interest on savings, NOW and money market accounts	2,072,293	2,398,000
Interest on time deposits	1,770,970	2,592,732
Interest on FHLB	311,498	349,851
Interest on long-term debt	761,055	390,338
Total interest expense	4,915,816	5,730,921
Net interest income	17,477,499	11,604,135
Provision for loan losses	1,595,000	914,000
Net interest income after provision for loan losses	15,882,499	10,690,135
Non-interest income		
Service charges, fees and other	240,514	75,475
	240,514	75,475
Non-interest expense		
Salaries and employee benefits	6,331,044	6,184,438
Occupancy and equipment expenses	746,525	691,623
Other expenses	3,971,015	4,628,278
	11,048,584	11,504,339
Income (loss) before income taxes	5,074,429	(738,730)
Income tax expense (benefit)	1,521,875	(164,357)
Net income (loss) and comprehensive income (loss)	$ 3,552,554	$ (574,373)
Earnings per share:		
Basic	$ 1.90	$ (0.31)
Diluted	$ 1.79	$ (0.31)

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

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2021 and 2020

	Common Stock				
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
Balance at January 1, 2020	1,836,538	$ 41,818,151	$ 429,626	$ (10,865,840)	$ 31,381,937
Net Loss				(574,373)	(574,373)
Stock-based compensation			133,247		133,247
Balance at December 31, 2020	1,836,538	41,818,151	562,873	(11,440,213)	30,940,811
Net Income				3,552,554	3,552,554
Stock-based compensation			68,844		68,844
Stock option exercise	8,250	90,750			90,750
Issuance of common stock, net of direct offering costs	202,358	3,283,914			3,283,914
Balance at December 31, 2021	2,047,146	$ 45,192,815	$ 631,717	$ (7,887,659)	$ 37,936,873

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, 2021 and 2020

		2021		2020
Cash flows from operating activities				
Net income (loss)	$	3,552,554	$	(574,373)
Adjustments to reconcile net income				
to net cash from operating activities:				
Depreciation and amortization		326,204		236,368
Provision for loan losses		1,595,000		914,000
Stock-based compensation		68,844		133,247
Write down and loss on sale of other real estate owned		-		238,046
Loss on disposal of premises and equipment		-		6,271
Deferred tax (benefit) expense		759,521		(153,548)
Change in ROU asset, accrued interest and other assets		468,150		(30,913)
Change in lease liabilities, accrued interest and other liabilities		(59,287)		16,981
Net cash from operating activities		6,710,986		786,079
Cash flows from investing activities				
Net increase in loans		(90,696,262)		(71,544,781)
Purchases of premises and equipment		(157,887)		(109,688)
Purchase of Federal Home Loan Bank stock		(396,800)		(185,900)
Purchase of other real estate owned		-		(44,580)
Proceeds from sale of other real estate owned		-		2,972,034
Net cash from investing activities		(91,250,949)		(68,912,915)
Cash flows from financing activities				
Net increase in demand deposits and savings accounts		84,365,872		36,949,277
Net increase (decrease) in time deposits		(10,802,421)		36,962,700
Proceeds from FHLB advances		-		32,000,000
Repayment of FHLB advances		-		(23,500,000)
Proceeds from secured notes, net of issuance costs		-		9,920,757
Repayment of secured notes		(10,000,000)		(5,000,000)
Proceeds from subordinated notes, net of issuance costs		14,662,605		-
Proceeds from secured borrowings		1,746,439		-
Proceeds from issuance of common stock		3,283,914		-
Proceeds from exercise of stock options		90,750		-
Net cash from financing activities		83,347,159		87,332,734
Net change in cash		(1,192,804)		19,205,898
Cash and cash equivalents at beginning of year		105,811,264		86,605,366
Cash and cash equivalents at end of year	$	104,618,460	$	105,811,264
Supplemental disclosure of cash flow information				
Cash paid during the year for:				
Income taxes	$	653,500	$	10,658
Interest		4,844,515		5,764,075
Non-cash operating activities:				
Lease liabilities arising from right-of-use assets		228,562		-

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

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, 2021 and 2020 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.

Use of Estimates in the Preparation of Financial Statements: 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: For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, deposits with other financial institutions with maturities under ninety days and federal funds sold. Generally, federal funds are sold for one-day periods.

