Financial Statements
December 31, 2023 and 2022

Mega Bank

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CPAs & BUSINESS ADVISORS

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, 2023 and 2022, 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, 2023 and 2022, 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 adopted the provisions of FASB Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as of January 1, 2023 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 Bailly LLP

Laguna Hills, California
March 29, 2024

Mega Bank

Statements of Financial Condition
December 31, 2023 and 2022

	2023	2022
Assets		
Cash and due from banks	$ 3,568,741	$ 7,189,563
Federal funds sold	1,854,836	27,260,660
Interest-bearing deposits in other banks	78,517,551	68,122,784
Cash and cash equivalents	83,941,128	102,573,007
Interest-bearing time deposits in other banks	100,000	100,000
Debt securities available for sale, at fair value (amortized cost of $19,631,162 in 2023 and $19,833,683 in 2022)	17,908,644	17,542,325
Loans held for sale	-	4,249,086
Loans held for investment, net of allowance for credit losses of $4,588,323 in 2023 and $5,056,565 in 2022	369,531,939	327,636,710
Premises and equipment	677,636	750,491
Right of use asset	3,878,644	4,478,154
Accrued interest receivable	2,854,404	2,318,607
Restricted stock	1,612,500	1,695,100
Bank owned life insurance	7,274,919	7,066,173
Defered tax asset	2,587,074	3,026,957
Other assets	1,735,556	1,455,935
Total assets	$ 492,102,444	$ 472,892,545
Liabilities		
Deposits		
Noninterest-bearing	$ 35,938,781	$ 48,375,477
Interest-bearing	380,299,633	349,001,879
Total deposits	416,238,414	397,377,356
Federal Home Loan Bank advances	7,000,000	14,000,000
Accrued interest payable	585,930	338,829
Lease liability	3,878,772	4,478,154
Other liabilities	2,556,722	2,118,818
Total liabilities	430,259,838	418,313,157
Shareholders' Equity		
Common stock, no par value, 10,000,000 shares authorized 3,794,466 and 3,790,866 issued and outstanding	40,712,770	40,799,290
Additional paid in capital	1,470,224	1,131,332
Retained earnings	20,872,953	14,287,087
Accumulated other comprehensive loss	(1,213,341)	(1,638,321)
Total shareholders' equity	61,842,606	54,579,388
Total liabilities and shareholders' equity	$ 492,102,444	$ 472,892,545

	2023	2022
Interest Income		
Interest and fees on loans	$ 27,823,736	$ 19,265,745
Interest on federal funds sold	277,472	153,341
Interest on interest bearing deposits in other financial institutions	3,580,756	954,106
Interest on debt securities	336,060	302,258
Dividend income	135,893	126,836
Total interest and dividend income	32,153,917	20,802,286
Interest Expense		
Interest on deposits	12,430,029	3,105,337
Interest on borrowings	110,135	203,637
Total interest expense	12,540,164	3,308,974
Net interest income	19,613,753	17,493,312
Provision for (reversal of) credit losses - loans	367,571	(105,013)
Provision for (reversal of) credit losses - unfunded commitments	(66,720)	(232,140)
Total provision for (reversal of) credit losses	300,851	(337,153)
Net interest income after provision for credit losses	19,312,902	17,830,465
Noninterest Income		
Service charges on deposit accounts	51,176	45,196
Net gain on sale of loans	786,101	723,049
Income from bank owned life insurance	208,746	186,226
Servicing income, net	284,776	334,657
Other miscellaneous income	375,476	408,635
Total noninterest income	1,706,275	1,697,763
Noninterest Expense		
Salaries and employee benefits	7,959,309	7,041,987
Occupancy and equipment	1,351,387	1,465,140
Other expenses	2,480,325	2,545,115
Total noninterest expense	11,791,021	11,052,242
Income before income tax expense	9,228,156	8,475,986
Provision for income taxes	2,708,634	2,394,229
Net Income	$ 6,519,522	$ 6,081,757

