Financial Statements
December 31, 2022 and 2021

Gateway Bank, F.S.B.

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Independent Auditor's Report

The Board of Directors and Shareholders
Gateway Bank, F.S.B.
Oakland, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Gateway Bank, F.S.B., which comprise the statements of financial condition as of December 31, 2022 and 2021, and the related statements of operations, comprehensive income (loss), 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 Gateway Bank, F.S.B. as of December 31, 2022 and 2021, and the results of its operations and its 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 Gateway Bank, F.S.B., 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 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.

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 Gateway Bank, F.S.B.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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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 Gateway Bank, F.S.B.'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 Gateway Bank, F.S.B.'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
April 24, 2023

	2022	2021
Assets		
Cash and due from banks	$ 1,097,303	$ 1,858,160
Interest bearing deposits in other banks	16,692,622	43,556,093
Federal funds sold	1,435,000	1,415,000
Total cash and cash equivalents	19,224,925	46,829,253
Debt securities available for sale	35,072,849	22,485,579
Loans held for investment, less allowance for loan losses of $1,398,000 and $1,358,000, respectively	120,525,755	98,744,910
Restricted stock, at cost	998,900	1,026,000
Mortgage servicing rights, at fair value	486,134	361,700
Premises and equipment, net	176,869	241,508
Right of use asset	390,642	598,885
Cash surrender value of bank owned life insurance	2,774,693	2,711,818
Accrued interest receivable and other assets	1,717,597	2,344,101
	$ 181,368,364	$ 175,343,754
Liabilities and Shareholders' Equity		
Deposits		
Non interest bearing	$ 12,622,713	$ 32,945,189
Interest bearing	149,825,982	121,726,786
Total deposits	162,448,695	154,671,975
FHLB advances	-	3,000,000
Lease liability	390,642	598,885
Accrued interest payable and other liabilities	2,883,382	1,314,930
Total liabilities	165,722,719	159,585,790
Commitments and Contingencies (Notes 6, 11 and 13)		
Shareholders' Equity		
Preferred stock Series C and D - no par value; 20,000,000 shares authorized; 5,800 and 12,664,357 shares issued and outstanding in 2022 and 2021, respectively	5,788,219	3,687,191
Common stock - $0.10 par value; 100,000,000 shares authorized; 61,912,602 and 49,248,245 shares issued and outstanding in 2022 and 2021, respectively	6,191,260	4,924,824
Additional paid-in-capital	36,743,922	34,323,167
Accumulated deficit	(29,038,636)	(27,491,572)
Accumulated other comprehensive income (loss)	(4,039,120)	314,354
Total shareholders' equity	15,645,645	15,757,964
	$ 181,368,364	$ 175,343,754

	2022	2021
Interest Income		
Interest and fees on loans	$ 4,610,794	$ 6,303,092
Interest on debt securities	1,280,475	852,117
Interest on federal funds sold and other	211,228	34,669
Dividends on restricted stock	72,969	39,172
Total interest income	6,175,466	7,229,050
Interest Expense		
Interest on deposits	930,913	553,330
Interest on borrowings	199	212,602
Total interest expense	931,112	765,932
Net Interest Income Before Provision for Loan Losses	5,244,354	6,463,118
Provision for Loan Losses	40,000	18,000
Net Interest Income After Provision for Loan Losses	5,204,354	6,445,118
Noninterest Income		
Loan servicing income	181,448	30,905
Employee retention tax credit	-	478,695
Other income	194,434	210,353
Total noninterest income	375,882	719,953
Noninterest Expense		
Salaries and employee benefits	2,740,066	2,859,420
Supplemental executive retirement benefit	1,594,596	-
Occupancy and equipment	440,721	502,840
Data processing	518,596	547,778
Legal fees	354,828	393,722
Provision for (recovery of) repurchase liability	-	(150,000)
Professional and consulting fees	216,319	485,427
Loss on early extinguishment of debt	-	323,571
Other expense	1,262,174	1,254,807
Total noninterest expense	7,127,300	6,217,565
Income (Loss) Before Income Tax Expense	(1,547,064)	947,506
Income Tax Expense	-	-
Net Income (Loss)	$ (1,547,064)	$ 947,506
Earnings (Loss) per Common Share - Basic and Diluted	$ (0.03)	$ 0.02
Weighted-average common shares	61,183,968	49,179,921

	2022	2021
Net Income (Loss)	$ (1,547,064)	$ 947,506
Other Comprehensive Income (Loss)		
Changes in net unrealized gains (losses) on debt securities classified as available-for-sale	(4,353,474)	265,854
Total other comprehensive income (loss)	(4,353,474)	265,854
Comprehensive Income (Loss)	$ (5,900,538)	$ 1,213,360

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance, January 1, 2021	12,664,357	$ 3,687,191	49,248,245	$ 4,924,824	$ 34,323,167	$ (28,439,078)	$ 48,500	$ 14,544,604
Net income	-	-	-	-	-	947,506	-	947,506
Other comprehensive income	-	-	-	-	-	-	265,854	265,854
Balance, December 31, 2021	12,664,357	3,687,191	49,248,245	4,924,824	34,323,167	(27,491,572)	314,354	15,757,964
Conversion of Series C Preferred	(12,664,357)	(3,687,191)	12,664,357	1,266,436	2,420,755	-	-	-
Issuance of Series D Preferred	5,800	5,788,219	-	-	-	-	-	5,788,219
Net loss	-	-	-	-	-	(1,547,064)	-	(1,547,064)
Other comprehensive loss	-	-	-	-	-	-	(4,353,474)	(4,353,474)
Balance, December 31, 2022	5,800	$ 5,788,219	61,912,602	$ 6,191,260	$ 36,743,922	$ (29,038,636)	$ (4,039,120)	$ 15,645,645

