GOLDEN STATE BANCORP

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Golden State Bancorp
Glendale, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Golden State Bancorp, which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Golden State Bancorp as of December 31, 2019 and 2018, 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.

Crowe LLP

Crowe LLP

San Francisco, California
April 30, 2020

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and due from banks	$ 12,143,717	$ 4,692,746
Interest-bearing deposits in other banks	28,700,071	76,546,585
Federal Funds Sold	45,761,578	-
Total cash and cash equivalents	86,605,366	81,239,331
Loans		
Construction and land development	34,122,388	25,319,846
Commercial real estate and other	171,883,485	155,065,844
Commercial and industrial	48,257,780	35,119,008
Consumer	221,021	240,912
Total loans	254,484,674	215,745,610
Deferred loan fees, net of costs	(559,341)	(497,623)
Allowance for loan losses	(3,377,813)	(2,862,518)
Net loans	250,547,520	212,385,469
Federal Home Loan Bank stock, at cost	951,700	943,600
Premises and equipment	1,243,376	1,101,931
Other real estate owned	4,497,357	5,460,267
Operating lease right-of-use assets, net	1,807,102	-
Deferred tax asset	4,857,878	5,446,367
Accrued interest and other assets	1,652,875	1,321,932
	$ 352,163,174	$ 307,898,897
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing demand	$ 46,183,428	$ 48,734,273
Savings, NOW and money market accounts	151,957,628	111,551,661
Time deposits under $250,000	43,720,846	54,258,761
Time deposits $250,000 and over	53,891,998	37,084,680
Total deposits	295,753,900	251,629,375
Federal Home Loan Bank (FHLB) borrowings	16,500,000	20,000,000
Other borrowings	5,000,000	5,000,000
Operating lease liabilities	1,991,165	-
Accrued interest and other liabilities	1,536,172	1,329,997
Total liabilities	320,781,237	277,959,372
Shareholders' equity		
Preferred stock - 500,000,000 shares authorized; issued and outstanding - 0 in 2019 and 112,328 in 2018	-	2,911,240
Common stock - 500,000,000 shares authorized; issued and outstanding – 1,836,538 in 2019 and 1,418,802 in 2018	41,818,151	38,871,751
Additional paid-in capital	429,626	425,018
Retained earnings (accumulated deficit)	(10,865,840)	(12,268,484)
Total shareholders' equity	31,381,937	29,939,525
	$ 352,163,174	$ 307,898,897

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, 2019 and 2018

	2019	2018
Interest income		
Interest and fees on loans	$ 16,523,506	$ 13,303,525
Interest on federal funds sold and other	1,882,100	803,604
Total interest income	18,405,606	$14,107,129
Interest expense		
Interest on savings, NOW and money market accounts	2,559,460	981,464
Interest on time deposits	2,546,469	1,520,337
Interest on FHLB borrowing	765,640	770,929
Total interest expense	5,871,569	3,272,730
Net interest income	12,534,037	10,834,399
Provision for loan losses	453,500	770,550
Net interest income after provision for loan losses	12,080,537	10,063,849
Non-interest income		
Service charges, fees and other	335,335	483,623
	335,335	483,623
Non-interest expense		
Salaries and employee benefits	4,775,633	3,755,727
Occupancy and equipment expenses	583,655	540,495
Other expenses	5,050,137	2,784,829
	10,409,425	7,081,051
Income before income taxes	2,006,447	3,466,421
Income tax expense (benefit)	603,803	(5,375,064)
Net income and comprehensive income	$ 1,402,644	$ 8,841,485
Earnings per share:		
Basic	$ 0.81	$ 6.24
Diluted	$ 0.75	$ 4.59

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, 2019 and 2018

	Preferred Stock		Common Stock		Additional	Retained Earnings	
	Number of Shares	Amount	Number of Shares	Amount	Paid-in Capital	(Accumulated Deficit)	Total
Balance at January 1, 2018	112,328	2,911,240	1,410,802	38,782,851	384,326	(21,109,969)	20,968,448
Net income	-	-	-	-	-	8,841,485	8,841,485
Issuance of common stock	-	-	8,000	88,900	-	-	88,900
Stock-based compensation	-	-	-	-	40,692	-	40,692
Balance at December 31, 2018	112,328	$ 2,911,240	1,418,802	$ 38,871,751	$ 425,018	$ (12,268,484)	$ 29,939,525
Net income						1,402,644	1,402,644
Stock-based compensation					4,608		4,608
Stock option exercises			3,000	35,160			35,160
Preferred converted at 3.6922	(112,328)	(2,911,240)	414,736	2,911,240			-
Balance at December 31, 2019	-	$ -	1,836,538	$ 41,818,151	$ 429,626	$ (10,865,840)	$ 31,381,937

