GOLDEN STATE BANCORP

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

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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, 2022 and 2021, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Golden State Bancorp as of December 31, 2022 and 2021, 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

Crowe LLP

Costa Mesa, California
April 20, 2023

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and due from financial institutions	$ 1,654,786	$ 6,642,406
Interest-earning deposits	74,483,126	97,976,054
Total cash and cash equivalents	76,137,912	104,618,460
Securities held-to-maturity, at amortized cost (fair value 2022 - $25,508,340 and 2021 - $0)	25,936,217	-
Loans		
Construction and land development	42,176,041	45,803,243
Real Estate	428,229,416	308,952,586
Commercial	74,453,297	62,159,969
Other	80	95,113
Total loans	544,858,834	417,010,911
Deferred loan fees, net of costs	(1,686,665)	(994,676)
Allowance for loan losses	(7,493,299)	(5,736,672)
Net loans	535,678,870	410,279,563
Federal Home Loan Bank stock, at cost	2,060,200	1,534,400
Premises and equipment	796,762	1,021,351
Other real estate owned	1,056,182	1,331,857
Operating lease right-of-use assets, net	780,967	1,250,081
Deferred tax asset	2,876,957	4,251,905
Accrued interest and other assets	3,522,679	2,001,221
Total assets	$ 648,846,746	$ 526,288,838
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing demand	$ 176,258,208	$ 76,407,218
Savings, NOW and money market accounts	250,725,531	243,048,987
Time deposits under $250,000	51,571,642	58,266,895
Time deposits $250,000 and over	82,710,121	65,506,228
Total deposits	561,265,502	443,229,328
Federal Home Loan Bank advances	12,500,000	25,000,000
Subordinated notes, net	14,731,210	14,662,605
Operating lease liabilities	967,571	1,425,856
Accrued interest and other liabilities	4,871,427	4,034,176
Total liabilities	594,335,710	488,351,965
Shareholders' equity		
Preferred stock - no par value; 500,000,000 shares authorized; issued and outstanding - 0 in 2022 and 2021	-	-
Common stock - no par value; 500,000,000 shares authorized; issued and outstanding – 2,082,729 in 2022 and 2,047,146 in 2021	45,405,087	45,192,815
Additional paid-in capital	9,308,589	631,717
Retained earnings (accumulated deficit)	(202,640)	(7,887,659)
Total shareholders' equity	54,511,036	37,936,873
Total liabilities and shareholders’ equity	$ 648,846,746	$ 526,288,838

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

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2022 and 2021

	2022	2021
Interest income		
Loans	$ 28,347,498	$ 22,116,302
Investment securities	422,091	-
Interest-earning desposits	1,810,883	200,705
Dividend on FHLB stock	111,518	76,308
Total interest income	30,691,990	22,393,315
Interest expense		
Savings, NOW and money market accounts	3,067,148	2,072,293
Time deposits	1,732,741	1,770,970
FHLB advances	199,477	311,498
Subordinated notes	743,605	761,055
Total interest expense	5,742,971	4,915,816
Net interest income	24,949,019	17,477,499
Provision for loan losses	2,039,000	1,595,000
Net interest income after provision for loan losses	22,910,019	15,882,499
Noninterest income		
Service charges, fees and other	262,671	240,514
	262,671	240,514
Noninterest expense		
Salaries and employee benefits	7,440,811	6,331,044
Occupancy and equipment	788,277	746,525
Other expenses	4,068,988	3,971,015
	12,298,076	11,048,584
Income before income taxes	10,874,614	5,074,429
Income tax expense	3,189,595	1,521,875
Net income and comprehensive income	$ 7,685,019	$ 3,552,554
Earnings per share:		
Basic	$ 3.22	$ 1.90
Diluted	$ 3.11	$ 1.79

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

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended December 31, 2022 and 2021