Cash and Due from Banks: Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. There were no reserves required to be held as of December 31, 2021 and 2020.

Interest-Earning Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions not included in cash and cash equivalents are carried at cost and generally mature in one year or less. The Company maintains amounts due from banks, which may exceed federally insured limits. The Company has not experienced any losses in such accounts.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs and net of deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. 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 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 Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each segment.

The Company determines a separate allowance for each portfolio segment. The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value, and the probability of collecting all amounts when due. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance, homogeneous loans are collectively evaluated for impairment.

The Company recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings, and classified as impaired with measurement of impairment as described above.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General reserves cover non-impaired loans and homogeneous loans collectively evaluated for impairment and are based on historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions; changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review 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.

Portfolio segments identified by the Company include construction and land development, commercial real estate and other, commercial and industrial and consumer loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to-income, collateral type, and loan-to-value ratios for consumer loans.

<u>Premises and Equipment</u>: 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.

<u>Federal Home Loan Bank (FHLB) Stock</u>: 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.

<u>Other Real Estate Owned</u>: 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.

<u>Income Taxes</u>: 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 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases: The Company adopted Accounting Standard Update "ASU" No. 2016-02 "Leases Topic 842" beginning in 2019 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.

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, international service charges, 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 10. 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 for the period. Diluted EPS includes the dilutive effect of additional potential common shares issuable under stock options.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

See Note 12 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 11 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.

NOTE 2 - LOANS

The Company's loan portfolio consists primarily of loans to borrowers within Los Angeles, Orange, Riverside and San Bernardino counties. 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.

The following table presents the activity in the allowance for loan losses for the year 2021, and the recorded investment in loans and impairment method as of December 31, 2021, by portfolio segment:

	Construction and Land Development	Real Estate	Commercial	Other	Total
Allowance for loan losses:					
Beginning of year	$ 1,407,940	$ 2,656,049	$ 226,872	$ 952	$ 4,291,813
Provision	(59,715)	1,429,106	226,561	(952)	1,595,000
Charge-offs	-	-	(177,681)	-	(177,681)
Recoveries	-	-	27,540	-	27,540
End of year	$ 1,348,225	$ 4,085,155	$ 303,292	$ -	$ 5,736,672
Reserves:					
Specific	$ -	$ -	$ -	$ -	$ -
General	1,348,225	4,085,155	303,292	-	5,736,672
	$ 1,348,225	$ 4,085,155	$ 303,292	$ -	$ 5,736,672
Loans evaluated for impairment:					
Individually	$ -	$ 1,578,303	$ 325,966	$ -	$ 1,904,269
Collectively	45,803,243	307,374,283	61,834,003	95,113	415,106,642
	$ 45,803,243	$ 308,952,586	$ 62,159,969	$ 95,113	$ 417,010,911

(Continued)

NOTE 2 - LOANS (Continued)

The following table presents the activity in the allowance for loan losses for the year 2020, and the recorded investment in loans and impairment method as of December 31, 2020, by portfolio segment:

	Construction and Land Development	Real Estate	Commercial	Other	Total
Allowance for loan losses:					
Beginning of year	$ 981,879	$ 2,210,859	$ 183,625	$ 1,450	$ 3,377,813
Provision	426,061	445,190	43,247	(498)	914,000
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
End of year	$ 1,407,940	$ 2,656,049	$ 226,872	$ 952	$ 4,291,813
Reserves:					
Specific	$ -	$ -	$ -	$ -	$ -
General	1,407,940	2,656,049	226,872	952	4,291,813
	$ 1,407,940	$ 2,656,049	$ 226,872	$ 952	$ 4,291,813
Loans evaluated for impairment:					
Individually	$ -	$ 675,713	$ 818,315	$ -	$ 1,494,028
Collectively	43,147,470	235,476,885	46,067,784	199,236	324,891,375
	$ 43,147,470	$ 236,152,598	$ 46,886,099	$ 199,236	$ 326,385,403

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, 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.

(Continued)

NOTE 2 - LOANS (Continued)

Impaired - A loan is considered impaired, when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Additionally, all loans classified as troubled debt restructurings are considered impaired.