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, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net income	$ 1,402,644	$ 8,841,485
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	173,574	141,492
Provision for loan losses	453,500	770,550
Stock-based compensation	4,608	40,692
Write down of OREO	962,910	-
Change in deferred tax asset	588,489	(5,446,367)
Change in ROU asset, accrued interest and other assets	(22,408)	221,168
Change in lease liabilities, accrued interest and other liabilities	81,703	-
Net cash from operating activities	3,645,020	4,569,020
Cash flows from investing activities		
Net increase in loans	(38,615,551)	(27,015,047)
Purchases of premises and equipment	(315,019)	(136,949)
Purchase of Federal Home Loan Bank (FHLB) stock	(8,100)	(280,900)
Net cash from investing activities	(38,938,670)	(27,432,896)
Cash flows from financing activities		
Net increase in demand deposits and savings accounts	37,855,122	65,013,571
Net increase in time deposits	6,269,403	18,962,583
Net decrease in FHLB advances	(3,500,000)	-
Proceeds from issuance of common stock	35,160	88,900
Net cash from financing activities	40,659,685	84,065,054
Net change in cash	5,366,035	61,201,178
Cash and cash equivalents at beginning of year	81,239,331	20,038,153
Cash and cash equivalents at end of year	**$ 86,605,366**	**$ 81,239,331**

	2019	2018
Supplemental cash flow information		
Cash paid during the year for:		
Income taxes	$ 26,142	$ 88,500
Interest	5,891,357	3,218,937
Non-cash operating activities:		
Lease liabilities arising from right-of-use assets	2,115,637	-
Non-cash financing activities:		
Conversion of preferred stock to common stock	2,991,240	-

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, 2019 and 2018 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.

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 30, 2020, which is the date the financial statements were available to be issued. The State of California has been impacted by the Coronavirus Pandemic (COVID–19) which is rapidly evolving. The full impact and duration of the virus is currently unknown and may negatively impact the overall economic condition of California. It is reasonably possible our estimate of the allowance for loan losses could change. The resulting change in this estimate may be material to the consolidated financial statements. There were no other subsequent events requiring accrual or disclosure at December 31, 2019.

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. The Company was in compliance with its reserve requirements as of December 31, 2019 and 2018.

The Company maintains amounts due from banks, which may exceed federally insured limits. The Company has not experienced any losses in such accounts.

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 or specific valuation accounts 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Company selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral.

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.

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.

General reserves cover non-impaired loans 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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. 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: 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.

Leases: The Bank adopted Accounting Standard Update “ASU” No. 2016-02 “Leases Topic 842” beginning of 2019 and determined if an arrangement contained a lease at inception. The right-of-use “ROU” assets represent the Bank’s right to use an underlying asset for the lease term and lease liabilities represent the Bank’s obligation to make lease payments arising from the lease. The ROU assets and lease liabilities on the Bank’s balance sheet are operating leases and is 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 Bank 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. Prior to 2019, operating leases were not recognized on the Bank’s balance sheet. The ROU asset is reflected in “Operating lease right-of-use asset, net” and the lease liability is reflected in “Operating lease liabilities” on the Bank’s balance sheet as of December 31, 2019.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Bank, such as a deposit account agreement. Other more significant revenue streams for the Company such as interest income on loans and investment securities are specifically excluded from the scope of ASC 606 and are accounted for under other applicable U.S. GAAP.

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.

