Report of Independent Auditors and
Consolidated Financial Statements

**MNB Holdings Corporation
and Subsidiary**

December 31, 2022 and 2021

MOSSADAMS

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Report of Independent Auditors

The Board of Directors and Shareholders
MNB Holdings Corporation and Subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of MNB Holdings Corporation and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of MNB Holdings Corporation and Subsidiary, as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MNB Holdings Corporation and Subsidiary, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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 MNB Holdings Corporation and Subsidiary's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 MNB Holdings Corporation and Subsidiary'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 MNB Holdings Corporation and Subsidiary'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.

San Francisco, California
May 11, 2023

Consolidated Financial Statements

MNB Holdings Corporation and Subsidiary
Consolidated Balance Sheets
December 31, 2022 and 2021

ASSETS

	2022	2021
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 10,857,733	$ 10,011,937
Federal funds sold	5,420,000	10,040,000
Interest-bearing deposits in banks	28,993,805	65,334,889
Cash and cash equivalents	45,271,538	85,386,826
OTHER INVESTMENTS	1,872,850	2,119,550
LOANS, less allowance for loan losses of $2,248,948 in 2022 and $2,912,326 in 2021	134,068,428	127,745,862
PREMISES AND EQUIPMENT, net	1,730,454	1,898,512
BANK-OWNED LIFE INSURANCE POLICIES	1,323,287	1,295,239
DEFERRED TAX ASSET, net	1,422,549	1,002,300
ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS	1,016,081	1,731,204
Total assets	$ 186,705,187	$ 221,179,493

See accompanying notes.

MNB Holdings Corporation and Subsidiary
Consolidated Balance Sheets (Continued)
December 31, 2022 and 2021

LIABILITIES AND SHAREHOLDERS' EQUITY

	2022	2021
DEPOSITS		
Noninterest-bearing	$ 55,443,617	$ 71,536,663
Interest-bearing	75,099,728	108,201,677
Total deposits	130,543,345	179,738,340
ACCRUED INTEREST PAYABLE AND OTHER LIABILITIES	2,511,547	1,993,862
FEDERAL FUNDS PURCHASED	2,000,000	-
FEDERAL HOME LOAN BANK BORROWINGS	13,000,000	-
NOTE PAYABLE	8,000,000	8,000,000
JUNIOR SUBORDINATED DEBENTURES	3,093,000	3,093,000
Total liabilities	159,147,892	192,825,202
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
SHAREHOLDERS' EQUITY		
Common stock – no par value; 10,000,000 shares authorized; 456,788 shares issued and outstanding as of December 31, 2022 and 2021	4,839,700	4,839,700
Retained earnings	22,717,595	23,514,591
Total shareholders' equity	27,557,295	28,354,291
Total liabilities and shareholders' equity	$ 186,705,187	$ 221,179,493

See accompanying notes.

MNB Holdings Corporation and Subsidiary
Consolidated Statements of Operations
For the Years Ended December 31, 2022 and 2021

	2022	2021
INTEREST INCOME		
Interest and fees on loans	$ 6,043,801	$ 6,521,171
Interest and dividends on other investments	133,754	141,747
Interest on federal funds sold	99,933	7,905
Interest on deposits in other banks	744,543	104,673
Total interest income	7,022,031	6,775,496
INTEREST EXPENSE		
Deposits	441,576	277,199
Borrowings and note payable	457,623	451,083
Junior subordinated debentures	133,364	83,353
Total interest expense	1,032,563	811,635
Net interest income	5,989,468	5,963,861
RECOVERY OF PROVISION FOR LOAN LOSSES	(650,000)	(70,000)
Net interest income after recovery of provision for loan losses	6,639,468	6,033,861
NONINTEREST INCOME		
Service charges	992,211	1,441,925
Rapid response program award	-	1,826,265
Other income	154,185	249,013
Total noninterest income	1,146,396	3,517,203
NONINTEREST EXPENSES		
Salaries and employee benefits	4,856,525	4,675,847
Occupancy and equipment	924,289	1,060,355
Other expenses	3,317,246	4,027,517
Total noninterest expenses	9,098,060	9,763,719
Loss before provision for income taxes	(1,312,196)	(212,655)
BENEFIT FROM INCOME TAXES	(515,200)	(6,000)
Net loss	$ (796,996)	$ (206,655)
LOSS PER SHARE	$ (1.74)	$ (0.45)
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING	456,788	456,788

See accompanying notes.

MNB Holdings Corporation and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2022 and 2021

	Common Stock		Retained	Total Shareholders'
	Shares	Amount	Earnings	Equity
BALANCE, January 1, 2021	456,788	$ 4,839,700	$ 23,721,246	$ 28,560,946
Net loss	-	-	(206,655)	(206,655)
BALANCE, December 31, 2021	456,788	4,839,700	23,514,591	28,354,291
Net loss	-	-	(796,996)	(796,996)
BALANCE, December 31, 2022	456,788	$ 4,839,700	$ 22,717,595	$ 27,557,295

See accompanying notes.

MNB Holdings Corporation and Subsidiary
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (796,996)	$ (206,655)
Adjustments to reconcile net income to net cash from operating activities:		
Recovery of provision for loan losses	(650,000)	(70,000)
Depreciation, and amortization, net	191,004	162,142
Benefit for deferred income taxes	(420,249)	(97,300)
Decrease in deferred loan origination costs, net	19,497	111,618
Increase in cash surrender value of life insurance policies	(28,048)	(27,664)
Loss on sale of equipment	468	-
Increase in accrued interest receivable and other assets	715,123	1,270,378
Increase (decrease) in accrued interest payable and other liabilities	517,685	(695,185)
Net cash (used in) from used in operating activities	(451,516)	87,634
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from time deposits with other banks	-	2,704,000
Net (increase) decrease in loans	(5,692,063)	26,463,979
Redemption of other investments	246,700	262,200
Purchases of premises and equipment	(24,412)	(17,156)
Proceeds from sale of premises and equipment	998	-
Net cash (used in) from investing activities	$ (5,468,777)	$ 29,413,023

See accompanying notes.

