



Financial Statements
December 31, 2022 and 2021
Mega Bank

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Independent Auditor's Report

Board of Directors and Shareholders of
Mega Bank
San Gabriel, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mega Bank, which comprise the statements of financial condition as of December 31, 2022 and 2021, and the related statements of income, 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 financial statements present fairly, in all material respects, the financial position of Mega Bank as of December 31, 2022 and 2021, and the results of their operations and their cash flows for 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 Mega Bank, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Bank has adopted the provisions of FASB Accounting Standards Codification Topic 842, *Leases*, as of January 1, 2022, using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mega Bank'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mega Bank'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.

Eide Sully LLP

Laguna Hills, California
April 10, 2023

Mega Bank
Statements of Financial Condition
December 31, 2022 and 2021

	2022	2021
Assets		
Cash and due from banks	\$ 7,189,563	\$ 4,805,904
Federal funds sold	27,260,660	1,087,006
Interest-bearing deposits in other banks	68,122,784	96,731,420
Cash and cash equivalents	102,573,007	102,624,330
Interest-bearing deposits in other banks	100,000	2,261,818
Debt securities available for sale	17,542,325	9,756,495
Loans held for sale	4,249,086	-
Loans held for investment, net of allowance for loan losses of \$5,056,565 in 2022, and \$5,129,865 in 2021	327,636,710	326,731,744
Premises and equipment	750,491	442,776
Right of use asset	4,478,154	-
Accrued interest receivable	2,318,607	1,576,666
Restricted stock	1,695,100	1,879,700
Bank owned life insurance	7,066,173	6,889,201
Deferred tax asset	3,026,957	2,643,152
Other assets	1,455,935	1,759,853
Total assets	\$ 472,892,545	\$ 456,565,735
Liabilities		
Deposits		
Noninterest-bearing	\$ 48,375,477	\$ 50,101,653
Interest-bearing	349,001,879	333,022,752
Total deposits	397,377,356	383,124,405
Federal Home Loan Bank advances	14,000,000	21,000,000
Accrued interest payable	338,829	72,225
Lease liability	4,478,154	-
Other liabilities	2,118,818	2,551,562
Total liabilities	418,313,157	406,748,192
Shareholders' Equity		
Common stock, no par value, 10,000,000 shares authorized 3,790,866 shares issued and outstanding	40,799,290	41,771,729
Additional paid in capital	1,131,332	-
Retained earnings	14,287,087	8,205,330
Accumulated other comprehensive loss, net of tax	(1,638,321)	(159,516)
Total shareholders' equity	54,579,388	49,817,543
Total liabilities and shareholders' equity	\$ 472,892,545	\$ 456,565,735

Mega Bank
Statements of Income
Years Ended December 31, 2022 and 2021

	2022	2021
Interest Income		
Interest and fees on loans	\$ 19,265,745	\$ 15,045,041
Interest on federal funds sold	153,341	2,146
Interest on interest bearing deposits in other financial institutions	962,956	211,377
Interest on debt securities	302,258	58,713
Dividend income	126,836	113,434
Total interest and dividend income	20,811,136	15,430,711
Interest Expense		
Interest on deposits	3,105,337	1,795,524
Interest on borrowings	203,637	278,528
Total interest expense	3,308,974	2,074,052
Net interest income	17,502,162	13,356,659
Provision (credit) for loan losses	(105,013)	(188,238)
Net interest income after provision for loan losses	17,607,175	13,544,897
Noninterest Income		
Service charges on deposit accounts	290,343	47,219
Net gain on sale of loans	723,049	1,827,831
Income from bank owned life insurance	186,226	187,866
Servicing income, net	334,657	257,495
Employee retention tax credit	-	335,873
Other miscellaneous income	154,638	330,287
Total noninterest income	1,688,913	2,986,571
Noninterest Expense		
Salaries and employee benefits	7,041,987	5,830,149
Occupancy and equipment	1,465,140	1,388,106
Other expenses	2,312,975	2,188,630
Total noninterest expense	10,820,102	9,406,885
Income before income tax expense	8,475,986	7,124,583
Provision for income taxes	2,394,229	1,598,851
Net Income	\$ 6,081,757	\$ 5,525,732

Mega Bank
Statements of Comprehensive Income
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net Income	\$ 6,081,757	\$ 5,525,732
Unrealized holding (loss) gain on securities available-for-sale during the period	(2,063,479)	(227,880)
Tax effect	<u>584,674</u>	<u>68,364</u>
Other comprehensive (loss) income, net of tax	<u>(1,478,805)</u>	<u>(159,516)</u>
Comprehensive income	<u><u>\$ 4,602,952</u></u>	<u><u>\$ 5,366,216</u></u>

Mega Bank
Statements of Changes in Shareholders' Equity
Years Ended December 31, 2022 and 2021