Adoption of New Accounting Standards: On January 1, 2019, the Bank adopted "ASU" No. 2016-02 "Leases Topic 842" and subsequent amendments thereto, which require the Bank to recognize most leases on the balance sheet. The Bank adopted the standard under a modified retrospective approach as of the date of the adoption and elected to apply several of the available practical expedients, including: carry-over of historical lease determination and lease classification conclusions; carry-over of historical direct cost balances for existing leases; accounting for lease and non-lease components in contracts in which the Bank is a lessee as a single lease component. Adoption of the leasing standard resulted in the recognition of operating "ROU" assets of $2,115,637 and operating lease liabilities of $2,269,060 as of January 1, 2019. Prior periods were not restated and continued to be presented under legacy GAAP. Disclosures about the Bank's leasing activities are presented in Note 3 – Premises and equipment.

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 and conversion of preferred shares.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2019, and the recorded investment in loans and impairment method as of December 31, 2019, by portfolio segment:

	Construction and Land Development	Commercial Real Estate and Other	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning of year	$ 274,538	$ 2,506,750	$ 78,108	$ 3,122	$ 2,862,518
Provision	707,341	(295,891)	43,722	(1,672)	453,500
Charge-offs	-	-	-	-	-
Recoveries	-	-	61,795	-	61,795
End of year	$ 981,879	$ 2,210,859	$ 183,625	$ 1,450	$ 3,377,813
Reserves:					
Specific	$ -	$ -	$ -	$ -	$ -
General	981,879	2,210,859	183,625	1,450	3,377,813
	$ 981,879	$ 2,210,859	$ 183,625	$ 1,450	$ 3,377,813
Loans evaluated for impairment:					
Individually	$ -	$ -	$ 580,393	$ -	$ 580,393
Collectively	34,122,388	171,883,485	47,677,387	221,021	253,904,281
	$ 34,122,388	$ 171,883,485	$ 48,257,780	$ 221,021	$ 254,484,674

(Continued)

NOTE 2 - LOANS (Continued)

The following table presents the activity in the allowance for loan losses for the year 2018, and the recorded investment in loans and impairment method as of December 31, 2018, by portfolio segment:

	Construction and Land Development	Commercial Real Estate and Other	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning of year	$ 587,198	$ 1,351,188	$ 148,195	$ 5,387	$ 2,091,968
Provision	(312,660)	1,155,562	(70,087)	(2,265)	770,550
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
End of year	$ 274,538	$ 2,506,750	$ 78,108	$ 3,122	$ 2,862,518
Reserves:					
Specific	$ -	$ -	$ -	$ -	$ -
General	274,538	2,506,750	78,108	3,122	2,862,518
	$ 274,538	$ 2,506,750	$ 78,108	$ 3,122	$ 2,862,518
Loans evaluated for impairment:					
Individually	$ -	$ -	$ 340,015	$ -	$ 340,015
Collectively	25,319,846	155,065,844	34,778,993	240,912	215,405,595
	$ 25,319,846	$ 155,065,844	$ 35,119,008	$ 240,912	$ 215,745,610

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, 2019 and 2018:

	Pass	Special Mention	Substandard	Impaired	Total
December 31, 2019					
Construction and land development	$ 34,122,388	$ -	$ -	$ -	$ 34,122,388
Commercial real estate and other	171,883,485	-	-	-	171,883,485
Commercial and industrial	47,677,387	-	-	580,393	48,257,780
Consumer	221,021	-	-	-	221,021
	$ 253,904,281	$ -	$ -	$ 580,393	$ 254,484,674
December 31, 2018					
Construction and land development	$ 25,319,846	$ -	$ -	$ -	$ 25,319,846
Commercial real estate and other	155,065,844	-	-	-	155,065,844
Commercial and industrial	34,778,993	-	-	340,015	35,119,008
Consumer	240,912	-	-	-	240,912
	$ 215,405,595	$ -	$ -	$ 340,015	$ 215,745,610

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2019 and 2018:

	Still Accruing		
	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
December 31, 2019			
Construction and land development	$ -	$ -	$ -
Commercial real estate and other	-	2,549,504	-
Commercial and industrial	1,400,000	-	580,393
Consumer	-	-	-
	$ 1,400,000	$ 2,549,504	$ 580,393
December 31, 2018			
Construction and land development	$ 2,851,737	$ -	$ -
Commercial real estate and other	-	-	-
Commercial and industrial	-	-	340,015
Consumer	-	-	-
	$ 2,851,737	$ -	$ 340,015

(Continued)

NOTE 2 - LOANS (Continued)

As of December 31, 2019, a $2,549,504 commercial real estate loan past due greater than 90 days was not considered impaired and was still accruing as it was in the process of collection and was subsequently paid off.