MNB Holdings Corporation and Subsidiary
Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in noninterest-bearing deposits	$ (16,093,046)	$ 6,481,920
Decrease in interest-bearing deposits	(33,101,949)	(1,385,056)
Advances on borrowings	17,500,000	-
Payments on borrowings	(2,500,000)	(6,000,000)
Net cash from financing activities	(34,194,995)	(903,136)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(40,115,288)	28,597,521
CASH AND CASH EQUIVALENTS, beginning of year	85,386,826	56,789,305
CASH AND CASH EQUIVALENTS, end of year	$ 45,271,538	$ 85,386,826
SUPPLEMENTAL DISCLOSURES OF CASH-FLOW INFORMATION		
Cash paid during the year for:		
Interest expense	$ 438,919	$ 941,388
Income taxes	$ -	$ -

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

General – MNB Holdings Corporation (MNB) was formed in 2002 as a bank holding company for the purpose of acquiring all of the outstanding shares of Mission National Bank (the Bank) in a one-bank holding company reorganization. The primary operations of MNB and the Bank (collectively, the Company) are conducted through the Bank. On September 20, 2004, MNB formed a wholly-owned subsidiary, MNB Holdings Statutory Trust I (the Trust), a Delaware statutory business trust, for the purpose of issuing trust preferred securities.

The Company has been certified by the U.S. Department of the Treasury as a Community Development Financial Institution (CDFI). As a CDFI, the Company is providing capital to rebuild economically distressed communities through targeted lending and investments in accordance to MNB's mission statement. The Company is qualified to apply for technical assistance and financial assistance awards to help sustain and expand services. The Company is also qualified to receive monetary rewards, new markets tax credit, and participate in a bond guarantee program.

The Company is engaged in the general commercial banking business in the city and county of San Francisco and all other nine San Francisco Bay Area counties. The Company provides traditional commercial and retail banking services, which include accepting demand, savings, and time deposits and making commercial, and real estate loans. It also offers other installment and term loans.

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. The more significant of these policies applied in the preparation of the accompanying consolidated financial statements are discussed below. Certain reclassifications were made to the prior-year consolidated financial statements to conform to the current-year consolidated financial statement presentation. Such reclassifications have no impact on previously reported net income or shareholders' equity.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of MNB and its wholly-owned subsidiary, Mission National Bank. Significant intercompany transactions and balances have been eliminated in consolidation.

For financial reporting purposes, the Company's investment in the Trust is accounted for as an unconsolidated subsidiary under the equity method as the Company is not the primary beneficiary of the Trust, and is included in accrued interest receivable and other assets on the consolidated balance sheets. The junior subordinated debentures issued and guaranteed by the Company and held by the Trust are reflected as debt in the Company's consolidated balance sheets.

Subsequent events – Management has evaluated all events occurring from December 31, 2022, through May 11, 2023, the date the consolidated financial statements were available to be issued.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include: the allowance for loan losses, the recognition of nonaccrual and impaired loans, valuation of deferred tax assets, and determination of the fair value of financial instruments. Actual results could differ from these estimates.

Cash and cash equivalents – For the purpose of the consolidated statements of cash flows, cash and due from banks, federal funds sold, and interest-bearing deposits in banks with original maturities less than 90 days are considered to be cash equivalents. Generally, federal funds are sold for one-day periods.

Other investments – The Company has restricted securities in the form of capital stock invested in the Federal Home Loan Bank of San Francisco (FHLB), the Federal Reserve Bank of San Francisco, and the Pacific Coast Bankers' Bank. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest additional amounts. Investment in bank stocks is carried at cost, classified as restricted securities, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. The Company's review of their most recent consolidated financial statements and capital position resulted in its conclusion that the investments are not impaired based on financial information as of December 31, 2022.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at principal balances outstanding, adjusted for deferred loan origination fees and costs. Interest is accrued daily based upon outstanding loan balances. For all loans past due 90 days or more, interest is discontinued, unless the loan is well-secured and in the process of collection. However, when, in the opinion of management, loans are considered to be impaired and it is not probable that the Company will fully collect contractual principal or interest, such loans are placed on nonaccrual status and the accrual of interest income is suspended prior to the 90 days. Past due status is based on the contractual term of the loan. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including both principal and interest, according to the contractual terms of the original loan agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, a loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. A loan is collateral-dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

Loan origination fees, commitment fees, direct loan origination costs, and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized or accreted to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans. Salaries and employee benefits totaling $256,957 and $243,428 have been deferred as loan origination costs for the years ended December 31, 2022 and 2021, respectively.

Allowance for loan losses – The allowance for loan losses is an estimate of probable credit losses in the Company's loan portfolio that have been incurred as of the balance sheet date. The allowance is established through a provision for loan losses, which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged-off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components: (1) specific reserves related to impaired loans and (2) general reserves for inherent losses related to loans that are not impaired. Loans determined to be impaired are individually evaluated for impairment. Large groups of smaller-balance homogeneous loans, such as installment loans, are collectively evaluated for impairment, and, accordingly, they are not separately identified for impairment disclosures.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

The determination of the general reserve for loans that are not impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses for the last three years by portfolio class, internal asset classifications, and qualitative factors. Management evaluates the directional impact on credit quality of significant qualitative factors that have been derived from an annual assessment of such factors by industry specialists. The primary qualitative factors include: the volume and trend of delinquent, nonaccrual, or other problem loans; credit concentrations; general local economic conditions; lending policies, systems, and personnel; loan review and oversight; external factors related to competition, legal, and regulatory matters; and the underlying changes in collateral values.

The Company maintains a separate allowance for each portfolio class (loan type). The allowance for loan losses attributable to each portfolio class, which includes both impaired loans and nonimpaired loans, is combined to determine the Company's overall allowance.

The Company assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company's regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate, and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, as defined below:

Pass – A pass loan has strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special mention – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard – A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well-defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified 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 known facts, conditions, and values, highly questionable and improbable.

Loss – Loans classified as loss are considered uncollectible and charged off immediately.