	2023	2022
Net Income	$ 6,519,522	$ 6,081,757
Unrealized holding (loss) gain on securities available-for-sale during the period	568,841	(2,063,479)
Tax effect	(143,861)	584,674
Other comprehensive income (loss), net of tax	424,980	(1,478,805)
Comprehensive income	$ 6,944,502	$ 4,602,952

	Number of Shares	Common Stock	Additional Paid-In Capital (APIC)	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2022	3,790,866	$ 41,652,197	$ 119,532	$ 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	3,790,866	40,679,758	1,250,864	14,287,087	(1,638,321)	54,579,388
Cumulative change in accounting principle (Note 1)	-	-	-	66,344	-	66,344
Net income	-	-	-	6,519,522	-	6,519,522
Exercise of stock options	3,600	33,012	-	-	-	33,012
Stock compensation expense	-	-	219,360	-	-	219,360
Other comprehensive income	-	-	-	-	424,980	424,980
Balance at December 31, 2023	3,794,466	$ 40,712,770	$ 1,470,224	$ 20,872,953	$ (1,213,341)	$ 61,842,606

	2023	2022
Operating Activities		
Net income	$ 6,519,522	$ 6,081,757
Adjustments to reconcile net income to net cash provided by operating activities		
Provision (Credit) for loan losses	300,852	(105,014)
Net amortization of securities available for sale	9,797	9,259
Depreciation and amortization of premises and equipment	103,356	165,432
Net gain on sale of loans	(786,101)	(723,049)
Loss on sales of fixed assets	12,123	-
Stock compensation expense	219,360	158,893
Deferred income tax expense	296,022	200,868
Earnings on bank owned life insurance	(208,746)	(176,972)
Proceeds from sales of loans held for sale	4,249,000	-
Change in other assets and liabilities	(63,940)	(604,159)
Net Cash Provided by Operating Activities	10,651,245	5,007,015
Investing Activities		
Decrease in interest-bearing time deposits in other banks	-	2,161,818
Change in restricted stock	82,600	184,600
Proceeds from sales, maturities and repayments of debt securities available for sale	192,724	150,416
Purchase of debt securities available for sale	-	(10,008,987)
Loan originations, purchases, and principal collections, net	(41,409,894)	(4,325,989)
Purchase of premises and equipment, net	(42,624)	(473,147)
Net Cash Used in Investing Activities	(41,177,194)	(12,311,289)
Financing Activities		
Net increase in deposits	18,861,058	14,252,951
Repayment of Federal Home Loan Bank advances	(7,000,000)	(7,000,000)
Exercise of stock options	33,012	-
Net Cash Provided by Financing Activities	11,894,070	7,252,951
Net Change in Cash and Cash Equivalents	(18,631,879)	(51,323)
Cash and Cash Equivalents at Beginning of Period	102,573,007	102,624,330
Cash and Cash Equivalents at End of Period	$ 83,941,128	$ 102,573,007
Supplemental Disclosure for Cash Flow Information		
Cash payments for		
Interest paid	$ 12,568,228	$ 3,042,371
Income taxes paid	2,570,000	2,185,000
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 credit 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 Time Deposits in Other Banks

Interest-bearing time 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.

For available-for-sale debt securities, the Bank evaluates, on an individual basis, whether a decline in fair value below the amortized cost basis has resulted from a credit loss or other factors. The portion of the decline attributable to credit losses is recognized through an allowance for credit losses (ACL), and changes in the ACL on available-for-sale debt securities are recorded as a provision for credit losses in the statements of income. The portion of decline in fair value below the amortized cost basis not attributable to credit is recognized through other comprehensive income, net of applicable taxes.

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, 2023 and 2022 and includes Community Reinvestment Act investments. There were no adjustments to the carrying amount of equity securities in 2023 or 2022.