	2022	2021
Operating Activities		
Net income (loss)	$ (1,547,064)	$ 947,506
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	67,011	61,405
Amortization on debt securities	39,599	11,729
Provision for loan losses	40,000	18,000
Provision for (recovery of) repurchase liability	-	(150,000)
(Increase) decrease in fair value of mortgage servicing rights	(124,434)	51,362
Increase in cash surrender value of life insurance	(62,875)	(62,071)
Changes in other assets and liabilities		
Accrued interest receivable and other assets	626,504	(664,122)
Accrued interest payable and other liabilities	1,568,452	(1,201,403)
Net Cash Provided by (Used in) Operating Activities	607,193	(987,594)
Investing Activities		
Change in Federal Home Loan Bank stock	27,100	(242,700)
Available-for-sale debt securities:		
Maturities, prepayments and calls	1,019,657	1,369,170
Purchases	(18,000,000)	(10,500,000)
Net change in loans	(21,820,845)	25,846,212
Purchase of premises and equipment	(2,372)	(58,231)
Net Cash (Used in) Provided by Investing Activities	(38,776,460)	16,414,451
Financing Activities		
Net increase in deposits	7,776,720	22,451,402
Repayment of long-term FHLB advances	(3,000,000)	(16,759,956)
Net change in PPP lending facility borrowings	-	(9,482,737)
Issuance of preferred stock	5,788,219	-
Net Cash Provided by (Used in) Financing Activities	10,564,939	(3,791,291)
Change in Cash and Cash Equivalents	(27,604,328)	11,635,566
Cash and Cash Equivalents, Beginning of Year	46,829,253	35,193,687
Cash and Cash Equivalents, End of Year	$ 19,224,925	$ 46,829,253
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest paid	$ 930,560	$ 783,246
Income tax paid	$ -	$ -
Conversion of preferred stock to common stock	$ 12,664,357	$ -

Note 1 - Summary of Significant Accounting Policies

The accounting and reporting policies of Gateway Bank, F.S.B. ("the Bank") are in accordance with accounting principles generally accepted in the United States of America and conform to practices within the banking industry.

A summary of the Bank's significant accounting policies follows:

Nature of Operations

The Bank was incorporated in June 1990. The Bank occupies one location in the Chinatown district of Oakland, California. All banking and administrative operations are housed in the Chinatown branch location with the Bank providing traditional banking products to the surrounding community.

The Bank operates under a charter granted by the Office of the Comptroller of Currency ("OCC") and its deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is also an approved Community Development Financial Institution ("CDFI") with a stated mission to provide banking services to people and communities who are underserved by mainstream commercial banks and lenders.

The Bank’s stock began trading in the over-the-counter markets (ticker symbol GWBK) in 2019 and therefore is a public business entity for financial reporting purposes.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through April 24, 2023, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term is the determination of the allowance for loan losses.

Cash and Cash Equivalents

For purposes of reporting cash flows cash and cash equivalents include cash, time deposits with other financial institutions with maturities of 90 days or less and federal funds sold. Generally, federal funds are sold for one day periods.

Cash and Due from Banks

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. Effective March 26, 2020, the Federal Reserve’s board of directors approved a final rule reducing the required reserve requirement ratio to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or in deposit with the Federal Reserve Bank.

The Bank maintains amounts due from banks that may exceed federally insured limits. The Bank has not experienced any losses on such accounts.

Debt Securities

Debt securities are classified in three categories and accounted for as follows: debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and are measured at amortized cost; debt securities bought and held principally for the purpose of selling in the near term are classified as trading securities and are measured at fair value, with unrealized gains and losses included in earnings; debt securities not classified as either held-to-maturity or trading securities are deemed as available-for-sale and are measured at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Gains or losses on sales of debt securities are determined on the specific identification method. Premiums and discounts are amortized or accreted using the interest method over the expected lives of the related securities.

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

Loans Held for Investment

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are deferred and recognized in interest income using the level-yield method without anticipating prepayments. Premiums and discounts on loans purchased are grouped by type and certain common risk characteristics and amortized or accreted as an adjustment of yield over the weighted-average remaining contractual lives of each group of loans, adjusted for prepayments when applicable, using methodologies which approximate the interest method.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days or when, in the opinion of management, there is reasonable doubt as to collectability based on contractual terms of the loan. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

The Bank's real estate loan portfolio consists primarily of long-term loans (15-30 years) collateralized by first and second deeds of trust on one-to-four-unit residential real estate properties. A substantial portion of the real estate loan portfolio is comprised of adjustable-rate mortgages. The interest rate and payment terms of these mortgages adjust on a periodic basis in accordance with various published indices. The majority of these adjustable-rate mortgages have terms which limit the amount of interest rate adjustment that can occur each year and over the life of the mortgage.