Substantially all of the loans originated by the Company require some form of real estate as collateral. Within each portfolio class, management assesses repayment risk within the industry in which the business operates. The primary source of repayment is the cash flow from the operating businesses and not from the sale of the real estate. The significant industries in which the Company's lending customers operate and the related repayment risks are described below:

Multi-family – These loans are provided to apartment or single room occupancy (SRO) hotel owners. The latter serve primarily the residential hotel market in San Francisco and are considered to be a part of affordable housing stock in the city. The properties operate with a high occupancy level and are not affected by the level of tourism or consumer spending. Trends in employment and government spending impact the credit quality of these loans.

Single-family – These loans include investor type 1-4 SFR income properties and owner-occupied residential properties. The primary source of repayment is from rental income for the investor type properties and from employment for the owner-occupied residential properties. Trends in repayment risk are driven by local economic conditions including employment rates and changes in collateral value.

Commercial – Generally these loans are for various business types and are and secured by via UCC-1 and security agreements on personal property. The borrowers are owner operated and the primary repayment sources is generated via cash flow from operations. Overall, these loans are diverse, but subject to various local economic conditions including employment, income, and local competition.

Gas stations – These businesses combine retail gas and convenience store services. Over two thirds of these loans are to operators that own and operate multiple gas stations. Trends in consumer spending, gas prices, new State regulations and competition from national gas retailers and EV locations impact the credit quality of these loans.

Hotels – These businesses provide accommodations for business and personal travelers. The portfolio includes properties operated under franchise agreements and nonaffiliated properties operating independently. The primary source of repayment is from cash flow generated from the operation of the properties. These businesses are impacted by the level of local competition and factors impacting tourism and general business activity.

Industrial and warehouse – These property types of CRE operate in various industries, such as distribution, manufacturing, and storage facilities. Repayment for these loans generally comes from the operation of the business or rental income. Individual businesses are impacted by a wide range of factors, such as various local economic conditions including inflation, employment, and income.

Care homes – These loans are generally provided to care home owners that operate multiple residential care homes and whose clients are covered by government programs that serve the developmentally disabled. Trends in reimbursement rates from government programs and the level of people covered by such programs contribute to repayment risk associated with these loans.

Other loans – This category includes a number of different commercial real estate loan types: i.e., retail, commercial offices, mixed use, government leases, and a minimal amount of consumer loans. These loans are subject to overall economic conditions with individual loans impacted by individualized factors. The commercial real estate loans in this group are generally paid from property cash flow generated from rents. The repayment risk is generally tied to occupancy levels and rental rates.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions, and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulators, the Office of the Comptroller of the Currency and the Federal Reserve Bank, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Allowance for credit losses on off-balance-sheet credit exposures – The Company also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. This allowance totaled $28,029 at December 31, 2022 and 2021, and is included in accrued interest payable and other liabilities on the consolidated balance sheets.

Premises and equipment – Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of building and improvements are estimated to be seven to 40 years. The useful lives of furniture, fixtures, and equipment are estimated to be three to 10 years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Company evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Leases – The Company determines if an arrangement is a lease at inception. Operating lease right-of-use assets (ROU asset) and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. Substantially all of the Company's leases are comprised of operating leases in which the Company is lessee of real estate property for branches and printers. The Company elected not to include short-term leases (i.e., leases with initial terms of 12 months or less) within the ROU asset and lease liability. The Company uses the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. The Company's lease terms may include options to extend or terminate the lease, which it recognizes when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

Bank-owned life insurance – The Company has purchased life insurance policies on certain former key executives. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Income taxes – The Company files consolidated federal and combined state income tax returns. Income tax expense or benefit is the total of the current-year income tax payable or refundable and the change in the deferred tax assets and liabilities (excluding deferred tax assets and liabilities related to components of other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates.

Deferred income tax assets and liabilities are determined using the asset or liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in the rates and laws. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The Company records a valuation allowance if it believes, based on all available evidence, that it is more likely than not that the future tax assets will not be realized. The Company evaluates its ability to generate sufficient future taxable income or use eligible tax carrybacks, if any, to determine the need for a valuation allowance. At December 31, 2022 and 2021, the Company did not have a valuation allowance against its deferred tax assets. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

Earnings per share – Earnings per share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflect the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock, which share in the earnings of the Company. The Treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS. Diluted EPS are the same as basic earnings per share for the years ended December 31, 2022 and 2021, as there were no securities or contracts to issue common shares outstanding in either period and the Company recorded a net loss for the years ended December 31, 2022 and 2021.

Comprehensive income (loss) – Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) typically includes unrealized gains and losses on securities available-for-sale, which are also recognized as separate components of shareholders' equity. During the years ended December 31, 2022 and 2021, the Company's total comprehensive income (loss) consisted exclusively of net loss.

Fair value of financial instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 17. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Revenue recognition – The Company records revenue from contracts with customers in accordance with Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (Topic 606). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation.

The Company's primarily revenue-generating transactions are not subject to Topic 606, including revenue generated from financial instruments, such as loans and other investments. In addition, certain noninterest income streams such as fees associated with servicing income and sale of loans are also not in scope of the new guidance. The Company fully satisfies performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed, charged either on a periodic basis or based on activity. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The contracts evaluated that are in scope of Topic 606 are primarily related to service charges and fees on deposit accounts, stop payment fees, ATM surcharge fees, and other service charges, commissions, and fees.

Recent Accounting Pronouncements – In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-13, Topic 326, with the objective of providing financial statement users with more decision-useful information about the expected credit losses on financial instructions and other commitments to extend credit held by a reporting entity at each reporting date. The standard, referred to as Current Expected Credit Loss (CECL), replaces the incurred loss impairment methodology in current generally accepted accounting principles with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This amendment affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in lease, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. These amendments are effective after December 15, 2022.

Management has fully modeled and analyzed the historical data necessary to make a clear determination as to the materiality of the impact on either financial condition or future operations, based upon the implementation of the CECL methodology of required reserves, or recognition of future credit losses. Management is in the process of finalizing its evaluation of this standard and has estimated the expected effect on the Bank's financial condition to not be material to the allowance for credit losses or to retained earnings.

The Company will apply the amendment's provisions as a cumulative-effect adjustment to retained earnings at the beginning of the first period the amendment is effective. The Company is in the process of evaluating the effects that the adoption of this amendment will have on its consolidated financial statements.