	Number of Shares	Common Stock	Additional Paid-In Capital (APIC)	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2020	3,785,586	\$ 41,603,781	\$ -	\$ 2,679,598	\$ -	\$ 44,283,379
Net income	-	-	-	5,525,732	-	5,525,732
Exercise of stock options	5,280	48,416	-	-	-	48,416
Stock compensation expense	-	119,532	-	-	-	119,532
Other comprehensive loss	-	-	-	-	(159,516)	(159,516)
Balance at December 31, 2021	3,790,866	41,771,729	-	8,205,330	(159,516)	49,817,543
Net income	-	-	-	6,081,757	-	6,081,757
Transfer to APIC	-	(972,439)	972,439	-	-	-
Stock compensation expense	-	-	158,893	-	-	158,893
Other comprehensive loss	-	-	-	-	(1,478,805)	(1,478,805)
Balance at December 31, 2022	<u>3,790,866</u>	<u>\$ 40,799,290</u>	<u>\$ 1,131,332</u>	<u>\$14,287,087</u>	<u>\$ (1,638,321)</u>	<u>\$ 54,579,388</u>

Mega Bank
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Activities		
Net income	\$ 6,081,757	\$ 5,525,732
Adjustments to reconcile net income to net cash provided by operating activities		
Net amortization of securities available for sale	9,259	2,188
(Credit) provision for loan losses	(105,014)	(188,238)
Depreciation and amortization of premises and equipment	165,432	253,165
Net gain on sale of loans	(723,049)	(1,827,831)
Stock compensation expense	158,893	119,532
Deferred income tax expense (benefit)	200,868	(410,948)
Earnings on bank owned life insurance	(176,972)	(187,867)
Change in other assets and liabilities	(604,159)	(987,536)
Net Cash Provided by Operating Activities	5,007,015	2,298,197
Investing Activities		
Decrease in interest-bearing deposits in other banks	2,161,818	493,319
Change in restricted stock	184,600	179,900
Proceeds from sales, maturities and repayments of debt securities available for sale	150,416	32,439
Purchase of debt securities available for sale	(10,008,987)	(10,019,002)
Loan originations, purchases, and principal collections, net	(4,325,989)	7,804,872
Purchase of premises and equipment	(473,147)	(134,647)
Net Cash Used in Investing Activities	(12,311,289)	(1,643,119)
Financing Activities		
Net increase in deposits	14,252,951	41,369,809
Exercise of stock options	-	48,416
Repayment of Federal Home Loan Bank advances	(7,000,000)	(5,000,000)
Net Cash Provided by Financing Activities	7,252,951	36,418,225
Net Change in Cash and Cash Equivalents	(51,323)	37,073,303
Cash and Cash Equivalents at Beginning of Period	102,624,330	65,551,027
Cash and Cash Equivalents at End of Period	\$ 102,573,007	\$ 102,624,330
Supplemental Disclosure for Cash Flow Information		
Cash payments for		
Interest paid	\$ 3,042,371	\$ 2,122,526
Income taxes paid	2,185,000	1,770,000
Transfer from portfolio loans to loans held for sale	4,249,086	-

Note 1 - Significant Accounting Policies

Nature of Operations

Mega Bank (the Bank) was organized on January 9, 2007 and commenced operations on February 5, 2008 in San Gabriel, California. The Bank is a full-service commercial bank offering a broad range of banking services to businesses, professional firms, various other organizations and their owners and key officers, as well as individuals throughout the Southern California region. These services include commercial, real estate, lease financing and consumer loans, business and consumer checking accounts, money market accounts, savings accounts, certificates of deposit, trade finance and other services. The Bank operates from its corporate headquarters office in San Gabriel, California. The Bank has three full-service branches in Los Angeles County and one full-service branch in Orange County.

Mega Bank is a state-chartered depository institution insured by the FDIC. As an insured depository institution, the Bank is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates. An estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses.

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash due from banks, overnight federal funds sold and term federal funds and interest bearing deposits with other banks with an original term of 90 days or less. Federal funds sold have an original maturity of one business day or roll over under a continuing contract.

Interest-Bearing Deposits in Other Banks

Interest-bearing deposits in other banks with an original maturity of 90 days or greater are excluded from cash and cash equivalents and are carried at cost.

Debt Securities

The Bank classifies its debt securities as available-for-sale or held-to-maturity. Securities classified as available-for-sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in comprehensive income. Securities, which the Bank has the positive intent and ability to hold to maturity, are classified as held-to-maturity and are carried at amortized cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Bank follows the accounting guidance related to recognition and presentation of other-than-temporary impairment. This guidance specifies that (a) if a Bank does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Restricted Stock and Equity Securities

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

The Bank measures equity securities without readily determinable fair values at cost less impairment, plus or minus observable price changes in orderly transactions. The carrying amount of equity securities without readily determinable fair values is \$250,000 as of December 31, 2022 and 2021 and includes Community Reinvestment Act investments. There were no adjustments to the carrying amount of equity securities in 2022 or 2021.