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
2019							
Commercial and Industrial	$ 580,393	$ 580,393	$ -	$ 580,393	$ -	$ 140,031	$ 27,251
	$ 580,393	$ 580,393	$ -	$ 580,393	$ -	$ 140,031	$ 27,251
2018							
Commercial and Industrial	$ 340,015	$ 340,015	$ -	$ 340,015	$ -	$ 211,898	$ 5,934
	$ 340,015	$ 340,015	$ -	$ 340,015	$ -	$ 211,898	$ 5,934

Interest income included above was not recognized on a cash basis, but rather on an accrual basis.

Troubled Debt Restructurings:

As of December 31, 2019 and 2018, the Company had a recorded investment in troubled debt restructurings of $235,393 and $340,015, respectively. 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, 2019.

The Company modified one loan as a troubled debt restructuring during 2019. The Company did not modify any loans during 2018. There were no defaults of any loans that were modified in a troubled debt restructuring within 12 months of the modification during 2019 or 2018.

(Continued)

NOTE 3 - PREMISES AND EQUIPMENT

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

	2019	2018
Furniture, fixtures, and equipment	$ 2,405,630	$ 2,200,688
Leasehold improvements	1,535,617	1,425,540
	3,941,247	3,626,228
Less accumulated depreciation and amortization	(2,697,871)	(2,524,297)
	$ 1,243,376	$ 1,101,931

Leases: The Bank has three operating lease agreements for its Glendale headquarters and branch, Upland branch and regional office, resulting in a ROU asset of $1,807,102 and lease liability of $1,991,165 as of December 31, 2019. Refer to Note 1, "Summary of Significant Accounting Policies" for additional information.

The Bank 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. Discount rates are as such 2.92%, 2.69%, and 2.79% for the following three locations - Glendale, Upland branch and Upland regional office.

The Bank entered into a lease for its headquarters and a branch in Glendale that expires in January 2025 and provides for one five-year option to renew. The Bank has also entered into leases for an Upland branch and an Upland regional office that expires in June 2021 and October 2024, respectively, both leases 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, 2019.

At December 31, 2019, the future cash payments under operating lease commitments are as follows:

2020	$ 412,976
2021	442,889
2022	421,891
2023	434,548
2024	429,153
Total undisbursed lease payments	2,141,457
Less: imputed interest	(150,292)
Net lease liability	$ 1,991,165

Total Lease expenses were approximately $382,000 and $361,000 for the years ended December 31, 2019 and 2018, respectively.

(Continued)

NOTE 4 - DEPOSITS

At December 31, 2019, the scheduled maturities of time deposits are as follows:

Due in one year or less	$ 73,432,082
Due from one to three years	24,180,762
	$ 97,612,844

NOTE 5 - BORROWINGS

The Company may borrow up to $5,000,000 overnight on an unsecured basis from one of its correspondent banks. At December 31, 2019, the Company had no balance outstanding under this arrangement.

At December 31, 2019, the Company has two term loans outstanding in the amount of $4,500,000 and $500,000 to two members of its Board of Directors, who are considered related parties. Both loans carry fixed interest rates of 7.25% and mature on December 27, 2020. Principal is due at maturity, and interest payments are due monthly.

The Company may also borrow up to approximately $71.1 million as of December 31, 2019 from the Federal Home Loan Bank of San Francisco (FHLBSF), subject to providing adequate collateral and fulfilling other conditions of the credit facility, of which $16.5 million has been advanced as of December 31, 2019, as follows:

Amount	Interest Rate	Maturity Date
$ 5,000,000	1.89%	February 20, 2020
5,000,000	1.57%	October 2, 2020
5,000,000	2.32%	November 29, 2022
1,500,000	1.66%	January 2, 2020
$ 16,500,000		

The above advances bear interest at a fixed rate. The advances are due at maturity, and interest is due monthly. The remaining borrowing capacity at the FHLB is approximately $54.6 million as of December 31, 2019 which is secured by approximately $92.7 million in loans.