Note 2 – Investment Securities

Other Investments – Other investments at December 31 consisted of the following:

	2022	2021
FHLB stock	$ 881,400	$ 1,128,100
Federal Reserve Bank	441,450	441,450
Pacific Coast Bankers' Bank stock	550,000	550,000
	$ 1,872,850	$ 2,119,550

Note 3 – Loans

Outstanding loans at December 31 are summarized below:

	2022	2021
Multi-family	$ 11,842,666	$ 11,309,574
Single-family	14,811,702	20,317,758
Commercial	9,771,060	7,718,178
Gas stations	10,393,889	13,063,689
Hotels	31,203,184	39,805,924
Industrial and warehouse	17,215,308	12,237,945
Care homes	9,548,711	6,036,710
Other loans	31,300,071	19,918,128
	136,086,591	130,407,906
Deferred loan costs, net	230,785	250,282
Allowance for loan losses	(2,248,948)	(2,912,326)
	$ 134,068,428	$ 127,745,862

Certain loans have been pledged to secure borrowing arrangements (Note 10).

Significant concentrations of credit risk – The Company grants loans to customers throughout the greater San Francisco Bay Area. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the strength of the real estate market in the Company's primary service areas. Real estate loans were approximately 92% and 95% of the total loan portfolio at December 31, 2022 and 2021, respectively. Should the real estate market experience an overall decline in property values or should other events occur, including, but not be limited to, adverse economic conditions (which may or may not affect real property values), the ability of the borrowers to make timely scheduled principal and interest payments on the Company's loans may be adversely affected, and in turn may result in increased delinquencies and foreclosures. Management monitors this risk by industry, geographical region, and other factors on an ongoing basis in order to identify portfolio trends and take corrective action, if necessary, in a timely manner. Personal and business income represents the primary source of repayment for a majority of these loans.

The Company has purchased single-family residential (SFR) loans to lower the overall risk profile of the loan portfolio and to further reduce concentrations in commercial real estate. Balances of this portfolio totaled $9,571,921 and $15,994,195 at December 31, 2022 and 2021, respectively.

Note 4 – Allowance for Loan Losses

The following tables show the allocation of the allowance for loan losses at and for the years ended December 31 by portfolio class and by impairment methodology:

	2022									
Allowance for Loan Losses	Multi-family	Single-family	Commercial	Gas Stations	Hotels	Industrial and Warehouse	Care Homes	Other Loans	Unallocated	Total
Beginning balance	$ 180,000	$ 90,420	$ 71,902	$ 140,095	$ 1,640,468	$ 147,975	$ 81,015	$ 281,584	$ 278,867	$ 2,912,326
Charge-offs	-	-	(15,870)	-	-	-	-	-	-	(15,870)
Recoveries	-	-	2,492	-	-	-	-	-	-	2,492
(Recovery of) provision	(43,350)	2,531	38,075	(38,128)	(676,653)	(118,672)	25,199	248,144	(87,146)	(650,000)
Ending balance	$ 136,650	$ 92,951	$ 96,599	$ 101,967	$ 963,815	$ 29,303	$ 106,214	$ 529,728	$ 191,721	$ 2,248,948
Ending balance, individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance, collectively evaluated for impairment	$ 136,650	$ 92,951	$ 96,599	$ 101,967	$ 963,815	$ 29,303	$ 106,214	$ 529,728	$ 191,721	$ 2,248,948
Loans										
Ending balance	$ 11,842,666	$ 14,811,702	$ 9,771,060	$ 10,393,889	$ 31,203,184	$ 17,215,308	$ 9,548,711	$ 31,300,071		$ 136,086,591
Ending balance, individually evaluated for impairment	$ 1,149,795	$ -	$ -	$ -	$ -	$ -	$ -	$ -		$ 1,149,795
Ending balance, collectively evaluated for impairment	$ 10,692,871	$ 14,811,702	$ 9,771,060	$ 10,393,889	$ 31,203,184	$ 17,215,308	$ 9,548,711	$ 31,300,071		$ 134,936,796

	2021									
Allowance for Loan Losses	Multi-family	Single-family	Commercial	Gas Stations	Hotels	Industrial and Warehouse	Care Homes	Other Loans	Unallocated	Total
Beginning balance	$ 448,193	$ 186,244	$ 32,963	$ 254,234	$ 1,444,930	$ 100,782	$ 77,914	$ 456,150	$ 17,584	$ 3,018,994
Charge-offs	-	-	(36,668)	-	-	-	-	-	-	(36,668)
Recoveries	-	-	-	-	-	-	-	-	-	-
(Recovery of) provision	(268,193)	(95,824)	75,607	(114,139)	195,538	47,193	3,101	(174,566)	261,283	(70,000)
Ending balance	$ 180,000	$ 90,420	$ 71,902	$ 140,095	$ 1,640,468	$ 147,975	$ 81,015	$ 281,584	$ 278,867	$ 2,912,326
Ending balance, individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance, collectively evaluated for impairment	$ 180,000	$ 90,420	$ 71,902	$ 140,095	$ 1,640,468	$ 147,975	$ 81,015	$ 281,584	$ 278,867	$ 2,912,326
Loans										
Ending balance	$ 11,309,574	$ 20,317,758	$ 7,718,178	$ 13,063,689	$ 39,805,924	$ 12,237,945	$ 6,036,710	$ 19,918,128		$ 130,407,906
Ending balance, individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		$ -
Ending balance, collectively evaluated for impairment	$ 11,309,574	$ 20,317,758	$ 7,718,178	$ 13,063,689	$ 39,805,924	$ 12,237,945	$ 6,036,710	$ 19,918,128		$ 130,407,906

The following tables show the loan portfolio allocated by management's internal risk rating at December 31:

2022	Multi-family	Single-family	Commercial	Gas Stations	Hotels	Industrial and Warehouse	Care Homes	Other Loans	Total
GRADE									
Pass	$ 10,692,871	$ 14,811,702	$ 9,771,060	$ 10,393,889	$ 22,824,418	$ 17,215,308	$ 9,548,711	$ 28,679,578	$ 123,937,537
Special mention	-	-	-	-	8,378,766	-	-	2,620,493	10,999,259
Substandard	1,149,795	-	-	-	-	-	-	-	1,149,795
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 11,842,666	$ 14,811,702	$ 9,771,060	$ 10,393,889	$ 31,203,184	$ 17,215,308	$ 9,548,711	$ 31,300,071	$ 136,086,591

2021	Multi-family	Single-family	Commercial and Industrial	Gas Stations	Hotels	Industrial and Warehouse	Care Homes	Other Loans	Total
GRADE									
Pass	$ 10,052,808	$ 20,317,758	$ 7,718,178	$ 13,063,689	$ 27,941,565	$ 12,237,945	$ 6,036,710	$ 19,918,128	$ 117,286,781
Special mention	-	-	-	-	9,784,915	-	-	-	9,784,915
Substandard	1,256,766	-	-	-	2,079,444	-	-	-	3,336,210
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 11,309,574	$ 20,317,758	$ 7,718,178	$ 13,063,689	$ 39,805,924	$ 12,237,945	$ 6,036,710	$ 19,918,128	$ 130,407,906

The following tables show an aging analysis of the loan portfolio by the time past due at December 31:

2022	30 to 59 Days Past Due	60 to 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Nonaccrual
Multi-family	$ -	$ 1,149,795	$ -	$ 1,149,795	$ 10,692,871	$ 11,842,666	$ 1,149,795
Single-family	-	-	-	-	14,811,702	14,811,702	-
Commercial	-	-	-	-	9,771,060	9,771,060	-
Gas stations	-	-	-	-	10,393,889	10,393,889	-
Hotels	-	-	-	-	31,203,184	31,203,184	-
Industrial and warehouse	-	-	-	-	17,215,308	17,215,308	-
Care homes	-	-	-	-	9,548,711	9,548,711	-
Other loans	-	-	-	-	31,300,071	31,300,071	-
Total	$ -	$ 1,149,795	$ -	$ 1,149,795	$ 134,936,796	$ 136,086,591	$ 1,149,795

2021	30 to 59 Days Past Due	60 to 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Nonaccrual
Multi-family	$ -	$ -	$ -	$ -	$ 11,309,574	$ 11,309,574	$ -
Single-family	-	-	-	-	20,317,758	20,317,758	-
Commercial	270,591	-	-	270,591	7,447,587	7,718,178	-
Gas stations	-	-	-	-	13,063,689	13,063,689	-
Hotels	-	-	-	-	39,805,924	39,805,924	-
Industrial and warehouse	-	-	-	-	12,237,945	12,237,945	-
Care homes	-	-	-	-	6,036,710	6,036,710	-
Other loans	-	-	-	-	19,918,128	19,918,128	-
Total	$ 270,591	$ -	$ -	$ 270,591	$ 130,137,315	$ 130,407,906	$ -

There were no loans that were past due 90 days or more and still accruing interest for the year ended December 31, 2022 and 2021. Forgone interest on nonaccrual loans totaled $45,343 for the year ended December 31, 2022. There was no forgone interest on nonaccrual loans or impaired loans for the year ended December 31, 2021. The following table shows information related to impaired loans at and for the year ended December 31, 2022. There were no loans considered impaired at and for the year ended December 31, 2021.

	2022				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
WITH NO RELATED ALLOWANCE RECORDED					
Multi-family	$ 1,243,893	$ 1,149,795	$ -	$ 1,247,321	$ 24,831
Single-family	-	-	-	-	-
Commercial	-	-	-	-	-
Gas stations	-	-	-	-	-
Hotels	-	-	-	-	-
Industrial and warehouse	-	-	-	-	-
Care homes	-	-	-	-	-
Other loans	-	-	-	-	-
WITH AN ALLOWANCE RECORDED					
Multi-family	$ -	$ -	$ -	$ -	$ -
Single-family	-	-	-	-	-
Commercial	-	-	-	-	-
Gas stations	-	-	-	-	-
Hotels	-	-	-	-	-
Industrial and warehouse	-	-	-	-	-
Care homes	-	-	-	-	-
Other loans	-	-	-	-	-
TOTAL					
Multi-family	$ 1,243,893	$ 1,149,795	$ -	$ 1,247,321	$ 24,831
Single-family	-	-	-	-	-
Commercial	-	-	-	-	-
Gas stations	-	-	-	-	-
Hotels	-	-	-	-	-
Industrial and warehouse	-	-	-	-	-
Care homes	-	-	-	-	-
Other loans	-	-	-	-	-

Troubled debt restructurings – At December 31, 2022 and 2021, there were no impaired loans outstanding that were classified as restructured loans. There were no loans modified as troubled debt restructuring during the year ended December 31, 2022 and 2021, respectively. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. For the years ended December 31, 2022 and 2021, there were no financing receivables modified as troubled debt restructurings within the previous 12 months and for which there was a payment default (after the restructuring) during the period. The Company had no commitments to lend additional amounts to borrowers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2022 and 2021.

The terms of certain other loans were modified during the years ended December 31, 2022 and 2021, which did not meet the definition of a troubled debt restructuring. The modification of these loans involved a modification of the terms of a loan to borrowers who were not experiencing financial difficulties.

Note 5 – Premises and Equipment

Premises and equipment at December 31 consisted of the following:

	2022	2021
Land	$ 205,000	$ 205,000
Building and improvements	3,489,782	3,471,383
Furniture, fixtures, and equipment	1,574,523	1,767,263
Leasehold improvements	-	99,337
	5,269,305	5,542,983
Less accumulated depreciation and amortization	(3,538,851)	(3,644,471)
	$ 1,730,454	$ 1,898,512

Depreciation and amortization included in occupancy and equipment expense totaled $191,004 and $162,142 for the years ended December 31, 2022 and 2021, respectively.