Loans Held for Sale

Portfolio loans transferred to loans held for sale are carried at the lower of cost or fair value at the time of transfer.

Loans

Loans are reported at their outstanding unpaid principal balance adjusted for the allowance for loan losses and any deferred fees and costs on originated loans.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Past due status is based on contractual terms of the loan. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. 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.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is 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.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and agricultural loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

Portfolio segments identified by the Bank include real estate, commercial 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

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) 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 (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on its fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is recognized through valuation allowance for individual tranches, to the extent that fair value is less than the capitalized amount for the tranches. If the Bank later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported as a separate line item on the statement of financial condition and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, ranging from 3 to 8 years. Leasehold improvements are amortized over the term of the lease or the service lives of the improvements, whichever is shorter. The straight-line method of depreciation is followed for financial reporting purposes, while both accelerated and straight-line methods are followed for income tax purposes. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

Bank Owned Life Insurance

Investment in life insurance contracts is stated at cash surrender value of the various insurance policies. The income on the investment is included in other noninterest income.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of property and equipment, intangible assets, and accrued expenses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Stock-Based Compensation

Stock-based compensation expense reflects the fair value of stock-based awards measured at the grant date and recognized over the relevant vesting period. The Bank estimates the fair value of each stock-based award on the measurement date using the Black-Scholes option valuation model which incorporates assumptions as to stock price volatility, the expected life of the options, risk-free interest rate and dividend yield.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Bank's accounting policy is to recognize forfeitures as they occur.

Advertising Costs

The Bank expenses the cost of advertising in the period incurred.

Revenue Recognition

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Bank expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Bank performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract; and (v) recognize revenue when (or as) the Bank satisfies a performance obligation. The Bank only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Bank assesses the goods or services that are promised within each contract and identifies those that contain performance obligation, and assesses whether each promised good or service is distinct. The Bank then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The following is a discussion of key revenues within the scope of ASC 606.

- **Service Charges and Fees on Deposit Accounts**
The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied, and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as nonsufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.
- **Interchange Fees**
Interchange fees represents fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through a payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied, and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

Comprehensive Income (Loss)

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale.

Subsequent Events

The Bank has evaluated subsequent events through April 10, 2023, which is the date the financial statements were issued or the date the financial statements were available to be issued.

Adoption of Accounting Standards Codification Topic 842

Effective January 1, 2022, the Bank adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases* (Topic 842). The Bank applied the guidance as of January 1, 2022, the beginning of the adoption period. The comparative financial information and disclosures presented are in accordance with the legacy standard, ASC 840. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the income statement as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense.

The Bank has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Bank accounted for its existing leases as either finance or operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Bank recognized on January 1, 2022, the beginning of the adoption period, an operating lease liability and an operating right-of-use asset of \$4,934,000. There was no cumulative effect adjustment to retained earnings. The adoption of the new standard did not materially impact the Bank's statements of income or statements of cash flows. See Note 6 for further disclosure of the Bank's lease contracts.

Note 2 - Restrictions on Cash and Amounts Due from Banks

Banking regulations require that all banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. Effective March 12, 2021, the Federal Reserve’s board of directors approved a final rule reducing the required reserve requirement ratios to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or on deposit with the Federal Reserve Bank.

The Bank maintains cash that may exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. The Bank does not expect to incur losses in its cash accounts.

Note 3 - Debt Securities

The amortized cost and fair values of debt securities with gross unrealized gains and losses at December 31, 2022 are as follows:

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. treasury securities	\$ 6,001,467	\$ -	\$ (255,327)	\$ 5,746,140
U.S. agency securities	11,997,439	-	(1,761,509)	10,235,930
U.S. agency mortgage-backed securities	1,834,777	-	(274,522)	1,560,255
	<u>\$ 19,833,683</u>	<u>\$ -</u>	<u>\$ (2,291,358)</u>	<u>\$ 17,542,325</u>

The amortized cost and fair values of debt securities with gross unrealized gains and losses at December 31, 2021 are as follows:

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. agency securities	\$ 7,997,123	\$ -	\$ (173,123)	\$ 7,824,000
U.S. agency mortgage-backed securities	1,987,251	-	(54,756)	1,932,495
	<u>\$ 9,984,374</u>	<u>\$ -</u>	<u>\$ (227,879)</u>	<u>\$ 9,756,495</u>

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2022, are shown below. Securities not due at a single maturity date are presented separately.