Allowance for Loan Losses

The allowance for loan losses for loans held for investment is established through a provision for loan losses charged to operating income. Originated loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb probable losses inherent in existing loans, based on evaluations of the collectability, impairment, and prior loss experience of loans. The evaluations take into consideration such factors as changes in the nature and size of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

All specifically identifiable and quantifiable losses are immediately charged off against the allowance. However, for a variety of reasons, not all losses are immediately known to the Bank and, of those that are known, the full extent of the loss may not be quantifiable at that point in time. The balance of the Bank's allowance for loan losses is meant to be an estimate of these unknown but probable losses inherent in the portfolio.

The Bank's Internal Asset Review Committee, Board of Directors, and Executive Loan Committee assess the adequacy of the allowance for loan losses at least quarterly. The Bank's method for assessing the appropriateness of the allowance for loan losses includes specific allowances for impaired loans, formula allowance factors for pools of credits, and allowances for changing qualitative factors (e.g., interest rates, growth, economic conditions, etc.). Allowance factors for loan pools are based on historical loss experience by loan type. Allowances for impaired loans are based on analysis of individual credits. Allowances for changing environmental factors are management's best estimate of the probable impact these changes have had on the loan portfolio as a whole.

The Bank defines a loan as impaired when it is probable the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance charged to earnings.

In situations related to loans where, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession for other than an insignificant period of time to the borrower that the Bank would not otherwise consider, the related loan is classified as a troubled debt restructuring ("TDR"). The Bank strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status.

These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Bank grants the borrower new terms that provide for a concession (e.g., reduction of either interest or principal), the loan is deemed impaired and the Bank therefore measures any impairment on the restructuring as noted above for impaired loans. TDR loans are generally classified as impaired until they are fully paid off or charged off. Loans that are in nonaccrual status at the time they become TDR loans, remain in nonaccrual status until the borrower demonstrates a sustained period of performance which the Bank generally believes to be six consecutive months of payments. Otherwise, TDR loans are subject to the same nonaccrual and charge-off policies as noted above with respect to their restructured principal balance.

Portfolio segments identified by the Bank include residential real estate, multifamily, commercial real estate and commercial loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage ratio, loan-to-value ratio and financial performance.

Mortgage Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. 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.

The Bank services residential mortgage loans, which represents its single class of servicing rights, primarily for Government Sponsored Entities ("GSE") and other private investors. The Bank has elected to measure all mortgage servicing rights at fair value. Under the fair value measurement method, the Bank measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are included with loan servicing income (expense) in the statement of operations. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. See Note 4 for more information on the valuation of servicing rights.

Servicing fee income, which is reported on the statement of operations as loan servicing income (expense), is recorded for fees earned for servicing loans, net of fair value adjustments. 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. Servicing fees totaled $57,014 and $82,266 for the years ended December 31, 2022 and 2021, respectively.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Bank, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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 in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. The Bank's investment in FHLB stock was $998,900 and $1,026,000 at December 31, 2022 and 2021, respectively.

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 $280,000 as of December 31, 2022 and 2021 and includes investment in Pacific Coast Bankers' Bank ("PCBB") and other bankers bank stock. There were no adjustments to the carrying amount of bankers bank stocks in 2022 and 2021.

Premises and Equipment

Premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets, which is three to five years for equipment and five to ten years for furniture. Leasehold improvements are amortized over the life of the asset or the term of the related lease, including lease extension options expected to be exercised, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in earnings for the period. The cost of maintenance and repairs is charged to expense as incurred.

Leases

The Bank determines if an arrangement contains a lease at contract inception and recognize right-of-use ("ROU") assets and operating lease liabilities based on the present value of lease payments over the lease term. While operating leases may include options to extend the term, the Bank does not take into account the options in calculating the ROU asset and lease liability unless it is reasonably certain such options will be reasonably exercised. The present value of lease payments is determined based on the Bank's incremental borrowing rate and other information available at lease commencement. Leases with an initial term of 12 months or less are not recorded in the balance sheets. Lease expense is recognized on a straight-line basis over the lease term. The Bank has elected to account for lease agreements with lease and non-lease components as a single lease component.

Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Revenue Recognition - Noninterest Income

The Bank recognizes revenue as it is earned. All of the Bank's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income.

Income Taxes

Deferred income tax assets are computed using the balance sheet method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods. The Bank recognized uncertain tax positions in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Repurchase and Recourse Liability

A repurchase and recourse liability included in accrued interest payable and other liabilities is established through a provision for loan repurchases charged to earnings for loans the Bank has sold with recourse. The Bank provides industry standard representations and warranties to purchasers of the loans sold. In the event of a breach of these representations and warranties, the Bank may be required to repurchase a mortgage loan or indemnify the purchaser, and any subsequent loss on the mortgage loan may be borne by the Bank. If there is no breach of a representation and warranty provision, the Bank has no obligation to repurchase the loan or indemnify the investor against loss. For loans that are sold with recourse, the Bank is subject to risk of loss resulting from borrowers who default on their contractual obligation to repay their mortgage if the Bank does not receive sufficient proceeds upon ultimate foreclosure and liquidation of the property to cover the amount of the mortgage plus expenses the Bank incurs, regardless of whether there was any violation of representation and warranties.

Repurchase demands and claims for indemnification payments are reviewed on a loan-by-loan basis to validate if there has been a breach requiring repurchase or a make-whole payment. The Bank actively contests claims to the extent it does not consider them valid. In cases where the Bank repurchases loans, it bears the subsequent credit loss on the loans with such credit losses, if any, recorded in other expense, net in the statements of operations. The Bank seeks to manage the risk of repurchase and associated credit exposure through underwriting and quality assurance practices and by servicing mortgage loans to meet investor standards.