NOTE 6 - INCOME TAXES

The provision for income taxes for the years ended December 31, 2019 and 2018 consists of the following:

	2019	2018
Current:		
Federal	$ (11,660)	$ 25,218
State	26,974	45,936
Total current	15,314	71,154
Deferred:		
Federal	387,808	665,019
State	200,681	329,541
Total deferred	588,489	994,560
Change in valuation allowance	-	(6,440,778)
Total income tax (benefit) expense	$ 603,803	$ (5,375,064)

(Continued)

NOTE 6 - INCOME TAXES (Continued)

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:

	2019	2018
Deferred tax assets		
Operating loss carryforward	$ 3,566,743	$ 4,678,269
Tax credit carryforwards	67,790	61,468
Lease liability	588,660	-
Allowance for loan losses	430,740	296,669
Other real estate owned reserve	764,839	432,382
Other assets	319,924	253,628
Total deferred tax assets	5,738,696	5,722,416
Deferred tax liabilities:		
Depreciation differences	(155,434)	(74,963)
Right of use asset	(534,244)	-
Prepaid expenses	(11,045)	(41,619)
Other liabilities	(180,095)	(159,467)
Total deferred tax liabilities	(880,818)	(276,049)
Net deferred tax assets	$ 4,857,878	$ 5,446,367

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, 2019 and 2018, 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 current and projected future taxable income. The Company reversed the entire $6.4 million valuation allowance during the year ended December 31, 2018.

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

	2019		2018	
	Amount	Rate	Amount	Rate
Statutory federal tax	$ 421,354	21.00%	$ 727,948	21.00%
State franchise tax, net of federal benefit	179,174	8.93	300,936	8.68
Change in valuation allowance	-	-	(6,440,778)	(185.80)
Other Items, net	3,275	0.16	36,830	1.06
Actual tax (benefit) expense	$ 603,803	30.09%	$(5,375,064)	(155.06)%

(Continued)

NOTE 6 - INCOME TAXES (Continued)

The Company has no significant unrecognized tax benefits as of December 31, 2019 or 2018, and the Company does not expect any significant increase or decrease in unrecognized tax benefits in the next twelve months.

As of December 31, 2019, the Company has federal net operating loss carryforwards of approximately $11.2 million and California net operating loss carryforwards of approximately $14.1 million. Federal net operating loss carryforwards expire at various dates from 2031 to 2037. California net operating loss carryforwards expire at various dates from 2029 to 2036.

In addition, at December 31, 2019, the Company has approximately $13,000 of federal alternative minimum tax credits which are refundable under the Tax Act and are expected to be fully refunded in 2020. 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 and Mississippi. The Company is no longer subject to examination by taxing authorities for tax years before 2016 for federal taxes and before 2015 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 six loans to related parties with a total balance of $6,679,678 outstanding as of December 31, 2019. There were three loans to related parties with a balance of $4,100,251 outstanding as of December 31, 2018.

Deposits from certain officers and directors and their related interests with which they are associated held by the Company at December 31, 2019 and 2018, amounted to approximately $26,152,080 and $14,532,545, respectively.

Borrowings from related parties are described in Note 5. The interest expense pertaining to related party loans approximated $385,338 in 2019 and $381,929 in 2018.

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. The Company did not make any contributions to the plan on behalf of employees in 2019 or 2018.

NOTE 9 - EARNINGS PER SHARE (EPS)

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

	2019	2018
Basic EPS:		
Net income available to common shareholders	$ 1,402,644	$ 8,841,485
Weighted average common shares outstanding	1,737,019	1,415,827
Basic earnings per common share	$ 0.81	$ 6.24

(Continued)

NOTE 9 - EARNINGS PER SHARE (EPS) (Continued)

Diluted EPS:		
Net income available to common shareholders	$ 1,402,644	$ 8,841,485
Weighted average common shares outstanding	1,737,019	1,415,827
Add: Dilutive effects of assumed exercises of stock options	123,773	95,781
Add: Dilutive effects of assumed conversion of preferred stock	-	414,737
Average shares and dilutive potential common shares	1,860,792	1,926,345
Diluted earnings per common share	$ 0.75	$ 4.59

Common Stock options totaling 348,371 shares were considered in computing diluted earnings per share in 2019. This resulted in a dilutive effect of assumed exercises of stock options totaling 123,773 shares. Common Stock options totaling 289,065 shares and Preferred Stock options totaling 16,875 shares, with a converted common equivalent of 62,306 shares were considered in computing diluted earnings per share in 2018. This resulted in a dilutive effect of assumed exercises of stock options totaling 95,781 shares and dilutive effect of assumed conversion of preferred stock of 414,737. No shares were antidilutive in 2019 or 2018.