	Common Stock			Retained Earnings	
	Number of Shares	Amount	Additional Paid-in Capital	(Accumulated Deficit)	Total
Balance at January 1, 2021	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
Exercise of stock options, net	8,250	90,750	-	-	90,750
Issuance of common stock, net of expenses	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
Net Income	-	-	-	7,685,019	7,685,019
Stock-based compensation	-	-	310,704	-	310,704
Exercise of stock options, net	35,583	251,989	-	-	251,989
Issuance of common stock, net of expenses	-	(39,717)	-	-	(39,717)
Issuance of warrants, net of expenses	-	-	8,366,168	-	8,366,168
Balance at December 31, 2022	2,082,729	45,405,087	9,308,589	(202,640)	$ 54,511,036

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, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Net income	$ 7,685,019	$ 3,552,554
Adjustments to reconcile net income		
to net cash from operating activities:		
Depreciation and amortization	326,817	326,204
Net discount on securities	(242,314)	-
Provision for loan losses	2,039,000	1,595,000
Stock-based compensation	310,704	68,844
Write down on other real estate owned	275,675	-
Loss on disposal of premises and equipment	3,229	-
Deferred income tax expense	1,374,948	759,521
Net change in ROU asset, accrued interest and other assets	(1,112,147)	468,150
Net change in lease liabilities, accrued interest and other liabilities	433,692	(59,287)
Net cash from operating activities	11,094,623	6,710,986
Cash flows from investing activities		
Net increase in loans	(127,438,307)	(90,696,262)
Purchases of premises and equipment	(32,774)	(157,887)
Proceeds from sale of premises and equipment	1,000	-
Purchase of Federal Home Loan Bank stock	(525,800)	(396,800)
Purchase of securities held-to-maturity	(33,193,904)	-
Proceeds from maturities of securities held-to-maturity	7,500,000	-
Net cash from investing activities	(153,689,784)	(91,250,949)
Cash flows from financing activities		
Net increase in demand deposits and savings accounts	107,527,534	84,365,872
Net increase (decrease) in time deposits	10,508,640	(10,802,421)
Repayment on Federal Home Loan Bank advances	(12,500,000)	-
Repayment on secured notes	-	(10,000,000)
Proceeds from subordinated notes, net of issuance costs	-	14,662,605
Proceeds from secured borrowings	-	1,746,439
Net proceeds (expenses) from issuance of common stock	(39,717)	3,283,914
Net proceeds from issuance of warrants, net of issuance costs	8,366,168	-
Proceeds from exercise of stock options	251,989	90,750
Net cash from financing activities	114,114,614	83,347,159
Net change in cash and cash equivalents	(28,480,548)	(1,192,804)
Beginning cash and cash equivalents	104,618,460	105,811,264
Ending cash and cash equivalents	$ 76,137,912	$ 104,618,460
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Income taxes	$ 1,612,640	$ 653,500
Interest	5,511,728	4,844,515
Non-cash operating activities:		
Lease liabilities arising from right-of-use assets	(59,802)	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, 2022 and 2021 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: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, cash due from financial institutions, interest earning deposits with the Federal Reserve Bank and financial institutions and Federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest earning deposits, and federal funds purchased and repurchase agreements.

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

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

Management evaluates debt securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For debt securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a debt security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred fees and costs, and an allowance for loan losses.

Interest income is accrued on the unpaid principal balance. 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 collectability 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.

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.

Loan portfolio consists of commercial real estate, inclusive of construction and land development, as well as commercial and industrial 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.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets.

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

NOTE 2 – DEBT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity:				
U.S. Treasury securities	$ 25,936,217	$ -	$ (427,877)	$ 25,508,340
	$ 25,936,217	$ -	$ (427,877)	$ 25,508,340

There were no investment securities at December 31, 2021.

The amortized cost and estimated fair value of investment securities at December 31, 2022, by contractual maturities are shown below.

	Amortized Cost	Estimated Fair Value
Held-to-maturity:		
Within one year	$ 10,418,644	$ 10,372,110
One to three years	15,517,573	15,136,230
	$ 25,936,217	$ 25,508,340

There were no sales of investment securities during the year ended December 31, 2022. There were $7,500,000 investment securities held-to-maturity matured during the year ended December 31, 2022. The Company purchased $33,193,904 of investment securities held-to-maturity during the year ended December 31, 2022.