Dividends

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The Office of Comptroller of the Currency ("OCC") restricts the total dividend payment of any bank in any calendar year to the net income for that year to date plus retained income for the preceding two years. During 2009, the Bank was ordered by the OCC to suspend all dividend payments without receiving pre-approval of the OCC (see Note 15 for further discussion of regulatory matters). As such, no dividends were declared or paid in the years ended December 31, 2022 and 2021.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). The Bank's sources of other comprehensive income (loss) include the net unrealized gains and losses on the Bank's available-for-sale debt securities.

Earnings (Loss) Per Share ("EPS")

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. There were no dilutive shares in 2022 and 2021. Weighted-average shares outstanding used in the computation of basic and diluted earnings per share was 61,183,968 and 49,179,923 in 2022 and 2021, respectively.

Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 - 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 - Significant other observable inputs (other than Level 1 prices) such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect an entity's own assumptions about the factors that market participants would use in pricing an asset or liability.

See Note 16 for more information and disclosures relating to the Bank's fair value measurements.

Note 2 - Debt Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
Mortgage-backed agency securities	$ 16,402,458	$ -	$ (2,224,117)	$ 14,178,341
Subordinated debt securities	22,709,510	-	(1,815,002)	20,894,508
	$ 39,111,968	$ -	$ (4,039,119)	$ 35,072,849

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
Mortgage-backed agency securities	$ 2,455,685	$ 64,530	$ -	$ 2,520,215
Subordinated debt securities	19,715,540	392,920	(143,096)	19,965,364
	$ 22,171,225	$ 457,450	$ (143,096)	$ 22,485,579

The scheduled maturity of subordinated debt securities is as follows as of December 31, 2022:

	Available-for-Sale Securities	
	Amortized Cost	Estimated Fair Value
Due in one to three years	$ 500,000	$ 485,585
Due in five to ten years	22,209,510	20,408,923
	$ 22,709,510	$ 20,894,508

A maturity schedule of mortgage-backed securities is not presented as they are not due at a single maturity date.

Unrealized losses have been in a continuous loss position for less than 12 months as of December 31, 2022, except for four subordinated debt securities, with an amortized cost of $5.50 million, a market value of $4.94 million and an unrealized loss of $563 thousand.

Unrealized losses have not been recognized into income because no credit losses are expected on the securities held, management does not intend to sell, it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach maturity

Securities with a carrying value of approximately $404,000 were pledged at December 31, 2022 to secure the borrowing arrangements discussed in Note 8.

Note 3 - Loans and Allowance for Loan Losses

Loans consist of the following at December 31:

	2022	2021
Loans Held for Investment		
Residential real estate	$ 96,228,833	$ 64,025,920
Multi-Family real estate	5,400,697	5,183,218
Commercial real estate	19,012,763	7,646,223
Commercial	1,283,552	23,093,512
Total loans held for investment	121,925,845	99,948,873
Deferred loan (fees) costs and premiums, net	(2,090)	154,037
Allowance for loan losses	(1,398,000)	(1,358,000)
	$ 120,525,755	$ 98,744,910

Included in Commercial loans are Paycheck Protection Program (“PPP”) loans of $1,234,000 and $13,767,000 as of December 31, 2022 and 2021, respectively, which are fully guaranteed by the Small Business Administration (“SBA”).

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

	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Commercial	Total
Allowance for credit losses					
Beginning balance	$ 980,178	$ 106,776	$ 171,311	$ 99,735	$ 1,358,000
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision	165,822	(55,776)	28,689	(98,735)	40,000
Ending balance	$ 1,146,000	$ 51,000	$ 200,000	$ 1,000	$ 1,398,000
Reserves					
Specific	$ 98,000	$ -	$ -	$ -	$ 98,000
General	1,048,000	51,000	200,000	1,000	1,300,000
	$ 1,146,000	$ 51,000	$ 200,000	$ 1,000	$ 1,398,000
Loan evaluated for impairment					
Individually	$ 1,911,440	$ -	$ -	$ -	$ 1,911,440
Collectively	94,317,393	5,400,697	19,012,763	1,283,552	120,014,405
	$ 96,228,833	$ 5,400,697	$ 19,012,763	$ 1,283,552	$ 121,925,845

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

	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Commercial	Total
Allowance for credit losses					
Beginning balance	$ 1,119,311	$ 53,877	$ 110,863	$ 55,949	$ 1,340,000
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision	(139,133)	52,899	60,448	43,786	18,000
Ending balance	$ 980,178	$ 106,776	$ 171,311	$ 99,735	$ 1,358,000
Reserves					
Specific	$ 105,000	$ -	$ -	$ -	$ 105,000
General	963,330	106,776	171,311	99,735	1,341,152
	$ 1,068,330	$ 106,776	$ 171,311	$ 99,735	$ 1,446,152
Loan evaluated for impairment					
Individually	$ 1,918,348	$ -	$ -	$ -	$ 1,918,348
Collectively	62,107,572	5,183,218	7,646,223	23,093,512	98,030,525
	$ 64,025,920	$ 5,183,218	$ 7,646,223	$ 23,093,512	$ 99,948,873

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Bank uses the following definitions for risk ratings:

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

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Impaired - A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Additionally, all loans classified as troubled debt restructurings are considered impaired.