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.

As of December 31, 2019 and 2018 the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2019	2018
Commitments to extend credit	$ 42,109,961	$ 33,612,235
Commercial letters of credit	215,000	600,000
	$ 42,324,961	$ 34,212,235

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.

(Continued)

NOTE 10 – COMMITMENTS (Continued)

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 and $124,500 at December 31, 2019 and 2018, respectively.

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 number of common shares as to which awards may be granted under the 2019 Plan are 550,961 as of December 31, 2019, respectively.

In 2019, the Company recognized $4,608 in expense associated with the common and preferred share options issued to various directors, officers, and employees of the Company. In 2018, the Company recognized $40,692 in expense associated with the common and preferred share options issued to various directors, officers, and employees of the Company.

(Continued)

NOTE 11 - STOCK COMPENSATION PLAN (Continued)

A summary of the status of the Company's stock option plan as of December 31, 2019 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	289,066	$ 11.47		
Exercised	(3,000)	11.72		
Forfeited or expired	-	-		
Preferred Converted to Common	62,305	7.45		
Outstanding at end of year and expected to vest	348,371	$ 10.75	9.0 years	$1,506,832
Options exercisable	348,371	$ 10.75	9.4 years	$1,481,581

There were no preferred or common share options granted during the years ended December 31, 2019 and 2018.

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.

(Continued)

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The estimated fair value of financial instruments at December 31, 2019 and 2018 summarized is as follows (dollar amounts in thousands):

		2019		2018	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets					
Cash and due from banks	Level 1	$ 12,144	$ 12,144	$ 4,693	$ 4,693
Interest bearing deposits in other banks	Level 1	28,700	28,700	76,547	76,547
Federal funds sold	Level 1	45,762	45,762	-	-
Loans, net	Level 3	250,548	241,658	212,385	202,974
Federal Home Loan Bank stock	N/A	952	N/A	944	N/A
Accrued interest receivable	Level 2	851	851	698	698
Financial liabilities					
Deposits	Level 2	$ 295,754	$ 296,025	$ 251,629	$ 251,219
Federal Home Loan Bank Borrowings	Level 2	16,500	16,661	20,000	19,660
Other borrowings	Level 2	5,000	5,000	5,000	5,000
Accrued interest payable	Level 2	138	138	100	100

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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of 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%, fully phased-in as of January 1, 2019, applicable to the three capital adequacy risk-weighted asset ratios (CET1, Tier 1 and Total). The capital conservation buffer was 2.50% and 1.875% at December 31, 2019 and 2018, respectively. 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.

(Continued)

NOTE 13 - REGULATORY MATTERS (Continued)

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 (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well-capitalized, the Bank must maintain minimum ratios as set forth in the table below.

The following table also sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

			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, 2019:						
Total Capital (to Risk-Weighted Assets)	$ 36,287	12.22%	$ 23,750	8.00%	$ 29,687	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	32,575	10.97	17,812	6.00	23,750	8.00
CET1 Capital (to Risk-Weighted Assets)	32,575	10.97	13,359	4.50	19,297	6.50
Tier 1 Capital (to Average Assets)	32,575	9.32	13,978	4.00	17,472	5.00
As of December 31, 2018:						
Total Capital (to Risk-Weighted Assets)	$ 32,706	13.79%	$ 18,974	8.00%	$ 23,717	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	29,741	12.54	14,230	6.00	18,974	8.00
CET1 Capital (to Risk-Weighted Assets)	29,741	12.54	10,673	4.50	15,416	6.50
Tier 1 Capital (to Average Assets)	29,741	10.70	11,123	4.00	13,904	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 Department of Business Oversight. 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 - PREFERRED STOCK

There were zero shares and 112,328 shares of Series A Convertible Preferred stock outstanding at December 31, 2019 and 2018. During 2019, all 112,328 shares of Series A Convertible stock outstanding were converted into 414,736 shares of common stock.