	Securities Available-for-Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ -	\$ -
Due from one to five years	10,001,466	9,534,150
Due from five to ten years	7,997,440	6,447,920
Due after ten years	-	-
Mortgage-backed securities	1,834,777	1,560,255
	<u>\$ 19,833,683</u>	<u>\$ 17,542,325</u>

No investment securities were pledged as collateral as of December 31, 2022 or 2021.

At December 31, 2022, the Bank had 15 debt securities with an unrealized loss of \$2,291,358, which have depreciated approximately 11.6 percent from the amortized cost basis. These securities are guaranteed either explicitly or implicitly by the U.S. Government and therefore no credit loss is expected. As the Bank does not intend to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, no declines are deemed to be other-than-temporary.

The following table summarizes debt securities with unrealized and unrecognized losses at December 31, 2022, aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

	2022					
	Less than 12 months		Over 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
U.S. treasury securities	\$ 5,746,140	\$ (255,327)	\$ -	\$ -	\$ 5,746,140	\$ (255,327)
U.S. agency securities	3,788,010	(211,990)	6,447,920	(1,549,519)	10,235,930	(1,761,509)
U.S. agency mortgage-backed securities	-	-	1,560,255	(274,522)	1,560,255	(274,522)
	<u>\$ 9,534,150</u>	<u>\$ (467,317)</u>	<u>\$ 8,008,175</u>	<u>\$ (1,824,041)</u>	<u>\$ 17,542,325</u>	<u>\$ (2,291,358)</u>

All unrealized and unrecognized losses at December 31, 2021 were in a continuous loss position for less than 12 months.

Note 4 - Loans and Allowance for Loan Losses

The composition of the Bank's loans held for investment at December 31 is as follows:

	<u>2022</u>	<u>2021</u>
Real Estate		
Construction and land	\$ 99,280,953	\$ 77,569,250
Residential	30,693,848	38,844,180
Multi-family	16,288,086	25,122,543
Commercial real estate	130,082,798	136,425,174
Commercial		
Commercial and industrial	51,943,406	50,083,793
PPP	63,610	47,286
Consumer	<u>2,372,434</u>	<u>3,537,050</u>
 Total gross loans	 <u>330,725,135</u>	 <u>331,629,276</u>
 Allowance for loan losses	 (5,056,565)	 (5,129,865)
Deferred loan costs and premiums, net of fees	3,073,742	1,244,857
Discount on retained portion of sold SBA Loans	<u>(1,105,602)</u>	<u>(1,012,524)</u>
 Loans held for investment, net	 <u>\$ 327,636,710</u>	 <u>\$ 326,731,744</u>

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

	<u>Real Estate</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
Allowance for Loan Losses				
Beginning of Year	\$ 4,422,250	\$ 697,215	\$ 10,400	\$ 5,129,865
Provisions (Credit)	(3,063)	(67,610)	(34,340)	(105,013)
Charge-offs	-	-	-	-
Recoveries	-	-	31,713	31,713
 End of Year	 <u>\$ 4,419,187</u>	 <u>\$ 629,605</u>	 <u>\$ 7,773</u>	 <u>\$ 5,056,565</u>
 Reserves				
Specific	\$ -	\$ -	\$ -	\$ -
General	4,419,187	629,605	7,773	5,056,565
Loans Evaluated for Impairment				
Individually	\$ 1,851,094	\$ -	\$ -	\$ 1,851,094
Collectively	<u>274,494,591</u>	<u>52,007,016</u>	<u>2,372,434</u>	<u>328,874,041</u>
	<u>\$ 276,345,685</u>	<u>\$ 52,007,016</u>	<u>\$ 2,372,434</u>	<u>\$ 330,725,135</u>

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

	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses				
Beginning of Year	\$ 4,453,302	\$ 670,772	\$ 129,684	\$ 5,253,758
Provisions (Credit)	(31,052)	(52,791)	(104,395)	(188,238)
Charge-offs	-	-	(31,714)	(31,714)
Recoveries	-	79,234	16,825	96,059
End of Year	<u>\$ 4,422,250</u>	<u>\$ 697,215</u>	<u>\$ 10,400</u>	<u>\$ 5,129,865</u>
Reserves				
Specific	\$ -	\$ -	\$ -	\$ -
General	4,422,250	697,215	10,400	5,129,865
Loans Evaluated for Impairment				
Individually	\$ 1,851,094	\$ -	\$ -	\$ 1,851,094
Collectively	276,110,053	50,131,079	3,537,050	329,778,182
	<u>\$ 277,961,147</u>	<u>\$ 50,131,079</u>	<u>\$ 3,537,050</u>	<u>\$ 331,629,276</u>

The Bank 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 Bank 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 Bank uses the following definitions for risk ratings:

Pass - Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions above and smaller, homogeneous loans not assessed on an individual basis.