Note 6 – Interest-Bearing Deposits

Interest-bearing deposits at December 31 consisted of the following:

	2022	2021
Savings	$ 8,231,092	$ 10,102,774
Money market	11,048,999	19,758,530
NOW accounts	12,428,689	16,692,720
Time that meets or exceeds Federal Deposit Insurance Corporation (FDIC) insurance limit	26,894,899	28,683,803
Other time	16,496,049	32,963,850
	$ 75,099,728	$ 108,201,677

The Company obtained a letter of credit from the FHLB in the amount of $25,000,000 and $28,850,000 to secure public deposits at December 31, 2022 and 2021, respectively.

Aggregate annual maturities of time deposits are as follows:

Years Ending December 31,	
2023	$ 41,935,160
2024	1,040,166
2025	35,274
2026	209,113
2027 and thereafter	171,235
	$ 43,390,948

Interest expense recognized on interest-bearing deposits for the years ended December 31 consisted of the following:

	2022	2021
Savings	$ 6,899	$ 7,113
Money market	25,148	57,877
NOW accounts	7,272	7,326
Time that meets or exceeds FDIC insurance limit	291,002	89,820
Other time	111,255	115,063
	$ 441,576	$ 277,199

Note 7 – Income Taxes

Provision (benefit) for income taxes consisted of the following for the years ended December 31:

	2022	2021
Current		
Federal	$ (14,361)	$ 69,700
State	(80,590)	21,600
	(94,951)	91,300
Deferred		
Federal	(275,708)	(71,100)
State	(144,541)	(26,200)
	(420,249)	(97,300)
Benefit from income taxes	$ (515,200)	$ (6,000)

Deferred tax assets (liabilities) consisted of the following at December 31:

	2022	2021
Deferred tax assets		
Allowance for loan losses	$538,652	$ 730,800
Deferred compensation	213,823	222,700
Net operating losses	868,526	238,800
State taxes	336	300
Lease liability	10,277	10,900
Other	94,839	94,700
Total deferred tax assets	1,726,453	1,298,200
Deferred tax liabilities		
Premises and equipment	(66,180)	(71,000)
Deferred loan costs	(193,291)	(186,200)
Prepaid expenses	(11,464)	-
FHLB stock	(22,692)	(28,000)
Right-of-use lease asset	(10,277)	(10,700)
Total deferred tax liabilities	(303,904)	(295,900)
Net deferred tax assets	$ 1,422,549	$ 1,002,300

The Company had federal net operating loss (NOL) carryforwards of $2.5 million at December 31, 2022, that will not expire. The Company had California net operating loss carryforwards of $4.0 million at December 31, 2022, that begin to expire in 2040.

The provision (benefit) for income taxes differs from amounts computed by applying the statutory federal income tax rates to operating income before income taxes. The significant items comprising these differences consisted of the following for the years ended December 31:

	2022		2021	
	Amount	Rate	Amount	Rate
Federal income tax expense, at statutory rate	$ (275,557)	21.0 %	$ (44,700)	21.0 %
State franchise tax, net of federal tax benefit	(113,152)	8.6 %	(19,200)	9.0 %
Other	(126,491)	9.7 %	57,900	-27.2 %
Benefit from income taxes	$ (515,200)	39.3 %	$ (6,000)	2.8 %

The Company conducted an analysis to assess the need of a valuation allowance against deferred tax assets at December 31, 2022 and 2021. As part of this assessment, all available evidence, including both positive and negative, was considered to determine whether, based on the weight of such evidence, a valuation allowance for deferred tax assets was needed. A valuation allowance is deemed to be needed when, based on the weight of the available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or all of a deferred tax asset will not be realized. Management determined that a valuation allowance was not required at December 31, 2022 and 2021.

The Company files income tax returns in the U.S. federal and various state jurisdictions. With few exceptions, the Company is no longer subject to tax examination by state and local taxing authorities for years ended before December 31, 2018. As a result of the federal five-year net operating loss carryback claim, tax years 2015 and forward remain subject to examination in the federal jurisdiction.

Uncertain tax positions – The Company's policy is to recognize interest and penalties related to income taxes in income tax expense. The Company had no material uncertain tax positions or associated interest and penalties at December 31, 2022 or 2021. The Company does not anticipate any significant changes with respect to unrecognized tax benefit within the next 12 months.

Note 8 – Commitments and Contingencies

Financial instruments with off-balance-sheet risk – The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the consolidated balance sheet.

The following financial instruments represent off-balance-sheet credit risk at December 31:

	2022	2021
Commitments to extend credit	$ 1,188,770	$ 2,113,028
Standby letters of credit	5,282,132	500,000

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include savings accounts, accounts receivable, inventory, equipment, and deeds of trust on residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to these standby letters of credit, which represent fees received for issuing the guarantees, was not significant at December 31, 2022 and 2021. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

Correspondent banking agreements – The Company maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. The Company's uninsured deposits with correspondent banks totaled $14,712,883 at December 31, 2022.

Contingencies – The Company is subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or consolidated results of operations of the Company.

Note 9 – Leases

The Company owns the primary branch and administrative headquarters located in San Francisco, California. In March 2022, the Company terminated its leases for the branch office at Berkeley, California. For leases where the Company is reasonably certain that it will exercise the option to renew the lease, it has recognized those options in its right-of-use (ROU) lease asset and liability. The ROU lease asset is presented in the accrued interest receivable and other assets line item on the consolidated balance sheet.

The table below presents information regarding the Company's leases at December 31:

	2022	2021
Right-of-use lease asset	$ 34,764	$ 36,250
Lease liability	$ 34,764	$ 36,949
Weighted-average remaining lease term	1.42	0.33
Weighted-average discount rate	3.77%	2.31%

Maturities of lease liabilities as of December 31, were as follows:

	2022
2023	$ 23,874
2024	11,937
Total undiscounted cash flows	35,811
Less: present value discount	(1,047)
Present value of net future minimum lease payments	$ 34,764

Rental expense included in occupancy and equipment expense totaled $25,628 and $102,850 for the years ending December 31, 2022 and 2021, respectively. Cash paid for operating leases totaled $49,081 and $115,463 for the years ended December 31, 2022 and 2021, respectively.

Note 10 – Borrowing Arrangements

Correspondent bank lines of credit – The Company had a total of $5,000,000 in unsecured federal funds lines of credit with one of its correspondent banks to meet short-term liquidity needs. As of December 31, 2022, there was $2,000,000 in overnight federal funds advances with a weighted-average interest rate of 4.90%. No borrowings were outstanding under these lines at December 31, 2021.