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

	Pass	Special Mention	Substandard	Impaired	Total
Residential real estate	$ 94,317,393	$ -	$ -	$ 1,911,440	$ 96,228,833
Multi-Family real estate	5,400,697	-	-	-	5,400,697
Commercial real estate	17,256,572	1,425,500	330,691	-	19,012,763
Commercial	1,283,552	-	-	-	1,283,552
	$ 118,258,214	$ 1,425,500	$ 330,691	$ 1,911,440	$ 121,925,845

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows as of December 31, 2021:

	Pass	Special Mention	Substandard	Impaired	Total
Residential real estate	$ 62,107,572	$ -	$ -	$ 1,918,348	$ 64,025,920
Multi-Family real estate	5,183,218	-	-	-	5,183,218
Commercial real estate	5,856,398	1,451,584	338,241	-	7,646,223
Commercial	23,093,512	-	-	-	23,093,512
	$ 96,240,700	$ 1,451,584	$ 338,241	$ 1,918,348	$ 99,948,873

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	$ -	$ 262,495	$ 121,721
Commercial	1,045,730	-	-
	$ 1,045,730	$ 262,495	$ 121,721

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

	Still Accruing		
	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Residential real estate	$ -	$ 157,000	$ 83,652
Commercial	216,000	-	-
	$ 216,000	$ 157,000	$ 83,652

Individually impaired loans were as follows as of December 31, 2022:

	Unpaid Principal Balance	With Allowance		Without Allowance	
		Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Residential real estate	$ 2,318,158	$ 919,484	$ 98,000	$ 991,956	$ -

Individually impaired loans were as follows as of December 31, 2021:

	Unpaid Principal Balance	With Allowance Recorded Investment	With Allowance Related Allowance	Without Allowance Recorded Investment	Without Allowance Related Allowance
Residential real estate	$ 2,363,200	$ 938,356	$ 105,000	$ 979,991	$ -

The average recorded investment in impaired loan balances during years ended December 31, 2022 and 2021, was approximately $1.9 million and $2.9 million, respectively. Interest income recognized on residential real estate impaired loans amounted to approximately $96,000 and $147,000 for 2022 and 2021, respectively.

The Bank had 11 loans identified as troubled debt restructurings ("TDR's") at December 31, 2022, and has allocated $98,000 of specific reserves thereon. The Bank has committed to lend no additional amounts as of December 31, 2022, to customers with outstanding loans that are classified as TDR's. During the years ended December 31, 2022 and 2021, the Bank did not modify any loans in a TDR. There were no TDR's for which there was a payment default within twelve months following a modification during 2022 and 2021. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

Note 4 - Mortgage Servicing Rights

Activity in the Bank's loan servicing portfolio associated with its capitalized mortgage servicing assets consisted of the following for the years ended December 31, 2022 and 2021:

	2022	2021
Beginning balance	$ 65,222,675	$ 92,226,530
Principal paydowns, prepayments, and settlements	(9,662,298)	(27,003,855)
Ending balance	$ 55,560,377	$ 65,222,675

Changes in mortgage servicing rights for the years ended December 31, 2022 and 2021, are as follows:

	2022	2021
Beginning balance, at fair value	$ 361,700	$ 413,062
Changes in market value	124,434	(51,362)
Ending balance, at fair value	$ 486,134	$ 361,700

The significant assumptions used in estimating the fair value of servicing rights were as follows as of December 31:

	2022	2021
Weighted average prepayment rate	6.95%	15.78%
Weighted average discount rate	9.50%	9.50%

Note 5 - Premises and Equipment

Premises and equipment consist of leasehold improvements and furniture, and equipment and are stated at cost, less accumulated depreciation and amortization, which are calculated on a straight-line basis over the estimated useful life of the property or the term of the lease (if less). Premises and equipment are as follows at December 31:

	2022	2021
Furniture and equipment	$ 240,503	$ 238,131
Leasehold improvements	831,886	831,886
	1,072,389	1,070,017
Less accumulated depreciation and amortization	(895,520)	(828,509)
	$ 176,869	$ 241,508

Total depreciation and amortization expense relating to premises and equipment for the years ended December 31, 2022 and 2021, was $67,011 and $61,405, respectively.

Note 6 - Leases

The Bank leases its one location in Oakland California with the term extending to January 31, 2025. There is a 5-year renewal option available which is not included in the measurement of ROU assets and lease liabilities as it is not considered reasonably certain of exercise.

Balance sheet and supplemental information at December 31, 2022 and 2021, are shown below.

	2022	2021
Operating Lease Right-of-Use Asset	$ 390,642	$ 598,885
Operating Lease Liability	$ 390,642	$ 598,885
Weighted Average Remaining Lease Term, in Years	2.08	3.09
Weighted Average Discount Rate	5.50%	5.50%

The Bank elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component. Variable lease cost primarily represents increases in rent that are based on the Consumer Price Index.