At December 31, 2022, securities held-to-maturity with a carrying amount of $17,167,360 were pledged to the Federal Home Loan Bank San Francisco for access to the Company's FHLB borrowing lines as discussed in Note 6 – Borrowing Arrangements.

NOTE 3 - 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.

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

NOTE 3 - LOANS (Continued)

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

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

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	Commercial Real Estate	Commercial & Industrial	Others	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

NOTE 3 - LOANS (Continued)

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.

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, 2022 and 2021:

	Pass	Special Mention	Substandard	Impaired	Total
December 31, 2022					
Construction and land development	$ 42,176,041	$ -	$ -	$ -	$ 42,176,041
Commercial real estate	426,808,944	-	-	1,420,472	428,229,416
Commercial & industrial	71,489,744	-	1,955,738	1,007,815	74,453,297
Others	80	-	-	-	80
	$ 540,474,809	$ -	$ 1,955,738	$ 2,428,287	$ 544,858,834
December 31, 2021					
Construction and land development	$ 45,803,243	$ -	$ -	$ -	$ 45,803,243
Commercial real estate	304,748,899	-	2,625,384	1,578,303	308,952,586
Commercial & industrial	61,834,003	-	-	325,966	62,159,969
Others	95,113	-	-	-	95,113
	$ 412,481,258	$ -	$ 2,625,384	$ 1,904,269	$ 417,010,911

NOTE 3 - LOANS (Continued)

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2022 and 2021:

	30-89 Days Past Due	Over 90 Days Past Due	Loans not Past Due	Total	Nonaccrual
December 31, 2022					
Construction and land development	$ -	$ -	$ 42,176,041	$ 42,176,041	$ -
Commercial real estate	-	1,420,472	426,808,944	428,229,416	1,420,472
Commercial & industrial	-	1,007,815	73,445,482	74,453,297	1,007,815
Others	-	-	80	80	-
	$ -	$ 2,428,287	$ 542,430,547	$ 544,858,834	$ 2,428,287
December 31, 2021					
Construction and land development	$ -	$ -	$ 45,803,243	$ 45,803,243	$ -
Commercial real estate	-	-	308,952,586	308,952,586	1,578,303
Commercial & industrial	-	325,966	61,834,003	62,159,969	325,966
Others	-	-	95,113	95,113	-
	$ -	$ 325,966	$ 416,684,945	$ 417,010,911	$ 1,904,269

At December 31, 2022 and 2021, all loans past due over 90 days were on nonaccrual.

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
2022							
Commercial real estate	$ 1,420,472	$ 1,420,472	$ -	$ 1,420,472	$ -	$ 1,516,200	$ -
Commercial & industrial	1,007,815	1,007,815	-	1,007,815	-	325,966	-
	$ 2,428,287	$ 2,428,287	$ -	$ 2,428,287	$ -	$ 1,842,167	$ -
2021							
Commercial real estate	$ 1,578,303	$ 1,578,303	$ -	$ 1,578,303	$ -	$ 527,542	$ -
Commercial & industrial	325,966	325,966	-	325,966	-	342,433	-
	$ 1,904,269	$ 1,904,269	$ -	$ 1,904,269	$ -	$ 869,975	$ -

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

NOTE 3 - LOANS (Continued)

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

The balance of secured borrowings of $1,746,439 at December 31, 2022 and 2021 is included in accrued interest and other liabilities on the Consolidated Statements of Financial Condition.

Troubled Debt Restructurings:

The Company had a recorded investment in troubled debt restructurings of $325,966 as of December 31, 2022 and 2021. 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 and 2022. The Bank entered into a Participation Agreement with a third-party participant to cash collateralize and transfer participation interests in this impaired loan with funds on deposit and frozen at the Bank until the ultimate resolution of the impaired loan per the terms and conditions set forth in the Participant Agreement. The Bank bears no credit risk on the participation interest. However, the loan is past due greater than 90 days and on nonaccrual at December 31, 2021 and 2022. 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.