The risk category of loans by class of loans was as follows as of December 31, 2021 and 2020:

	Pass	Special Mention	Substandard	Impaired	Total
December 31, 2021					
Construction and land development	$ 45,803,243	$ -	$ -	$ -	$ 45,803,243
Real Estate	304,748,899	-	2,625,384	1,578,303	308,952,586
Commercial	61,834,003	-	-	325,966	62,159,969
Other	95,113	-	-	-	95,113
	$ 412,481,258	$ -	$ 2,625,384	$ 1,904,269	$ 417,010,911
December 31, 2020					
Construction and land development	$ 43,147,470	$ -	$ -	$ -	$ 43,147,470
Real Estate	235,476,885	-	-	675,713	236,152,598
Commercial	46,067,784	-	-	818,315	46,886,099
Other	199,236	-	-	-	199,236
	$ 324,891,375	$ -	$ -	$ 1,494,028	$ 326,385,403

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2021 and 2020:

	30-89 Days Past Due	Over 90 Days Past Due	Loans not Past Due	Total	Nonaccrual
December 31, 2021					
Construction and land development	$ -	$ -	$ 45,803,243	$ 45,803,243	$ -
Real Estate	-	-	308,952,586	308,952,586	1,578,303
Commercial	-	325,966	61,834,003	62,159,969	325,966
Other	-	-	95,113	95,113	-
	$ -	$ 325,966	$416,684,945	$ 417,010,911	$ 1,904,269
December 31, 2020					
Construction and land development	$ -	$ -	$ 43,147,470	$ 43,147,470	$ -
Real Estate	-	675,713	235,476,885	236,152,598	675,713
Commercial	-	144,748	46,741,351	46,886,099	818,315
Other	-	-	199,236	199,236	-
	$ -	$ 820,461	$325,564,942	$ 326,385,403	$ 1,494,028

At December 31, 2021 and 2020, all loans past due over 90 days were on nonaccrual.

(Continued)

NOTE 2 - LOANS (Continued)

Information relating to individually impaired loans presented by class of loans was as follows as of December 31:

	Unpaid Principal Balance	Recorded Investment	Impaired Loans With Specific Allowance	Impaired Loans Without Specific Allowance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2021							
Real Estate	$ 1,578,303	$ 1,578,303	$ -	$ 1,578,303	$ -	$ 527,542	$ -
Commercial and Industrial	325,966	325,966	-	325,966	-	342,433	-
	$ 1,904,269	$ 1,904,269	$ -	$ 1,904,269	$ -	$ 869,975	$ -
2020							
Real Estate	$ 675,713	$ 675,713	$ -	$ 675,713	$ -	$ 337,856	$ -
Commercial and Industrial	818,315	818,315	-	818,315	-	699,354	3,330
	$ 1,494,028	$ 1,494,028	$ -	$ 1,494,028	$ -	$ 1,037,210	$ 3,330

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, the transfer of the participating interests were accounted for as secured borrowings.

The balance of secured borrowings of $1,746,439 at December 31, 2021 is included in accrued interest and other liabilities on the Consolidated Statements of Financial Condition.

(Continued)

NOTE 2 - LOANS (Continued)

Troubled Debt Restructurings:

As of December 31, 2021 and 2020, the Company had a recorded investment in troubled debt restructurings of $325,966 and $673,567, respectively. During 2021, the Company restructured one commercial and industrial loan which had a balance of $325,966 at December 31, 2021. The Company has not committed to lend any additional amounts to borrowers whose loans have been restructured in troubled debt restructurings as of December 31, 2021. However, the loan is past due greater than 90 days and on nonaccrual at December 31, 2021. During 2021, the Company recorded a charge-off of $32,934 related to this loan. This loan was also modified in a troubled debt restructuring in 2020 and was modified again in 2021 due to subsequent default.

Loan Modifications Related to the COVID-19 Pandemic:

Section 4013 of the CARES Act and Section 541 of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (the “Coronavirus Relief Act”) passed in January 2021 provided optional, temporary relief from evaluating qualifying loans that may have been considered TDRs under GAAP. This relief applies to loan modifications executed between March 1, 2020 and the earlier of 60 days after the national emergency related to the Pandemic is terminated, or January 1, 2022. The Company elected to apply these temporary accounting provisions to payment relief loans beginning in March 2020. As of December 31, 2021, there were no outstanding loans under modified terms related to the COVID-19 pandemic. As of December 31, 2020, the Company's loans under modified terms related to the COVID-19 pandemic, including payment deferments and interest only payments, totaled $21,101,461.