Federal Home Loan Bank – The Company has a secured line of credit available with the FHLB, which allows the Company to borrow up to 35% of its total assets based on specified percentages of collateral pledged. At December 31, 2022, the Company could borrow up to $38,957,233 based on loans pledged totaling $54,354,279. There were three advances under these arrangements at December 31, 2022, for $3,000,000 at a rate of 4.65%, $6,000,000 with a rate of 4.65%, both with no maturity, and $4,000,000 at a rate of 4.63%, with a maturity of January 30, 2023. There were no outstanding advances at December 31, 2021. The letters of credits outstanding totaled $25,000,000 and $28,850,000 at December 31, 2022 and 2021.

Note 11 – Note Payable

Note payable at December 31, 2022, consisted of the following:

First Citizens Bank – On June 19, 2020, the Company entered into a note payable agreement for $8,000,000 at a rate of 5.625% per annum, computed on the basis of a 360-day year consisting of 12 30-day months and payable semi-annually in arrears on June 30 and December 31 of each year. In June 2022, the Company entered into an addendum to defer interest payments until June 2024. No interest payments were made during the year ended December 31, 2022; interest payable of $450,000 was accrued and included in accrued interest payable as of December 31, 2022. The note is due June 30, 2030. Interest expense for this note was $450,000 for the years ended December 31, 2022 and 2021.

Note 12 – Junior Subordinated Debentures

MNB Holdings Statutory Trust I (the Trust) is a Delaware business trust formed by the Company with capital of $93,000 for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. During the third quarter of 2004, the Trust issued 3,000 Floating Rate Capital Trust Pass-Through Securities (Trust Preferred Securities), with a liquidation value of $1,000 per security, for gross proceeds of $3,000,000. All proceeds of the issuance along with the capital from the Company were invested by the Trust in $3,093,000 of Floating Rate Junior Subordinated Debentures (the Subordinated Debentures) issued by the Company, with identical maturity, repricing, and payment terms as the Trust Preferred Securities. The Subordinated Debentures represent the sole assets of the Trust. The Subordinated Debentures mature on September 20, 2034, bear a current interest rate of 4.09% (based on three-month LIBOR plus 2.5%), with repricing and payments due quarterly. The Subordinated Debentures are redeemable by the Company, subject to receipt by the Company with prior approval from the Federal Reserve Board of Governors on any December 15, March 15, June 15, or September 15. The redemption price is par plus accrued and unpaid interest, except in the case of redemption under a special event, which is defined in the debenture. The Trust Preferred Securities are subject to mandatory redemption to the extent of any early redemption of the Subordinated Debentures and upon maturity of the Subordinated Debentures on September 20, 2034.

Holders of the Trust Preferred Securities are entitled to a cumulative cash distribution on the liquidation amount of $1,000 per security. For each successive period beginning on December 15, March 15, June 15, and September 15 of each year, the rate will be adjusted to equal the three-month LIBOR plus 2.5%. The Trust has the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures. The Company has been current on each of the past four quarterly payment periods. The Trust Preferred Securities were sold and issued in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the Trust Preferred Securities.

Interest expense recognized by the Company for the years ended December 31, 2022 and 2021, related to the Subordinated Debentures was $133,364 and $83,353, respectively. The Company had recorded accrued and unpaid interest payments of $116,412 and $3,948 at December 31, 2022 and 2021, respectively.

Note 13 – Regulatory Matters

On April 14, 2020, the Bank received a Consent Order (the Order) from the Office of the Comptroller of the Currency (OCC), whereby the OCC intended to initiate cease-and-desist proceedings against the Bank as it relates to its Bank Secrecy Act/Anti-Money Laundering (“BSA/AML”) compliance program. The cease-and-desist order relates to identified deficiencies in the Bank’s BSA/AML compliance program, which was designed to comply with the BSA/AML requirements. In addition, the Order requires, among other things:

- The Bank should develop, implement, and adhere to a written program of policies and procedures to provide for compliance with the BSA and the appropriate identification and monitoring of transactions that pose greater than normal risk for compliance with the BSA.

- The Bank should develop, implement and adhere to an enhanced written risk-based program of internal controls and processes to ensure compliance with the requirements to file Suspicious Activity Reports (SAR).

- The Bank should adopt, implement, and adhere to an independent BSA/AML audit program that includes the minimum requirement for adequate independent testing.

The Bank is working closely with the OCC to address the provisions of the Order. Regular updates are being submitted to report progress made. The provisions of this Order shall remain effective until its provisions are amended, suspended, waived, or terminated in writing by the OCC, through the Comptroller's duly signed authorized representative.

In management's opinion, progress has been made in meeting the requirements of the Order. However, in management's opinion, full compliance with the requirements of the Order has not yet been achieved. Management has strengthened the Bank's BSA/AML compliance efforts and has focused on reducing operating expenses to bring the Bank back to profitability.

During the years ended December 31, 2022 and 2021, the Bank recorded a net loss of $796,996 and $206,655, respectively. Management has been and will continue to work toward compliance with BSA/AML requirements, reducing controllable operating costs, generating loan growth while maintaining strong asset quality, and augmenting deposits to improve liquidity and preserving capital over the course of 2023. Accordingly, over the next 12 months, management believes that the Bank has sufficient capital and liquidity to successfully meet its obligations in the normal course of business. However, the Bank's inability to successfully implement its plans or further deterioration in economic conditions could have a material adverse effect on the Bank's financial position and liquidity.

The Company is subject to certain regulatory capital requirements administered by the Federal Deposit Insurance Corporation. Failure to meet these 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 Company's consolidated financial statements.

Under capital adequacy guidelines, the Company and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee requirements on Banking Supervision's capital guidance for U.S. banks (Basel III rules), including a capital conservation buffer, were phased in to 2.5%. Management believes that the Company and Bank met all its capital adequacy requirements as of December 31, 2022 and 2021.