The following table represents lease costs and other lease information for the years ended December 31, 2022 and 2021:

Lease Cost:

	2022	2021
Operating lease cost	$ 218,400	$ 218,400
Variable lease cost	17,615	3,432
Total lease costs	$ 236,015	$ 221,832

Other Information:

	2022	2021
Cash Paid for Amounts Included in the Measurement of Lease Liabilities	$ 218,400	$ 214,702
Right-of-Use Assets Obtained in Exchange for Lease Obligations	$ -	$ -

Maturities of lease liabilities for the periods indicated:

Year Ending	
2023	$ 218,400
2024	218,400
2025	18,200
Total lease payments	455,000
Less imputed interest	(64,358)
Present value of net future minimum lease payments	$ 390,642

Note 7 - Deposits

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

	2022	2021
NOW accounts	$ 23,651,469	$ 8,532,048
Savings	16,214,519	22,411,873
Money market accounts	13,876,722	30,040,327
Certificates of deposit, under $250,000	67,027,267	50,212,260
Certificates of deposit, $250,000 or more	29,056,005	10,530,278
	$ 149,825,982	$ 121,726,786

The scheduled maturities of time certificate of deposit accounts as of December 31, 2022, were as follows:

Year Ending December 31	
2023	$ 82,406,058
2024	13,144,395
2025	406,382
2026	126,437
	$ 96,083,272

Note 8 - FHLB and Other Borrowings

Total borrowing capacity with the FHLB at December 31, 2022 was approximately $21.5 million based on loan and securities collateral pledged with a carrying value of approximately $30.4 million. One long-term advance in the amount of $3.0 million was outstanding at December 31, 2021, with an interest rate of .22%, which matured on June 27, 2022. The Bank prepaid a $20.0 million term FHLB advance in 2021, incurring a loss on early extinguishment of debt of $323,571, charged to noninterest expense.

The Bank also has a secured federal funds line of credit with a correspondent bank as of December 31, 2022, in the amount of $1.0 million collateralized by a money market deposit account in the same amount. No amounts were outstanding on the above borrowing arrangement as of December 31, 2022.

Note 9 - Other Expense

Other expense for the years ended December 31, 2022 and 2021, consists of the following:

	2022	2021
Director fees	$ 83,600	$ 70,550
Regulatory assessments	228,430	458,075
Insurance	164,279	117,756
Other operating expenses	785,865	608,426
	$ 1,262,174	$ 1,254,807

Note 10 - Income Taxes

Income tax expense (benefit) for the years ended December 31, 2022 and 2021, consists of the following:

	2022	2021
Current Expense (Benefit)		
Federal	$ -	$ -
State	-	-
	-	-
Change in valuation allowance	404,000	(224,000)
Deferred expense (benefit)	(404,000)	224,000
Income tax expense (benefit)	$ -	$ -

The following is a summary of the components of the deferred tax accounts recognized in the accompanying balance sheets at December 31:

	2022	2021
Deferred Tax Assets		
Depreciation differences	$ 92,000	$ 83,000
Net operating loss carryforwards	11,812,000	11,981,000
Accrued expenses	654,000	48,000
Other items	27,000	45,000
	12,585,000	12,157,000
Valuation Allowance	(11,881,000)	(11,477,000)
Deferred Tax Liabilities		
Allowance for loan losses	(490,000)	(502,000)
Federal Home Loan Bank dividends	(46,000)	(47,000)
Mortgage servicing rights	(144,000)	(107,000)
Other items	(24,000)	(24,000)
	(704,000)	(680,000)
Net deferred tax assets (liabilities)	$ -	$ -

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Due to the uncertainty of future realizability, management has offset all net deferred tax assets with a valuation allowance. The Bank has net operating loss ("NOL") carry forwards of approximately $32.4 million and $58.4 million and at December 31, 2022 for federal and California tax purposes, respectively. The NOLs begin to expire in 2030 for federal tax purposes and 2028 for California tax purposes.

Note 11 - Commitments and Contingencies

Commitments to Extend Credit

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying balance sheet.

The Bank's exposure to credit losses in the event of nonperformance by the other parties for commitments to extend credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Bank had commitments to extend credit of $160,000 and $191,000 as of December 31, 2022 and 2021, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates of not more than 12 months and may require payment of a fee. Since many of the commitments are not expected to be drawn upon, the total commitment amounts may not represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include marketable investment securities, accounts receivable, inventory, property, plant and equipment, and real properties.

The Bank grants real estate mortgage, commercial, and consumer loans to customers principally in California. In management's judgment, a concentration exists in residential real estate loans which represented approximately 78.9% of total loans at December 31, 2022.

Although management believes the loans within these concentrations have no more than the normal risk of collectability, a substantial decline in the performance of the economy in general or a decline in real estate values in the Bank's primary service areas in particular could have an adverse impact on the collectability of these loans.

Litigation

In the normal course of business, the Bank is involved in various other 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 12 - Related-Party Transactions

During the normal course of business, the Bank may enter into loans with related parties, including executive officers and directors. For years ended December 31, 2022 and 2021, there were no related party borrowings. Related party deposits amounted to approximately $2.8 million and $5.9 million as of December 31, 2022 and December 31, 2021, respectively.

Note 13 - Repurchase and Recourse Liability

On March 5, 2021, the Bank entered into a Settlement Agreement and Mutual Release with the Trustee in the bankruptcy of Lehman Brothers Holdings Inc., settling all known and unknown claims for $1,350,000. The settled claim involved approximately 90 loans sold by the Bank to Lehman Brothers Bank which were resold by Lehman Brothers Bank to Fannie Mae, Freddie Mac, or RMBS, for mortgage-backed securities that resulted in losses that were the basis of the Trustee's claims. This settled claim retired a liability accrued as of December 31, 2020, of $1.5 million, with a negative provision of $150,000 recognized in 2021, to reduce the beginning of year liability to equal the settlement amount.