NOTE 3 - PREMISES AND EQUIPMENT

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

	2021	2020
Furniture, fixtures, and equipment	$ 1,283,105	$ 1,136,068
Leasehold improvements	740,912	730,062
Less accumulated depreciation and amortization	(1,002,666)	(755,705)
	$ 1,021,351	$ 1,110,425

Leases: The Company has three operating lease agreements for its Glendale headquarters and branch, Upland branch, and regional office. The amount of the lease liability and ROU asset is impacted by the lease term and the discount rate applied to determine the present value of future lease payments.

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 2.60% and 2.88% for 2021 and 2020, respectively.

NOTE 3 - PREMISES AND EQUIPMENT (Continued)

The Company's lease for its headquarters and branch in Glendale expires on January 1, 2025 and provides for one five-year option to renew. The Company exercised the first renewal option for its Upland branch in July 2021. 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, 2021 and 2020.

At December 31, 2021, the future cash payments under operating lease commitments are as follows:

2022	$ 489,636
2023	504,491
2024	489,010
Total undisbursed lease payments	1,483,137
Less: imputed interest	(57,281)
Net lease liability	$ 1,425,856

Total Lease expenses were approximately $442,000 and $439,000 for the years ended December 31, 2021 and 2020, respectively.

NOTE 4 - DEPOSITS

At December 31, 2021, the scheduled maturities of time deposits are as follows:

2022	$ 79,282,359
2023	33,554,933
2024	7,007,831
2025	3,185,000
2026	-
Thereafter	743,000
	$ 123,773,123

(Continued)

NOTE 5 – BORROWING ARRANGEMENTS

Federal Home Loan Bank advances

At December 31, 2021, the Company had available borrowing capacity of $78.3 million from the FHLB San Francisco ("FHLBSF") 's of which $53.3 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, 2021, the Company had pledged $111.1 million of eligible loans under the blanket lien. The following table shows the interest rates and maturity dates of FHLB advances at the periods indicated:

2021	2020	Interest Rate	Maturity Date
$ 5,000,000	$ 5,000,000	2.32 %	November 29, 2022
2,500,000	2,500,000	0.94	March 3, 2022
2,500,000	2,500,000	0.99	March 3, 2023
2,500,000	2,500,000	0.90	March 6, 2023
2,500,000	2,500,000	0.85	March 6, 2023
5,000,000	5,000,000	1.08	March 3, 2025
2,500,000	2,500,000	1.02	March 4, 2025
2,500,000	2,500,000	0.96	March 6, 2025
$ 25,000,000	$ 25,000,000		

Federal Funds Unsecured Lines of Credit

The Company may borrow up to $10,000,000 overnight on an unsecured basis from one of its correspondent banks. At December 31, 2021 and 2020, the Company had no balance outstanding under this arrangement.

Long-Term Debt

At December 31, long-term debt was as follows:

			2021		2020	
	Interest Rate	Maturity Date	Par Value	Unamortized Debt Issuance Cost and Discount	Par Value	Unamortized Debt Issuance Cost and Discount
Senior notes	6.50 %	12/27/2023	$ -	$ -	$ 10,000,000	$ 79,243
Subordinated notes	4.50 %	11/23/2032	15,000,000	337,395	-	-
Total long-term debt, net			$ 15,000,000	$ 337,395	$ 10,000,000	$ 79,243

(Continued)

NOTE 5 – BORROWING ARRANGEMENTS (Continued)

At December 31, 2020, the Company had two secured notes outstanding in the amounts of $9,000,000 and $1,000,000, respectively from two members of its Board of Directors, who are considered related parties. Both notes carry a fixed interest rate of 6.50% and mature on December 27, 2023. In conjunction with the secured notes from the related parties, the note holders have a conditional right to purchase 61,539 shares of stock at $16.25 per share and 56,497 shares of stock at $17.70 per share. The purchase right would only be fully exercisable after such time, if ever, that the Company issues a significant number of additional shares of common stock. If excisable, and upon exercise of this conditional right to purchase, the note holders may convert a portion of the secured notes in lieu of payment. Expense associated with the conditional right to purchase stock was not material. The Company redeemed these secured notes on November 23, 2021. The redemption price for the secured notes was equal to 100% of principal amount of the note redeemed, plus any accrued and unpaid interest up to, but excluding, redemption date of November 23, 2021.