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 Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows as of December 31, 2022:

December 31, 2022	Pass	Special Mention	Substandard	Impaired	Total
Real Estate					
Construction and land	\$ 99,280,953	\$ -	\$ -	\$ -	\$ 99,280,953
Residential	30,693,848	-	-	-	30,693,848
Multi-Family	16,288,086	-	-	-	16,288,086
Commercial real estate	128,231,704	-	-	1,851,094	130,082,798
Commercial					
Commercial and industrial	51,832,276	-	111,130	-	51,943,406
PPP	63,610	-	-	-	63,610
Consumer	2,372,434	-	-	-	2,372,434
	<u>\$328,762,911</u>	<u>\$ -</u>	<u>\$ 111,130</u>	<u>\$ 1,851,094</u>	<u>\$330,725,135</u>

The risk category of loans by class of loans is as follows as of December 31, 2021:

December 31, 2021	Pass	Special Mention	Substandard	Impaired	Total
Real Estate					
Construction and land	\$ 77,569,250	\$ -	\$ -	\$ -	\$ 77,569,250
Residential	38,844,180	-	-	-	38,844,180
Multi-Family	25,122,543	-	-	-	25,122,543
Commercial real estate	128,020,674	4,249,086	2,304,320	1,851,094	136,425,174
Commercial					
Commercial and industrial	47,631,937	158,231	2,293,625	-	50,083,793
PPP	47,286	-	-	-	47,286
Consumer	3,537,050	-	-	-	3,537,050
	<u>\$320,772,920</u>	<u>\$ 4,407,317</u>	<u>\$ 4,597,945</u>	<u>\$ 1,851,094</u>	<u>\$331,629,276</u>

Past due and nonaccrual loans were as follows as of December 31, 2022:

	Still Accruing		Nonaccrual
	30-89 Days Past Due	Over 90 Days Past Due	
Residential real estate	\$ 459,429	\$ -	\$ -
Multifamily	-	-	-
Commercial real estate	-	-	6,100,180
Commercial and industrial	2,185,103	-	-
Consumer	-	20,615	-
	<u>\$ 2,644,532</u>	<u>\$ 20,615</u>	<u>\$ 6,100,180</u>

Past due and nonaccrual loans were as follows as of December 31, 2021:

	Still Accruing		Nonaccrual
	30-89 Days Past Due	Over 90 Days Past Due	
Residential real estate	\$ 1,217,725	\$ -	\$ -
Multifamily	2,942,960	-	-
Commercial real estate	1,079,085	-	1,851,094
Commercial and industrial	2,702,817	-	-
Consumer	45,246	-	-
	<u>\$ 7,987,833</u>	<u>\$ -</u>	<u>\$ 1,851,094</u>

The following tables summarize individually impaired loans by class of loans as of December 31, 2022 and 2021:

December 31, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no Allowance Recorded Commercial real estate	<u>\$ 1,851,094</u>	<u>\$ 1,851,094</u>	<u>\$ -</u>	<u>\$ 1,851,094</u>	<u>\$ -</u>
December 31, 2021					
With no Allowance Recorded Commercial real estate	<u>\$ 1,851,094</u>	<u>\$ 1,851,094</u>	<u>\$ -</u>	<u>\$ 1,851,094</u>	<u>\$ -</u>

No loans were modified in a troubled debt restructuring during the years ended December 31, 2022 and 2021.

Note 5 - Premises and Equipment

Bank premises and equipment consisted of the following at December 31:

	2022	2021
Furniture, fixture and equipment	\$ 1,007,741	\$ 956,521
Computer equipment	160,046	158,340
Leasehold improvements	2,877,724	2,636,923
Construction in progress	-	119,218
	4,045,511	3,871,002
Less accumulated depreciation and amortization	3,295,020	3,428,225
Total premises and equipment	\$ 750,491	\$ 442,777

Depreciation and amortization expense for years ended December 31, 2022 and 2021, amounted to \$165,432 and \$159,444, respectively.

Note 6 - Leases

The Bank leases certain office facilities for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2032 and provide for renewal options of various length. The Bank included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The leases provide for increases in future minimum annual rental payments based on defined increases. Also, the agreements generally require the Bank to pay real estate taxes, insurance, utilities and common area maintenance, which is considered variable lease cost.

The weighted-average discount rate is based on the discount rate implicit in the lease. If the implicit rate is not readily determinable from the lease, the Bank estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Bank's applicable borrowing rates and the contractual lease term. The weighted-average remaining lease term and discount rate was 7.30 years and 6.5% at December 31, 2022, respectively.