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 credit 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 Credit Losses (ACL) - Loans

The ACL for loans is a valuation account that is deducted from the loan's amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged-off against the allowance when management believes the recorded loan balance is confirmed as uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant information for each loan segment, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The ACL for loans is measured on a collective (pool) basis when similar risk characteristics exist. Historical credit loss experience since 2008, for a group of peer institutions of similar size and geographic location, provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made 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.

Historical credit loss experience is further adjusted by a forecast element for a period of up to 24 months for the effect of certain highly correlated economic indicators, which vary for each loan segment. After the forecast period ends, the loss rate immediately reverts back to the historical rate.

A loan is considered to be collateral dependent when repayment is expected to be provided substantially through the operation or sale of the collateral. The ACL on collateral dependent loans is measured using the amortized cost basis of the financial asset less the fair value of the underlying collateral, adjusted for costs to sell, when applicable. If the value of the underlying collateral is determined to be less than the recorded amount of the loan, a specific reserve for that loan is recorded. If the Bank determines that the loss represented by the specific reserve is uncollectible it records a charge-off for the uncollectible portion.

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.

Allowance for Credit Losses (ACL) – Off-Balance Sheet Credit Exposures

The Bank also maintains a separate allowance for off-balance sheet credit exposures. Beginning January 1, 2023, management estimates anticipated losses using expected loss factors consistent with those used for the ACL methodology for loans described above, and utilization assumptions based on historical experience. The allowance for off-balance sheet credit exposures is included in other liabilities in the statements of financial condition.

Loan Modifications

Prior to the adoption of ASU 2022-02 on January 1, 2023, a loan was classified as a TDR when the Bank granted a concession to a borrower experiencing financial difficulties that it otherwise would not consider under its normal lending policies under ASC Subtopic 310-40, Troubled Debt Restructurings by Creditors. Upon the adoption of ASU 2022-02, the Bank applied the general loan modification guidance provided in ASC 310-20 to all loan modifications, including modifications made for borrowers experiencing financial difficulty.

ASU 2022-02 requires that certain types of modifications be reported, which consist of (1) principal forgiveness; (2) interest rate reduction; (3) other-than-insignificant payment delay; (4) term extension; and any combination of the above. Since adoption of ASU 2022-02 on January 1, 2023, the Bank did not have any loan modifications under ASU 2022-02. At December 31, 2022, the Bank did not have any loans that have been modified and classified as TDRs under previous GAAP.

Off-Balance Sheet Credit Exposures

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.

Servicing Assets

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 in other assets 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.

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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. This included reclassification of the 2022 provision for (reversal of) off-balance sheet credit exposures of ($232,140) from noninterest expense to provision for (reversal of) credit losses in the statements of income. This reclassification had no impact on net income or shareholders' equity.

Subsequent Events

The Bank has evaluated subsequent events through March 29, 2024, which is the date the financial statements were available to be issued.

Adoption of Accounting Standards Codification Topic 326

On January 1, 2023, the Bank adopted Accounting Standard Update ("ASU") 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*, as amended, which replaces the incurred loss methodology with an expected loss methodology referred to as current expected credit losses ("CECL"). The measurement of expected losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans, held-to-maturity debt securities and off-balance sheet credit exposures. In addition, Topic 326 made changes to the accounting for available-for-sale debt securities including the requirement to present credit losses as an allowance rather than a write-down on available-for-sale debt securities that management does not intend to sell or believes it is more likely than not they will be required to sell. The Bank elected to account for accrued interest receivable separately from the amortized cost of loans and investment securities.