NOTE 4 - PREMISES AND EQUIPMENT AND LEASES

Premises and Equipment:

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

	2022	2021
Furniture, fixtures, and equipment	$ 1,303,190	$ 1,283,105
Leasehold improvements	740,912	740,912
	2,044,102	2,024,017
Less accumulated depreciation and amortization	(1,247,340)	(1,002,666)
	$ 796,762	$ 1,021,351

Depreciation expense was $253,134 and $246,961 for 2022 and 2021, respectively.

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 2.10% and 2.45% for 2022 and 2021, respectively.

NOTE 4 - PREMISES AND EQUIPMENT AND LEASES (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, 2022 and 2021.

At December 31, 2022, the future cash payments under operating lease commitments are as follows:

2023	$ 504,491
2024	489,010
Total undisbursed lease payments	993,501
Less: imputed interest	(25,931)
Net lease liability	$ 967,571

Total Lease expenses were approximately $433,000 and $442,000 for the years ended December 31, 2022 and 2021, respectively.

NOTE 5 - DEPOSITS

At December 31, 2022, the scheduled maturities of time deposits are as follows:

2023	$ 106,649,381
2024	19,667,439
2025	2,969,739
2026	-
2027	4,252,204
Thereafter	743,000
	$ 134,281,763

NOTE 6 – BORROWING ARRANGEMENTS

Federal Home Loan Bank advances

At December 31, 2022, the Company had total borrowing capacity of $113.8 million from the FHLB San Francisco ("FHLBSF") of which $101.3 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, 2022, the Company had pledged $145.2 million of eligible loans and $17.2 million securities under the blanket lien. Each advance is payable at its maturity date, with a prepayment penalty or benefit for fixed rate advances.

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

2022	2021	Interest Rate	Maturity Date
$ -	$ 5,000,000	2.32 %	November 29, 2022
-	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	1.02	March 4, 2025
-	2,500,000	0.96	March 6, 2025
$ 12,500,000	$ 25,000,000		

Federal Funds Unsecured Lines of Credit

The Company may borrow up to $20,000,000 overnight on an unsecured basis from one of its correspondent banks. At December 31, 2022 and 2021, the Company had no balance outstanding under this arrangement.

Subordinated Notes

At December 31, subordinated notes were as follows:

			2022		2021	
	Interest Rate	Maturity Date	Par Value	Unamortized Debt Issuance Cost and Discount	Par Value	Unamortized Debt Issuance Cost and Discount
Subordinated notes	4.50 %	11/23/2032	15,000,000	268,790	15,000,000	337,395
Total subordinated notes, net			$ 15,000,000	$ 268,790	$ 15,000,000	$ 337,395

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.

NOTE 7 - INCOME TAXES

The provision for income taxes for the years ended December 31, 2022 and 2021 consists of the following:

	2022	2021
Current:		
Federal	$ 1,766,450	$ (398)
State	48,197	762,752
Total current	1,814,647	762,354
Deferred:		
Federal	254,561	964,792
State	1,120,387	(205,271)
Total deferred	1,374,948	759,521
Total income tax expense	$ 3,189,595	$ 1,521,875

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:

	2022	2021
Deferred tax assets		
Operating loss carryforward	$ 99,206	$ 2,394,274
Allowance for loan losses	1,817,785	1,184,890
Lease liability	286,049	421,534
Accrued expenses	400,713	272,220
Other real estate owned reserve	310,583	220,492
State taxes	19,786	159,571
Tax credit carryforwards	74,432	54,855
Other assets	379,805	212,508
Total deferred tax assets	3,388,359	4,920,344
Deferred tax liabilities:		
Depreciation differences	(24,127)	(80,091)
Right of use asset	(230,882)	(369,569)
Prepaid expenses	(11,872)	(1,476)
Other liabilities	(244,521)	(217,303)
Total deferred tax liabilities	(511,402)	(668,439)
Net deferred tax assets	$ 2,876,957	$ 4,251,905