The following table represents lease costs and other lease information for the year ended December 31, 2022:

	2022
Operating lease cost	\$ 915,347
Common area maintenance	64,960
Total lease costs	\$ 980,307

Other Information:

Cash Paid for Amounts Included in the Measurement of Lease Liabilities	\$ 858,330
Right-of-Use Assets Obtained in Exchange for Lease Obligations	\$ -

Total lease costs under noncancelable leases was \$1,029,904 for the year ended December 31, 2021.

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 31, 2022:

Year Ending	2022
2023	\$ 873,112
2024	897,162
2025	921,755
2026	678,905
2027	429,795
After 2027	1,862,156
Total Lease Payments	5,662,885
Less Imputed Interest	(1,184,731)
Present Value of Net Future Minimum Lease Payments	\$ 4,478,154

Future minimum lease payments determined under the guidance in Topic 840 are list below as of December 31, 2021:

<u>Year Ending</u>	<u>2021</u>
2022	\$ 858,328
2023	867,874
2024	881,308
2025	895,003
2026	662,769
After 2026	<u>2,291,951</u>
Total	<u>\$ 6,457,233</u>

Note 7 - Investment in Life Insurance Contracts

The Bank is the owner and the beneficiary of life insurance policies on certain directors and officers of the Bank. The cash surrender value on the policies amounted to \$7,066,173 and \$6,889,201 as of December 31, 2022 and 2021.

Note 8 - Deposits

Interest-bearing and noninterest-bearing deposits consist of the following:

	<u>2022</u>	<u>2021</u>
Savings, NOW and money market accounts	\$ 75,949,494	\$ 105,539,945
Time certificate of deposit accounts under \$250,000	109,638,967	82,156,428
Time certificate of deposit accounts \$250,000 or over	139,757,304	113,604,771
Brokered deposits, less than \$250,000	<u>23,656,114</u>	<u>31,721,608</u>
Total interest-bearing deposits	<u>349,001,879</u>	<u>333,022,752</u>
Total noninterest-bearing deposits	<u>48,375,477</u>	<u>50,101,653</u>
Total Deposits	<u>\$ 397,377,356</u>	<u>\$ 383,124,405</u>

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

Within 1 year	\$ 225,027,860
After 1 year through 3 years	<u>24,368,411</u>
	<u>\$ 249,396,271</u>

Note 9 - Stock Investments, Restricted

The Bank, as a member of the FHLB system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of one percent of its outstanding home loans or five percent of advances from the FHLB. No ready market exists for the FHLB stock, and it has no quoted market value. FHLB stock is carried at \$1,695,100 and \$1,879,700 at December 31, 2022 and 2021, respectively, which is equal to cost.

Note 10 - Related Party Transactions

In the ordinary course of business, the Bank has granted loans to its principal officers, directors, principal shareholders, and their affiliates. The aggregate amount of loans outstanding to such related parties was \$0 as of December 31, 2022 and 2021.

Deposits from related parties held by the Bank at December 31, 2022 and 2021, amounted to approximately \$40,687,000 and \$21,988,000.

Note 11 - Federal Home Loan Bank Borrowings

FHLB advances represent secured obligations to the FHLB.

At December 31, 2022, the Bank's FHLB advances were as follows:

Amount	Interest Rate	Maturity Date
\$ 7,000,000	1.34%	February 27, 2023
7,000,000	1.36%	February 25, 2025
<u>\$ 14,000,000</u>		

Each advance is payable at its maturity date. The advances were collateralized by loans with an approximate carrying value of \$172.5 million. Based on this collateral and the Bank's holdings of FHLB stock, the Bank has remaining borrowing capacity of \$77.5 million as of December 31, 2022.

Note 12 - Federal Funds Line of Credit

The Bank may borrow up to \$22.0 million overnight on an unsecured basis from three correspondent banks. As of December 31, 2022, there were no amounts outstanding under these unsecured borrowing arrangements.

Note 13 - Income Taxes

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The following is a summary of the provision for income taxes for the years ended December 31:

	2022	2021
Currently payable		
Federal	\$ 1,286,181	\$ 1,178,702
State	907,180	831,097
	2,193,361	2,009,799
Deferred Taxes		
Federal	157,702	(311,319)
State	43,166	(99,629)
	200,868	(410,948)
Total provision for income taxes	\$ 2,394,229	\$ 1,598,851

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

	2022		2021	
	Amount	Rate	Amount	Rate
Statutory federal tax	\$ 1,779,957	21.0 %	\$ 1,496,162	21.0 %
State franchise tax, net of federal benefit	717,543	8.5	570,056	8.0
Tax lease credit refunds	-	-	(374,443)	(5.3)
Other items, net	(103,271)	(1.3)	(92,924)	(1.3)
Provision for income taxes	\$ 2,394,229	28.2 %	\$ 1,598,851	22.4 %

The components of the net deferred tax asset were as follows at December 31:

	2022	2021
Deferred tax assets		
Allowance for loan losses	\$ 1,263,019	\$ 1,294,064
Stock-based compensation	182,549	221,081
Depreciation	151,413	259,799
State tax deduction	190,889	175,041
Accrued expenses	354,401	313,341
Unrealized loss on securities available for sale	653,037	68,364
Other	289,624	311,623
	3,084,932	2,643,313
Deferred tax liabilities		
Other	(57,975)	(161)
	(57,975)	(161)
Net Deferred Tax Asset	\$ 3,026,957	\$ 2,643,152

The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

The Bank is subject to federal income tax and franchise tax of the state of California. Income tax returns for the years ended after December 31, 2018 are open to audit by the federal authorities and for the years ended after December 31, 2017 are open to audit by California state authorities.