The Bank adopted ASU 2016-13 using the modified retrospective transition approach, and recorded a net increase of $66,344 to the beginning balance of retained earnings as of January 1, 2023 for the cumulative effect adjustment, reflecting an initial downward adjustment to the allowance for credit losses (“ACL”) of $94,106, which included a $835,813 decrease in the ACL - loans and a $741,701 increase in the ACL – off-balance sheet credit exposures, net of related deferred tax assets arising from temporary differences of $27,762, commonly referred to as the “Day 1” adjustment. This Day 1 adjustment reflects the development of the CECL models to estimate lifetime expected credit losses on the loans held for investment and off-balance sheet credit exposures primarily using a lifetime loss methodology and management’s current expectation of future economic conditions. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with the probable incurred loss accounting standards. As permitted under ASC 326, the Bank elected to maintain the same loan segments that it previously identified prior to adoption of CECL.

At adoption of CECL and continuing through December 31, 2023, the Bank did not record an ACL on available-for-sale debt securities as they are comprised entirely of debt securities explicitly or implicitly backed by the U.S. government and which historically have had no credit loss experience. Refer to Note 3, Debt Securities, for more information.

Concurrent with the adoption of ASU 2016-13, the Bank adopted ASU 2022-02, Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings (“TDR”) and Vintage Disclosures, which eliminated TDR accounting prospectively for all loan modifications occurring on or after January 1, 2023 and added additional disclosure requirements for current period gross charge-offs by year of origination. It also prescribes guidance for reporting modifications for certain loan refinancings and restructurings made to borrowers experiencing financial difficulty. Loans that were considered a TDR prior to the adoption of ASU 2022-02 will continue to be accounted for under the superseded TDR accounting guidance until the loan is paid off, liquidated, or subsequently modified.

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, 2023 are as follows:

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. treasury securities	$ 5,994,775	$ -	$ (104,414)	$ 5,890,361
U.S. agency securities	11,997,759	-	(1,364,690)	10,633,069
U.S. agency mortgage-backed securities	1,638,628	-	(253,414)	1,385,214
	$ 19,631,162	$ -	$ (1,722,518)	$ 17,908,644

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
	$ 19,833,683	$ -	$ (2,291,358)	$ 17,542,325

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2023, 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	$ 5,002,637	$ 4,929,700
Due from one to five years	4,992,138	4,845,870
Due from five to ten years	7,997,759	6,747,860
Due after ten years	-	-
Mortgage-backed securities	1,638,628	1,385,214
	$ 19,631,162	$ 17,908,644

Allowance for Credit Losses – Available-for-Sale Securities

At December 31, 2023, 15 available-for-sale debt securities with fair values totaling $17.9 million had net unrealized losses totaling $ 1.72 million, or $ 1.2 million net of tax in accumulated other comprehensive loss. For available-for-sale debt securities with unrealized losses, management considered the financial condition of the issuer and the Bank's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. Our available-for-sale debt securities consisted of U.S. government agency and government sponsored enterprise securities, which are either explicitly or implicitly guaranteed by the U.S. government and historically have had no credit loss experience.

Management determined that the unrealized losses for December 31, 2023 and each investment were primarily attributable to factors other than credit related, including changes in interest rates driven by the Federal Reserve's policy to fight against inflation and general volatility in credit market conditions. As such, the Bank applied a zero-credit loss assumption for these securities and no provision for credit losses was recorded for available-for-sale debt securities during the year ended December 31, 2023.

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 tables summarize available-for-sale debt securities with unrealized and unrecognized losses aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position. Securities as of December 31, 2023 were as follows:

	2023					
	Less than 12 months		Over 12 months			Total
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
U.S. treasury securities	$ 4,929,700	$ (72,937)	$ 960,661	$ (31,477)	$ 5,890,361	$ (104,414)
U.S. agency securities	-	-	10,633,069	(1,364,690)	10,633,069	(1,364,690)
U.S. agency mortgage-backed securities	-	-	1,385,214	(253,414)	1,385,214	(253,414)
	$ 4,929,700	$ (72,937)	$ 12,978,944	$ (1,649,581)	$ 17,908,644	$ (1,722,518)

Securities as of December 31, 2022 were as follows:

	2022					
	Less than 12 months		Over 12 months			Total
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Fair Value	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)
	$ 9,534,150	$ (467,317)	$ 8,008,175	$ (1,824,041)	$ 17,542,325	$ (2,291,358)

Note 4 - Loans and Allowance for Credit Losses

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

	2023	2022
Real Estate		
Construction and land	$ 95,857,636	$ 99,280,953
Residential	31,635,708	30,693,848
Multi-family	26,026,398	16,288,086
Commercial real estate	171,554,280	130,082,798
Commercial		
Commercial and industrial	44,942,314	51,943,406
PPP	-	63,610
Consumer	1,761,092	2,372,434
Total gross loans	371,777,428	330,725,135
Allowance for credit losses	(4,588,323)	(5,056,565)
Deferred loan costs and premiums, net of fees	3,586,810	3,073,742
Discount on retained portion of sold SBA Loans	(1,243,976)	(1,105,602)
Loans held for investment, net	$ 369,531,939	$ 327,636,710

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

	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses				
Beginning of Year	$ 4,419,187	$ 629,605	$ 7,773	$ 5,056,565
Adoption of ASU 2016-13	(709,189)	(199,391)	72,767	(835,813)
Provisions (Credit)	432,806	(46,201)	(19,034)	367,571
Charge-offs	-	-	-	-
Recoveries	-	-	-	-
End of Year	$ 4,142,804	$ 384,013	$ 61,506	$ 4,588,323

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

	Real Estate	Commercial	Consumer	Total
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	$ 4,419,187	$ 629,605	$ 7,773	$ 5,056,565
Reserves				
Specific	$ -	$ -	$ -	$ -
General	4,419,187	629,605	7,773	5,056,565
	$ 4,419,187	$ 629,605	$ 7,773	$ 5,056,565
Loans Evaluated for Impairment				
Individually	$ 1,851,094	$ -	$ -	$ 1,851,094
Collectively	274,494,591	52,007,016	2,372,434	328,874,041
	$ 276,345,685	$ 52,007,016	$ 2,372,434	$ 330,725,135

In addition to the ACL on loans, the Bank has established an ACL on off-balance sheet exposures at December 31, 2023 and 2022. The following table presents the activity in the ACL on off-balance sheet exposures for the years then ended:

	2023	2022
Balance at beginning of period	$ 129,000	$ 361,140
Impact of adopting ASC 326	741,708	-
Additions (reversals) to ACL recorded as a provision for credit losses	(66,720)	(232,140)
Balance at end of period	$ 803,988	$ 129,000

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.

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

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

December 31, 2023	Pass	Special Mention	Substandard	Doubtful	Total
Real Estate					
Construction and land	$ 95,857,636	$ -	$ -	$ -	$ 95,857,636
Residential	31,635,708	-	-	-	31,635,708
Multi-Family	26,026,398	-	-	-	26,026,398
Commercial real estate	164,640,713	5,062,473	1,851,094	-	171,554,280
Commercial					
Commercial and industrial	41,324,363	3,558,211	59,740	-	44,942,314
Consumer	1,761,092	-	-	-	1,761,092
	$ 361,245,910	$ 8,620,684	$ 1,910,834	$ -	$ 371,777,428

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

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	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
	$328,762,911	$ -	$ 1,962,224	$ -	$330,725,135

Past due and nonaccrual loans were as follows as of December 31, 2023:

	Still Accruing		
	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Residential real estate	$ 535,672	$ -	$ -
Multifamily	-	-	-
Commercial real estate	1,453,484	-	1,851,094
Commercial and industrial	7,854,312	-	-
Consumer	16,270	-	-
	$ 9,859,738	$ -	$ 1,851,094

The nonaccrual loan balance is comprised of one loan that is considered a collateral dependent loan secured by real estate. This loan was individually evaluated for potential credit loss, with zero allowance for credit losses established as of December 31, 2023.