On November 23, 2021, the Company issued $15 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.

(Continued)

NOTE 6 - INCOME TAXES

The provision for income taxes for the years ended December 31, 2021 and 2020 consists of the following:

	2021	2020
Current:		
Federal	$ (398)	$ (10,026)
State	762,752	(783)
Total current	762,354	(10,809)
Deferred:		
Federal	964,792	(91,809)
State	(205,271)	(61,739)
Total deferred	759,521	(153,548)
Total income tax (benefit) expense	$ 1,521,875	$ (164,357)

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:

	2021	2020
Deferred tax assets		
Operating loss carryforward	$ 2,394,274	$ 3,805,519
Allowance for loan losses	1,184,890	700,951
Lease liability	421,534	482,300
Accrued expenses	272,220	179,912
Other real estate owned reserve	220,492	173,669
State taxes	159,571	504
Tax credit carryforwards	54,855	54,855
Depreciation differences	-	28,678
Other assets	212,508	215,151
Total deferred tax assets	4,920,344	5,641,539
Deferred tax liabilities:		
Depreciation differences	(80,091)	-
Right of use asset	(369,569)	(420,242)
Prepaid expenses	(1,476)	(10,589)
Other liabilities	(217,303)	(199,282)
Total deferred tax liabilities	(668,439)	(630,113)
Net deferred tax assets	$ 4,251,905	$ 5,011,426

NOTE 6 - 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, 2021 and December 31, 2020, 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:

	2021		2020	
	Amount	Rate	Amount	Rate
Statutory federal tax	$ 1,065,630	21.00 %	$ (155,133)	21.00 %
State franchise tax, net of federal benefit	440,411	8.68	(49,392)	6.69
Other Items, net	15,834	0.31	40,168	(5.44)
Actual tax (benefit) expense	$ 1,521,875	29.99 %	$ (164,357)	22.25 %

The Company has no significant unrecognized tax benefits as of December 31, 2021 or 2020, and the Company does not expect any significant increase or decrease in unrecognized tax benefits in the next twelve months.

As of December 31, 2021, the Company has federal net operating loss carryforwards of approximately $5.2 million and California net operating loss carryforwards of approximately $15.3 million. Federal net operating loss carryforwards expire at various dates from 2033 to 2037. California net operating loss carryforwards expire at various dates from 2030 to 2041.

As of December 31, 2021, the Company has approximately $70,000 of California alternative minimum tax credits that may be carried forward indefinitely.

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 2018 for federal taxes and before 2017 for state jurisdictions.

NOTE 7 - 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 four loans to related parties with a total balance of $5,610,963 outstanding as of December 31, 2021. There were nine loans to related parties with a total balance of $14,481,042 outstanding as of December 31, 2020.

Deposits from certain officers and directors and their related interests with which they are associated held by the Company at December 31, 2021 and 2020, amounted to approximately $17,996,000 and $13,833,000, respectively.

(Continued)

NOTE 8 - 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 $114,621 in 2021 and $48,338 in 2020, respectively.

NOTE 9 - EARNINGS PER SHARE (EPS)

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

	2021	2020
Basic EPS:		
Net income available to common shareholders	$ 3,552,554	$ (574,373)
Weighted average common shares outstanding	1,865,641	1,836,538
Basic earnings per common share	$ 1.90	$ (0.31)
Diluted EPS:		
Net income available to common shareholders	$ 3,552,554	$ (574,373)
Weighted average common shares outstanding	1,865,641	1,836,538
Add: Dilutive effects of assumed exercises of stock options	116,794	-
Average shares and dilutive potential common shares	1,982,435	1,836,538
Diluted earnings per common share	$ 1.79	$ (0.31)

Common stock options totaling 336,370 shares were considered in computing diluted earnings per share in 2021. This resulted in a dilutive effect of assumed exercises of stock options totaling 116,794 shares. Common stock options totaling 109,501 were not considered in computing earnings per share in 2021 as they were antidilutive. Common stock options totaling 459,121 shares were not considered in computing diluted earnings per share in 2020 as the Company was in a net loss position causing the options to be antidilutive.

NOTE 10 - 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.