Amounts are accrued are based on the Bank's historical loss experience for similar loans sold to investors, management's assessment of credit risk inherent in transactions processed, industry experience, and other relevant factors. No repurchase and recourse liability was accrued as of December 31, 2022 and 2021.

Note 14 - Employee Benefit Plans and Subsequent Event

In October 1995, the Bank adopted the Gateway 401(k) Employee Savings Plan. The plan is available to all employees of the Bank who are at least 21 years of age and have completed three months of service. Under provisions of the plan, participants may contribute up to 100% of their pretax income each year up to a dollar limit which is established by law. The Bank matches safe harbor contributions made by employees, up to 4.0% of compensation. Non safe harbor contributions made by the Bank vest at a rate of 25% for each year of service beginning after the first completed year of service. The Bank made contributions to the plan during the years ended December 31, 2022 and 2021 of $62,165 and $85,979, respectively.

In 2020, the Bank adopted the 2020 Long-Term Stock Incentive Plan (the Plan), which authorizes the issuance of up to 12 million shares in the form of stock options, restricted stock or other stock-based awards. No awards have been granted under the Plan as of December 31, 2022.

On March 14, 2023, the Bank's Supplemental Executive Retirement Plan (SERP) Committee concluded its deliberations on the matter of eligibility for termination benefits, as claimed by a former chief executive officer (former CEO). The SERP Committee determined that the former CEO was eligible for such benefits, pursuant to a SERP agreement dated January 1, 2005. Based on the SERP Committee's determination, the Bank recorded a liability as of December 31, 2022, and a related expense for the year 2022, in the amount of $1,594,596. This liability will be paid out in a lump sum payment of $1,110,354 on May 1, 2023, followed by 60 monthly payments of $9,253.

Note 15 - Regulatory Matters

Consent Order: On November 12, 2020 the Bank consented to the issuance of a Consent Order ("the Order") by the Office of the Comptroller of the Currency ("OCC"). The Order supersedes a previous Order, dated October 26, 2011, and places significant requirements on the Bank, as summarized below.

1. Compliance Management - The Bank must maintain a Board Compliance Committee to ensure effective monitoring of the Bank's compliance with the consent order. The committee must consist of at least three directors of which a majority shall be directors who are not employees or officer of the Bank.

2. Board and Management Supervision – The Bank shall adopt a written program to ensure appropriate controls, staffing and oversight of Bank's corporate governance and decision-making processes to correct the deficient practices as described in the most recent examination report.

3. Plan and Capital Plan - The Board shall continue to implement and ensure adherence to the Bank's written Strategic Plan and Capital Plan.

4. Internal Audit – The Bank shall develop a comprehensive, written internal audit program that adequately assesses controls and operations. The program shall include independent testing for Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance.

5. BSA/AML Articles– Various BSA/AML related articles are included, relating to maintenance of a qualified BSA officer, customer due diligence policies and procedures and adoption of BSA/AML related internal controls.

6. Credit Risk Management – The Bank shall adopt a credit underwriting and administration program that addresses various weaknesses in the current program identified by the OCC.

7. Books and Records: The Bank is required to develop and maintain accurate books and records, including compliance with Generally Accepted Accounting Principles (GAAP) and timely and accurate completion of regulatory call reports.

While the Bank is not in full compliance with the Order, management believes progress has been made toward full compliance.

There is no assurance the Bank will be successful in executing the terms of this Order. If the Bank is not successful in its compliance with the requirements of the Order it may receive a prompt corrective action and may be required to sell, liquidate or merge the Bank or in the event of a material decline in the capital levels, could be subject to FDIC receivership. Additionally, the Bank could be subject to civil money penalties assessed by the OCC.

Capital Requirements: The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2022 and 2021, that the Bank met all capital adequacy requirements to which it was subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and capital restoration plans are required. As of December 31, 2022, the OCC has categorized the Bank as "well-capitalized" under the regulatory framework for Prompt Corrective Action ("PCA"). There are no conditions or events since that notification that management believes have changed the Bank’s category.

Additionally, the OCC has deemed the Bank to be engaged in statutorily "unsafe and unsound practices" within the meaning of 12 USC 1818(b) which provides the basis for the issuance of a Cease and Desist Order or other enforcement action. This statutory designation also provides the OCC with the ability to impose more stringent PCA requirements on the Bank by requiring that it comply with one or more provisions of the PCA category that is one step below the Bank's current category of "adequately-capitalized", which would be the "undercapitalized" category. If "undercapitalized", capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. To date, the OCC has yet to take any action relative to these available additional enforcement actions.

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. The CBLR minimum requirement for 2022 is 9%. The rules allow for a two-quarter grace period to correct a ratio that falls below the required amount, provided that a bank maintains a leverage ratio of 8% for calendar year 2022 and beyond.