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

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

There were no nonaccrual loans for which there was no allowance for credit losses as of December 31, 2023 and there was no interest income recognized on nonaccrual loans during the year then ended.

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

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

The following table presents loans purchased and sold during the year ended December 31, 2023, by portfolio segment:

	Real Estate	Commercial	Consumer	Total
Purchase	$ -	$ 3,553,656	$ -	$ 3,553,656
Sales	17,565,515	168,219	-	17,733,734

Note 5 - Premises and Equipment

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

	2023	2022
Furniture, fixture and equipment	$ 599,962	$ 1,007,741
Computer equipment	66,340	160,046
Leasehold improvements	2,949,963	2,877,724
	3,616,265	4,045,511
Less accumulated depreciation and amortization	2,938,629	3,295,020
Total premises and equipment	$ 677,636	$ 750,491

Depreciation and amortization expense for years ended December 31, 2023 and 2022, amounted to $103,356 and $165,432, 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 were 6.60 years and 6.50% and 7.30 years and 6.50% as of December 31, 2023 and 2022, respectively.

The following table represents lease costs and other lease information for the years ended December 31, 2023 and 2022:

Lease Costs:

	2023	2022
Operating lease cost	$ 873,112	$ 915,347
Common area maintenance	99,847	64,960
Total lease costs	$ 972,959	$ 980,307
Other Information:		
Cash Paid for Amounts Included in the Measurement of Lease Liabilities	$ 928,746	$ 858,330
Right-of-Use Assets Obtained in Exchange for Lease Obligations	$ 325,080	$ -

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 31, 2023:

Year Ending	2023
2024	897,162
2025	921,755
2026	678,905
2027	429,795
2028	442,641
After 2028	1,419,515
Total Lease Payments	4,789,773
Less Imputed Interest	911,001
Present Value of Net Future Minimum Lease Payments	$ 3,878,772

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 $7,274,919 and $7,066,173 as of December 31, 2023 and 2022.

Note 8 - Deposits

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

	2023	2022
Savings, NOW and money market accounts	$ 71,546,783	$ 75,949,494
Time certificate of deposit accounts under $250,000	142,707,471	109,638,967
Time certificate of deposit accounts $250,000 or over	144,364,087	139,757,304
Brokered deposits, less than $250,000	21,681,292	23,656,114
Total interest-bearing deposits	380,299,633	349,001,879
Total noninterest-bearing deposits	35,938,781	48,375,477
Total Deposits	$ 416,238,414	$ 397,377,356

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

	2023
Within 1 year	$ 285,056,237
After 1 year through 3 years	2,015,321
	$ 287,071,558

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 $1,612,500 and $1,695,100 at December 31, 2023 and 2022, 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, 2023 and 2022.

Deposits from related parties held by the Bank at December 31, 2023 and 2022, amounted to approximately $22,535,000 and $40,687,000.

Note 11 - Federal Home Loan Bank Borrowings

FHLB advances represent secured obligations to the FHLB.

At December 31, 2023, the Bank's FHLB advances were as follows:

Amount	Interest Rate	Maturity Date
$ 7,000,000	1.36%	February 25, 2025

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
$ 14,000,000		

The advance is payable at its maturity date. The advance is collateralized by loans with an approximate carrying value of $169.4 million and $172.5 million at December 31,2023 and 2022. Based on this collateral and the Bank's holdings of FHLB stock, the Bank has remaining borrowing capacity of $94.8 million as of December 31, 2023 and $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, 2023, 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:

	2023	2022
Currently payable		
Federal	$ 1,505,347	$ 1,286,181
State	907,265	907,180
	2,412,612	2,193,361
Deferred Taxes		
Federal	186,015	157,702
State	110,007	43,166
	296,022	200,868
Total provision for income taxes	$ 2,708,634	$ 2,394,229