NOTE 7 - INCOME TAXES (Continued)

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. At December 31, 2022 and December 31, 2021, 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:

	2022		2021	
	Amount	Rate	Amount	Rate
Statutory federal tax	$ 2,283,669	21.00 %	$ 1,065,630	21.00 %
State franchise tax, net of federal benefit	923,182	8.49	440,411	8.68
Other Items, net	(17,256)	(0.16)	15,834	0.31
Actual tax expense	$ 3,189,595	29.33 %	$ 1,521,875	29.99 %

The Company has no significant unrecognized tax benefits as of December 31, 2022 or 2021, and the Company does not expect any significant increase or decrease in unrecognized tax benefits in the next twelve months.

As of December 31, 2022, the Company has no federal net operating loss carryforwards and California net operating loss carryforwards of approximately $1.1 million. California net operating loss carryforwards expire at 2041.

As of December 31, 2022, the Company has approximately $74,000 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 2019 for federal taxes and before 2018 for state jurisdictions.

NOTE 8 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company grants loans to certain directors and the companies with which they are associated. There were five loans to related parties with a total balance of $5,877,282 outstanding as of December 31, 2022. There were four loans to related parties with a total balance of $5,610,963 outstanding as of December 31, 2021.

Deposits from certain officers and directors and their related interests with which they are associated held by the Company at December 31, 2022 and 2021, amounted to approximately $24,734,000 and $26,121,000, respectively.

NOTE 9 - EMPLOYEE BENEFIT PLAN

The Company adopted a 401(k) for its employees in 2007. Under the plan, eligible employees may defer a portion of their salaries. The plan also provides for discretionary Company profit sharing contributions. Company contributions to the plan on behalf of employees totaled $133,274 in 2022 and $114,621 in 2021.

NOTE 10 - EARNINGS PER SHARE (EPS)

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

	2022	2021
Basic EPS:		
Net income available to common shareholders	$ 7,685,019	$ 3,552,554
Weighted average common shares outstanding	2,055,229	1,865,641
Weighted average common shares equivalents	331,874	-
	2,387,103	1,865,641
Basic earnings per common share	$ 3.22	$ 1.90
Diluted EPS:		
Net income available to common shareholders	$ 7,685,019	$ 3,552,554
Weighted average common shares outstanding and equivalents	2,387,103	1,865,641
Add: Dilutive effects of assumed exercises of stock options	81,118	116,794
Average shares and dilutive potential common shares	2,468,221	1,982,435
Diluted earnings per common share	$ 3.11	$ 1.79

Common shares equivalents of 492,086 shares were considered in computing basic earnings per shares for 492,086 warrant shares issuable for little to no cash consideration which do not contain any vesting conditions in 2022. Common stock options totaling 383,620 shares were considered in computing diluted earnings per share in 2022. This resulted in a dilutive effect of assumed exercises of stock options totaling 81,118 shares. Common stock options totaling 95,000 were not considered in computing earnings per share in 2022 as they were antidilutive.

NOTE 11 - COMMITMENTS

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

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

NOTE 11 – COMMITMENTS (Continued)

As of December 31, 2022 and 2021, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2022	2021
Commitments to extend credit	$ 39,100,260	$ 52,741,677
Commercial letters of credit	1,973,277	1,973,277
	$ 41,073,537	$ 54,714,954

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, 2022 and 2021.

NOTE 12 – STOCKHOLDERS' EQUITY AND STOCK PLAN

Stockholders' Equity

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

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

Stock Plan

The Company's 2007 Omnibus Stock Incentive Plan (the "2007 Plan") was approved by its shareholders on July 5, 2007. Under the terms of the 2007 Plan, directors, officers, employees, and consultants may be granted options, stock appreciation rights, restricted stock awards, deferred stock awards and performance units and also allows for performance objectives upon which awards may be conditioned. The reserved share amount is subject to adjustments for stock splits, stock dividends, recapitalization, or similar

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

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 72,341 as of December 31, 2022. Options granted generally vest over 3 to 4 years.