(Continued)

NOTE 10 – COMMITMENTS (Continued)

As of December 31, 2021 and 2020, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2021	2020
Commitments to extend credit	$ 52,741,677	$ 58,790,200
Commercial letters of credit	1,973,277	45,000
	$ 54,714,954	$ 58,835,200

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 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 loan losses. The allowance for losses on commitments to extend credit was $379,000 at December 31, 2021 and 2020.

NOTE 11 - STOCK COMPENSATION 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 maximum remaining number of common shares as to which awards may be granted under the 2019 Plan are 105,091 as of December 31, 2021. Options granted generally vest over 3 to 5 years.

(Continued)

NOTE 11 - STOCK COMPENSATION PLAN (Continued)

In 2021, the Company recognized $68,844 in expense associated with options issued to various directors, officers, and employees of the Company. In 2020, the Company recognized $133,247 in expense associated with options issued to various directors, officers, and employees of the Company.

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

	2021		2020	
Risk-free interest rate	1.36	%	0.94	%
Expected term	6.25	years	6.25	years
Expected stock price volatility	34.00	%	42.50	%
Dividend yield	-	%	-	%
Weighted average fair value	$ 5.44		$ 5.30	

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, 2021 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 Instrinsic Value
Outstanding at beginning of year	459,121	$ 12.28		
Granted	70,000	17.09		
Exercise	(8,250)	11.00		
Forfeited or expired	(75,000)	16.94		
Outstanding at end of year and expected to vest	445,871	$ 12.28	3.8 years	$ 2,119,300
Options exercisable	346,245	$ 10.88	2.6 years	$ 2,117,600

Options granted in 2021 vest ratably over a 3.5 years period. As of December 31, 2021, unrecognized compensation expense was $503,000. Annual compensation expense expected to be recognized in years 2022 through 2023 is $166,000. Compensation expense expected to be recognized in 2024 and 2025 is $116,600 and $54,400. 134,500 common stock options were granted during the year ended December 31, 2020. Cash proceeds from options exercised during 2021 totaled $90,750. The intrinsic value and tax benefit associated with the options exercises were not material.

(Continued)

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in the estimates. There were no material financial instruments carried at fair value on a recurring or non-recurring basis at December 31, 2021 or 2020.

The estimated fair value of financial instruments at December 31, 2021 and 2020 summarized is as follows (dollar amounts in thousands):

		2021		2020	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets					
Cash and due from banks	Level 1	$ 6,642	$ 6,642	$ 7,260	$ 7,260
Interest bearing deposits in other banks	Level 1	97,976	97,976	98,551	98,551
Loans, net	Level 3	410,280	384,434	321,178	296,598
Federal Home Loan Bank stock	N/A	1,534	N/A	1,138	N/A
Accrued interest receivable	Level 2	1,542	1,542	1,331	1,331
Financial liabilities					
Deposits	Level 2	443,229	$ 443,212	$ 369,666	$ 370,530
Federal Home Loan Bank advances	Level 2	25,000	25,070	25,000	25,631
Long-term debt	Level 2	14,663	14,663	9,921	9,921
Accrued interest payable	Level 2	130	130	136	136

(Continued)

NOTE 13 - 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.

(Continued)

NOTE 13 - 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.

			Amount of Capital Required			
	Actual		To Be Adequately Capitalized		To Be Well-Capitalized Under Prompt Corrective Action Framework	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021:						
Total Capital (to Risk-Weighted Assets)	$ 52,939	12.53 %	$ 33,802	8.00 %	$ 42,253	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	47,647	11.28	25,352	6.00	33,802	8.00
CET1 Capital (to Risk-Weighted Assets)	47,647	11.28	19,014	4.50	27,464	6.50
Tier 1 Capital (to Average Assets)	47,647	9.05	21,066	4.00	26,332	5.00
As of December 31, 2020:						
Total Capital (to Risk-Weighted Assets)	$ 40,929	11.59 %	$ 28,246	8.00 %	$ 35,307	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	36,512	10.34	21,184	6.00	28,246	8.00
CET1 Capital (to Risk-Weighted Assets)	36,512	10.34	15,888	4.50	22,950	6.50
Tier 1 Capital (to Average Assets)	36,512	8.29	17,620	4.00	22,025	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.

NOTE 14 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events for recognition and disclosure through April 26, 2022, which is the date the financial statements were available to be issued.

The Company raised $6.4 million in capital on March 1, 2022, through sale of Prefunded Warrants representing the right to purchase an aggregate 353,198 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. 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.