Note 14 - Commitments and Contingencies

Credit-Related Financial Instruments

In the ordinary course of business, the Bank enters into financial commitments to meet the financing needs of its customers. These financial instruments generally include commitments to extend credit and standby letters of credit, all of which are at variable rates. Those instruments involve, to varying degrees, elements of credit and interest rate risk not recognized in the Bank's financial statements. To mitigate the risk posed by these off balance sheet exposures, the Bank has established a reserve for off balance sheet exposure of \$129,001 and \$361,140 at December 31, 2022 and 2021, respectively. This reserve is included in other liabilities.

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

As of December 31, 2022 and 2021, the Bank had approximately \$57,923,000 and \$57,265,000, respectively, of undisbursed financial commitments whose contractual amount represents credit risk, all of which were at variable rates.

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 fully drawn upon, the total amounts do not necessarily represent future cash requirements. The Bank evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Pending Litigation

In the normal course of business, the Bank may become involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the financial statements.

Note 15 - Concentration Risk

The Bank's loan portfolio consists primarily of loans secured by real estate in Southern California. Although the Bank has a diversified loan portfolio, a substantial part of the debtors' ability to honor their contracts is dependent upon the economic conditions in this region. Real estate secured loans account for approximately 84 percent of the total loan portfolio at December 31, 2022 and 2021.

Note 16 - Employee Benefit Plan

The Bank has a 401(k) savings and retirement plan (the Plan) that includes substantially all employees. The Bank established a 401(k) plan under which eligible employees may contribute up to the maximum dollar amount allowed by the IRS each year. The Bank matches employee contributions dollar-for-dollar, up to one percent of salaries. The Bank matched \$130,036 and \$30,001 of employee deferrals during the years ended December 31, 2022 and 2021, respectively.

Note 17 - Stock Option Plan

The Bank has a stock option plan, The Mega Bank Amended and Restated Omnibus Plan (the 2018 Plan), which enables the Bank to grant share-based compensation awards, including stock options and stock appreciation rights. The 2018 Plan became effective in the year ended December 31, 2018 and replaced the Bank's 2008 Long-Term Stock Incentive Plan. Directors and other individuals, who are not officers or employees, may be granted only nonqualified stock options.

A total of 1,136,456 shares were approved for the 2018 Plan. The exercise price per share of a stock option granted under the 2018 Plan may not be less than the fair market value of the common stock as of the date of the grant. Stock option grants vest ratably over a specified period as of the date of the grant (generally, three to five years) and expire ten years after the date of the grant. The 2018 Plan will terminate no later than the tenth anniversary of its effective date.

Compensation cost charged to operations for the plan was \$158,893 and \$119,532 for the years ended December 31, 2022 and 2021, respectively. The total income tax benefit recognized in the statements of income for stock-based compensation arrangements was \$21,759 and \$17,878 for the years ended December 31, 2022 and 2021, respectively.

A summary of option activity under the plan as of December 31, 2022 and for the year then ended is as follows:

Options	Shares	Weighted - Average Exercise Price	Weighted - Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2022	521,600	\$ 10.73		
Granted	10,000	14.40		
Exercised	-	-		
Forfeited	(80,000)	10.54		
Expired	-	-		
	<u>451,600</u>	<u>\$ 10.90</u>	<u>3.6</u>	<u>\$ 1,582,050</u>
Outstanding at December 31, 2022				
Exercisable at December 31, 2022	<u>304,400</u>	<u>\$ 10.63</u>	<u>5.4</u>	<u>\$ 1,147,576</u>

As of December 31, 2022, there was \$268,363 of total unrecognized compensation cost related to share-based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.2 years.

Note 18 - 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 classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum capital ratios as set forth in the table below. Management believes that the Bank met all capital adequacy requirements to which it is subject as of December 31, 2022 and 2021.

As of December 31, 2022, 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.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to Section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides graduated increases in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to Section 4012 of the CARES Act.