In 2022, the Company recognized $310,704 in expense associated with options issued to various directors, officers, and employees of the Company. In 2021, the Company recognized $68,844 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.

	2022	2021	
Risk-free interest rate	2.08	1.36	%
Expected term	6.25	6.25	years
Expected stock price volatility	34.00	34.00	%
Dividend yield	-	-	%
Weighted average fair value	$ 6.50	$ 5.44	

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.

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

A summary of the status of the Company's stock option plan as of December 31, 2022 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	445,871	$ 12.28		
Granted	95,000	18.00		
Exercise	(60,001)	11.53		
Forfeited or expired	(2,250)	11.00		
Outstanding at end of year and expected to vest	478,620	$ 13.47	4.6 years	$ 2,127,278
Options exercisable	311,370	$ 11.17	2.2 years	$ 2,524,464

Options granted in 2022 vest ratably over a 4 years period. As of December 31, 2022, unrecognized compensation expense was $803,000. Annual compensation expense expected to be recognized in years 2023 through 2026 is $314,000, 256,000, $200,000 and 33,000, respectively. 95,000 common stock options were granted during the year ended December 31, 2022. Cash proceeds from options exercised during 2022 totaled $251,989. The intrinsic value and tax benefit associated with the options exercises were not material.

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.
Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities, or total earnings.

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

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

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

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

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Federal Home Loan Bank Stock. It is not practical to determine the fair value of FHLB stock due to the restrictions placed on its transferability.

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

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

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

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

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

There were no material financial instruments carried at fair value on a recurring or non-recurring basis at December 31, 2022 or 2021.

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The carrying amount and estimated fair values of financial instruments not carried at fair value, at December 31, 2022 and 2021 are as follows (dollar in thousands):

		Fair Value Measurements at December 31, 2022 Using:			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and due from financial institutions	$ 1,655	$ 1,655	$ -	$ -	$ 1,655
Interest-earning deposits	74,483	74,483	-	-	74,483
Securities held-to-maturity	25,936	-	25,508	-	25,508
Loans, net	535,679	-	-	519,155	519,155
Federal Home Loan Bank stock	2,060	N/A	N/A	N/A	N/A
Accrued interest receivable	2,357	-	2,357	-	2,357
Financial liabilities					
Deposits (excluding noninterest-bearing deposits)	$ 385,007	$ -	$ 368,482	$ -	$ 368,482
Federal Home Loan Bank advances	12,500	-	12,137	-	12,137
Subordinated notes	14,731	-	13,540	-	13,540
Accrued interest payable	290	-	290	-	290

		Fair Value Measurements at December 31, 2021 Using:			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and due from financial institutions	$ 6,642	$ 6,642	$ -	$ -	$ 6,642
Interest-earning deposits	97,976	97,976	-	-	97,976
Loans, net	410,280	-	384,434	-	384,434
Federal Home Loan Bank stock	1,534	N/A	N/A	N/A	N/A
Accrued interest receivable	1,542	-	1,542	-	1,542
Financial liabilities					
Deposits (excluding noninterest-bearing deposits)	$ 366,822	$ -	$ 364,170	$ -	$ 364,170
Federal Home Loan Bank advances	25,000	-	25,070	-	25,070
Subordinated notes	14,663	-	14,663	-	14,663
Accrued interest payable	130	-	130	-	130

NOTE 14 - REGULATORY MATTERS

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

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

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

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

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

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

NOTE 14 - REGULATORY MATTERS (Continued)

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

			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, 2022:						
Total Capital (to Risk-Weighted Assets)	$ 70,563	13.38 %	$ 42,182	8.00 %	$ 52,728	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	63,956	12.13	31,637	6.00	42,182	8.00
CET1 Capital (to Risk-Weighted Assets)	63,956	12.13	23,728	4.50	34,273	6.50
Tier 1 Capital (to Average Assets)	63,956	9.86	25,957	4.00	32,446	5.00
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

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 15 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events for recognition and disclosure through April 20, 2023, which is the date the financial statements were available to be issued.