The Company and Bank are also subject to additional capital guidelines under the regulatory framework for prompt corrective action. Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to present overall financial condition. The Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action as of December 31, 2022 and 2021. There are no conditions or events since that notification that management believes have changed the Company's category.

In August 2020, the federal banking agencies adopted the final version of the community bank leverage ratio framework rule (the CBLR), implementing two interim final rules adopted in April of 2020. The rule provides an optional, simplified measure of capital adequacy. Under the optional CBLR framework, the CBLR will be 8.5% through calendar year 2021 and 9% thereafter. The rule is applicable to all nonadvanced approaches FDIC-supervised institutions with less than $10 billion in total consolidated assets. Banks not electing the CBLR framework will continue to be subject to the generally applicable risk-based capital rule. The Company and the Bank have elected to use the CBLR framework.

	2022		2021	
	Amount	Ratio	Amount	Ratio
LEVERAGE RATIO				
MNB Holdings Corporation	$ 27,192,000	14.5%	$ 28,159,000	12.1%
Mission National Bank	$ 37,214,000	19.9%	$ 37,609,000	16.9%
To be well-capitalized under CBLR framework	$ 16,837,000	9.0%	$ 16,837,000	9.0%

Dividends – The shareholders of the Company will be entitled to receive dividends when and as declared by its Board of Directors, out of funds legally available for the payment of dividends, as provided in the California General Corporation Law. The California General Corporation Law provides that a corporation may make a distribution to its shareholders if retained earnings immediately prior to the dividend payout are at least equal to the amount of the proposed distribution. In the event that sufficient retained earnings are not available for the proposed distribution, a corporation may, nevertheless, make a distribution, if it meets both the quantitative solvency and the liquidity tests. In general, the quantitative solvency test requires that the sum of the assets of the corporation equal at least 125% of its liabilities. The liquidity test generally requires that a corporation have current assets at least equal to current liabilities, or, if the average of the earnings of the corporation before taxes on income and before interest expenses for the two preceding fiscal years was less than the average of the interest expense of the corporation for such fiscal years, then current assets must equal at least 125% of current liabilities. In addition, the Bank is required to obtain OCC approval prior to paying a dividend greater than the sum of the Bank’s current-year net income and the retained net income of the preceding two years.

Note 14 – Related-Party Transactions

Loans receivable and deposits – In the normal course of business, the Company makes loans to and receives deposits from its directors, executive officers, principal shareholders, and their associates. In management’s opinion, these transactions are on substantially the same terms as comparable transactions with other customers of the Company. There were no outstanding related-party loans for the years ended December 31, 2022 and 2021. There were undisbursed commitments for related parties of $400,000 for the years ended December 31, 2022 and 2021.

Related-party deposits amounted to $12,532,385 and $11,947,098 at December 31, 2022 and 2021, respectively.

Service fee income – The Company recognizes fee income on the above loan and deposit accounts with related parties. Main sources of fee income are earned from armored cash services, ATM fees, ACH transaction fees, and additional services. In management's opinion, these transactions are on the same terms as comparable transactions with other customers of the Company. Total fee income recognized from these accounts totaled $301,712 and $305,174 for the years ended December 31, 2022 and 2021, respectively.

Note 15 – Employee Benefit Plans

Salary continuation plan – A salary continuation plan is in place for one retired officer. In addition, similar plans have been frozen for three executive officers who have left the Company. Under these plans, the executive officers, or their designated beneficiaries, will receive monthly payments for 10 years after retirement or death. These benefits are substantially equivalent to those available under insurance policies that have been purchased by the Company on the lives of the executive officers. In addition, the estimated present value of these future benefits is accrued over the period from the effective dates of the plans until the participants are eligible for payments under the plans. The expense recognized under these plans for the years ended December 31, 2022 and 2021, was $25,144 and $26,366, respectively, resulting in a deferred compensation liability of $723,265 and $753,131 at December 31, 2022 and 2021, respectively.

The Company held single premium life insurance policies with cash surrender values totaling $1,323,287 and $1,295,239 at December 31, 2022 and 2021, respectively. Income earned on these policies, net of expenses, totaled $28,048 and $27,664 for the years ended December 31, 2022 and 2021, respectively.

Savings plan – The Mission National Bank 401(k) Savings Plan commenced in 1997 and is available to employees meeting certain service requirements. Under the plan, employees may defer a selected percentage of their annual compensation. Company contributions totaled $40,271 and $29,370 for the years ended December 31, 2022 and 2021, respectively.

Note 16 – Other Expenses

Other expenses for the years ended December 31 consisted of the following:

	2022	2021
Professional services	$ 1,172,141	$ 2,009,256
Other operating expenses	735,202	784,009
Data processing	580,000	585,000
Director's fees	348,000	335,000
FDIC assessment	263,608	104,134
OCC assessment	110,110	96,875
Telephone and postage	108,185	113,243
	$ 3,317,246	$ 4,027,517

Note 17 – Fair Value

Fair value hierarchy – The Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 – Quoted market prices for identical instruments traded in active exchange markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation, which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities, or total earnings. There were no transfers between levels as of December 31, 2022 and 2021.

The estimated fair values of the Company's financial instruments for the years ended December 31 were as follows:

		2022		2021	
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	1	$ 45,271,538	$ 45,271,538	$ 85,386,826	$ 85,386,826
Other investments	3	1,872,850	1,872,850	2,119,550	2,119,550
Loans, net	3	134,068,428	126,438,000	127,745,862	130,320,000
Financial liabilities:					
Federal funds purchased	2	2,000,000	2,000,000	-	-
FHLB borrowings	2	13,000,000	13,000,000	-	-
Note payable	2	8,000,000	7,700,000	8,000,000	7,700,000
Junior subordinated debentures	3	3,093,000	3,093,000	3,093,000	3,093,000
Deposits	3	130,543,345	109,223,000	179,738,340	176,429,000

Assets and liabilities recorded at fair value – There were no assets or liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021. There were no assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021.

Note 18 – Subsequent Events

On April 13, 2023, the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund) selected the Company to receive a CDFI Equitable Recovery Program (CDFI ERP) award. The CDFI ERP award amount will be $2,602,780 and is scheduled to be paid in cash in the third quarter of 2023.

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