The CBLR removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of Section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the CBLR minimum requirement is 8.0 percent as of December 31, 2020, 8.5 percent for calendar year 2021, and 9.0 percent for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7.0 percent as of December 31, 2020, 7.5 percent for calendar year 2021, and 8.0 percent for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the Risk-weighting framework without restriction. As of December 31, 2022, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

The table below presents the Bank's capital ratios under the CBLR framework as of December 31, 2022 and 2021 (dollar amounts in thousands):

	Actual		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
As of December 31, 2022				
Tier 1 Capital to Average Assets	\$ 56,218	12.44%	\$ 40,685	9.00%
As of December 31, 2021				
Tier 1 Capital to Average Assets	\$ 49,978	12.24%	\$ 34,719	8.50%

Note 19 - Other Operating Expenses

The following sets forth the breakdown of other operating expenses for the years ended December 31:

	2022	2021
Marketing and business promotion	\$ 58,522	\$ 44,698
Professional fees	890,521	703,730
Data processing	552,216	535,030
Insurance and assessments	397,973	499,828
Director related	236,782	247,500
Office expenses	110,137	178,280
Provision (credit) for off-balance sheet commitments	(232,140)	(249,032)
Other expenses	298,964	228,596
Total non-interest expenses	<u>\$ 2,312,975</u>	<u>\$ 2,188,630</u>

Note 20 - Sales of SBA Loans and Servicing Rights

The Bank was servicing \$45,929,261 and \$40,129,968 in SBA loans previously sold as of December 31, 2022 and 2021, respectively.

The activity for SBA servicing rights, included with other assets on the statement of financial condition, that are measured at amortized cost. Activity for the servicing asset for the years ended December 31 is shown in the following table:

	2022	2021
Carrying amount at beginning of year	\$ 766,339	\$ 474,675
Addition from SBA loan sales	183,820	405,024
Amortization	(77,287)	(113,360)
Carrying amount at end of year	\$ 872,872	\$ 766,339

Note 21 - Fair Value Measurements

Fair Value Measurements Using Fair Value Hierarchy - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The tables below present information about the Bank's assets measured at fair value on a recurring basis as of December 31, 2022 and 2021, and indicate the fair value hierarchy of the valuation techniques utilized by the Bank to determine such fair value. No liabilities were measured at fair value at December 31, 2022 and 2021.

The fair value hierarchy is as follows:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs - Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following section describes the valuation methodologies used for assets measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Financial assets measured at fair value on a recurring basis include the following:

Debt Securities: The fair values of debt securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or 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 (Level 2).

The table below presents the balance of debt securities available for sale at December 31, 2022, the fair value of which is measured on a recurring basis:

December 31, 2022	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Debt Securities Available-for-Sale				
U.S. treasury securities	\$ 5,746,140	\$ -	\$ -	\$ 5,746,140
U.S. agency securities	-	10,235,930	-	10,235,930
U.S. agency mortgage-backed securities	-	1,560,255	-	1,560,255
Total	<u>\$ 5,746,140</u>	<u>\$ 11,796,185</u>	<u>\$ -</u>	<u>\$ 17,542,325</u>

The table below presents the balance of debt securities available for sale at December 31, 2021, the fair value of which is measured on a recurring basis:

December 31, 2021	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Debt Securities Available-for-Sale				
U.S. agency securities	\$ -	\$ 7,824,000	\$ -	\$ 7,824,000
U.S. agency mortgage-backed securities	-	1,932,495	-	1,932,495
Total	<u>\$ -</u>	<u>\$ 9,756,495</u>	<u>\$ -</u>	<u>\$ 9,756,495</u>

Note 22 - Employee Retention Tax Credit

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provided an employee retention credit (the Credit) which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The credit is equal to 50% of qualified wages paid to employees, capped at \$10,000 of qualified wages through December 31, 2020. The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 (collectively the Acts) expanded the availability of the Credit and extended the Credit through December 31, 2021. The Infrastructure Investment and Jobs Act subsequently terminated the Credit program effective October 1, 2021. The Acts increased the credit to 70% of qualified wages, capped at \$10,000 per quarter. As a result of the changes to the Credit, the maximum credit per employee increased from \$5,000 in 2020 to \$21,000 in 2021.

The Bank was eligible for the Credit for the third quarter of 2021 and during the year ended December 31, 2021 recorded a benefit of \$335,873, which is included in noninterest income in the statement of income. The Bank filed for and received refunds of the Credit in 2021. No Credit amount was earned or recognized in 2022.

Laws and regulations concerning government programs, including the Credit are complex and subject to varying interpretations. Claims made under the Acts may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Bank's claim to the Credit, and it is not possible to determine the impact (if any) this would have upon the Bank.

The Bank's Credit filings remain open for potential examination by the Internal Revenue Service through the statute of limitations, which has varying expiration dates extending through 2026. Any disallowed claims resulting from such examinations could be subject to repayment to the federal government.