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

	2023		2022	
	Amount	Rate	Amount	Rate
Statutory federal tax	$ 1,937,913	21.0 %	$ 1,779,957	21.0 %
State franchise tax, net of federal benefit	789,548	8.6	717,543	8.5
Tax lease credit refunds	-	-	-	-
Other items, net	(18,827)	(0.3)	(103,271)	(1.3)
Provision for income taxes	$ 2,708,634	29.3 %	$ 2,394,229	28.2 %

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

	2023	2022
Deferred tax assets		
Allowance for credit losses	$ 1,124,589	$ 1,263,019
Stock-based compensation	163,022	182,549
Depreciation	150,371	151,413
State tax deduction	205,486	190,889
Accrued expenses	102,523	354,401
Unrealized loss on securities available for sale	509,176	653,037
Other	382,891	289,624
	2,638,058	3,084,932
Deferred tax liabilities		
Other	(50,984)	(57,975)
Net Deferred Tax Asset	$ 2,587,074	$ 3,026,957

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, 2019 are open to audit by the federal authorities and for the years ended after December 31, 2018 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 $803,988 and $129,000 at December 31, 2023 and 2022, 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, 2023 and 2022, the Bank had approximately $42,346,000 and $57,923,000, 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 87 percent at December 31, 2023, and 85 percent of the total loan portfolio at December 31, 2022.

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 $182,811 and $130,036 of employee deferrals during the years ended December 31, 2023 and 2022, 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 $219,360 and $158,893 for the years ended December 31, 2023 and 2022, respectively. The total income tax benefit recognized in the statements of income for stock-based compensation arrangements was $8,335 and $21,759 for the years ended December 31, 2023 and 2022, respectively.

A summary of option activity under the plan as of December 31, 2023 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, 2023	451,600	$ 10.90		$ 1,582,050
Granted	120,000	14.40		
Exercised	(3,600)	9.17		
Forfeited	(30,000)	10.33		
Expired	-	-		
Outstanding at December 31, 2023	538,000	$ 11.72	5.9	$ 2,462,291
Exercisable at December 31, 2023	356,000	$ 10.74	4.6	$ 1,977,095

As of December 31, 2023, there was $701,365 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 2.3 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, 2023 and 2022.

As of December 31, 2023, 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.

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. December 31, 2023, 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, 2023 and 2022 (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, 2023				
Tier 1 Capital to Average Assets	$ 63,056	12.95%	$ 43,818	9.00%
As of December 31, 2022				
Tier 1 Capital to Average Assets	$ 56,218	12.44%	$ 40,685	9.00%

Note 19 - Other Operating Expenses

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

	2023	2022
Marketing and business promotion	$ 77,550	$ 58,522
Professional fees	480,929	890,521
Data processing	583,769	552,216
Insurance and assessments	452,422	397,973
Director related	266,215	236,782
Office expenses	120,384	110,137
Other expenses	499,056	298,964
Total non-interest expenses	$ 2,480,325	$ 2,545,115

Note 20 - Sales of SBA Loans and Servicing Rights

The Bank was servicing $50,907,853 and $45,929,261 in SBA loans previously sold as of December 31, 2023 and 2022, 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:

	2023	2022
Carrying amount at beginning of year	$ 872,872	$ 766,339
Addition from SBA loan sales	273,665	183,820
Amortization	(173,209)	(77,287)
Carrying amount at end of year	$ 973,328	$ 872,872

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, 2023 and 2022, 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, 2023 and 2022.

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 as of December 31, 2023, the fair value of which is measured on a recurring basis:

	Fair Value Measurements Using			
December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Debt Securities Available-for-Sale				
U.S. treasury securities	$ -	$ 5,890,361	$ -	$ 5,890,361
U.S. agency securities	-	10,633,069	-	10,633,069
U.S. agency mortgage-backed securities	-	1,385,214	-	1,385,214
Total	$ -	$ 17,908,644	$ -	$ 17,908,644

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

	Fair Value Measurements Using			
December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
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	$ -	$ 17,542,325	$ -	$ 17,542,325