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

The Bank's actual and required capital amounts and ratios are presented below as of December 31, 2022 (dollar amounts in thousands):

	Actual		To Be Well-Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
Tier 1 capital (to average assets)	19,684	11.2%	15,783	9.0%

The Bank's actual and required capital amounts and ratios are presented below as of December 31, 2021 (dollar amounts in thousands):

	Actual Capital		To Be Adequately Capitalized		Prompt Corrective Action Framework	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$ 16,430	20.9%	$ 6,827	8.0%	$ 8,533	10.0%
Tier 1 capital (to risk-weighted assets)	$ 15,443	19.6%	$ 5,120	6.0%	$ 6,827	8.0%
CET1 capital (to risk-weighted assets)	$ 11,756	15.0%	$ 3,840	4.5%	$ 5,547	6.5%
Tier 1 capital (to average assets)	$ 15,443	8.7%	$ 7,067	4.0%	$ 8,834	5.0%

Note 16 - Fair Value Measurements

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

Securities: The fair values of 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).

Mortgage Servicing Rights: The Bank engages an independent third party to perform a valuation of its mortgage servicing rights periodically. Mortgage servicing rights are valued using discounted cash flow modeling techniques that require estimates regarding future cash flows, actual and expected prepayment speeds, discount rates, servicing costs, and other economic factors. Certain adjustments are made to the model inputs to reflect the specific characteristics of the Bank's portfolio (Level 3).

The following table summarizes the Bank's assets measured at fair value on a recurring basis as of December 31, 2022:

	Fair Value	Level 1	Level 2	Level 3
Assets (Liabilities) Measured at Fair Value on A Recurring Basis				
Mortgage-backed securities	$ -	$ -	$ 14,178,341	$ -
Subordinated debt securites	-	-	20,894,508	-
Mortgage servicing rights	486,134	-	-	486,134
	$ 486,134	$ -	$ 35,072,849	$ 486,134

The following table summarizes the Bank's assets measured at fair value on a recurring basis as of December 31, 2021:

	Fair Value	Level 1	Level 2	Level 3
Assets (Liabilities) Measured at Fair Value on A Recurring Basis				
Mortgage-backed securities	$ 2,520,215	$ -	$ 2,520,215	$ -
Subordinated debt securites	19,965,364	-	19,965,364	-
Mortgage servicing rights	361,700	-	-	361,700
	$ 22,847,279	$ -	$ 22,485,579	$ 361,700

Below is the roll-forward of Level 3 financial instruments measured at fair value on a recurring basis for the years ended December 31, 2022 and 2021:

	2022	2021
	Mortgage Servicing Rights	Mortgage Servicing Rights
Beginning balance	$ 361,700	$ 413,062
Change in fair value recognized in income	124,434	(51,362)
Ending balance	$ 486,134	$ 361,700

Fair value estimates are determined as a specific point in time utilizing quoted market prices, where available, or various assumptions and estimates. As the assumptions and estimates change, the fair value of the financial instruments will change.

The use of assumptions and various techniques, as well as the absence of secondary markets for certain financial instruments, will likely reduce the comparability of value disclosures between companies.

The following table identifies the unobservable inputs, the values used, and the basis for their determination as of December 31, 2022:

Asset Type	Fair Value	Valuation Technique	Unobservable Inputs Used	Rate
Mortgage servicing rights	$ 486,134	Discounted cash flow	Constant prepayment rate	6.95%
			Discount rate	9.50%
			Cost to service	$70/loan/year

The following table identifies the unobservable inputs, the values used, and the basis for their determination as of December 31, 2021:

Asset Type	Fair Value	Valuation Technique	Unobservable Inputs Used	Rate
Mortgage servicing rights	$ 361,700	Discounted cash flow	Constant prepayment rate	15.78%
			Discount rate	9.50%
			Cost to service	$95/loan/year

Note 17 - Preferred Stock - Series C and D

In December 2015, the Bank issued 10 million shares of Series C Perpetual Non-Cumulative, no par value, Preferred Stock for $0.30 per share. The shares carry a liquidation value of $0.30 per share. The shares are not callable by the holders but are convertible to common stock on a one for one basis at the discretion of the Bank should the Board of Directors determine that the ability to raise capital in a future capital raise event would be impaired by the existence of the Series C Preferred Stock, or in the case of a business combination. In 2022, the Series C Preferred Stock was converted to Common shares on a one-for-one basis, at the Board's discretion based on the above terms.

On December 2, 2022, the Bank issued 5,800 shares of Series D Convertible Preferred Stock for $1,000 per share. The issuance was intended to provide supplemental capital to the Bank as a result of the delay in the consummation of the proposed merger between the Bank and Royal Business Bank ("RBB") as set forth in the Agreement and Plan of Merger dated December 28, 2021, as amended (See Note 20 below). These shares will be automatically redeemed by RBB at the closing date of the RBB merger at the $1,000 liquidation value. RBB subscribed to 1,300 of the total 5,800 Series D shares issued.

The Series D Preferred Stock is automatically convertible into shares of common stock 1) within 15 days following the consummation of a capital offering where the existence of the preferred stock would impair the Bank's ability to raise capital (as determined by the Board); or 2) upon consummation of a business combination, which has been defined to exclude the proposed RBB merger. For a stock offering, the conversion price used to determine the number of shares of common stock that a holder will receive for each share of preferred stock is determined by dividing the $1,000 liquidation preference by the offering price per share of common stock. For a business combination, the conversion price is based on tangible book value or merger consideration if it is less than the tangible book value of the Bank.

To the extent no dividend is declared, dividends are noncumulative. As of December 31, 2022, no dividends had been declared and the Bank is currently subject to dividend restrictions by the regulatory order discussed in Note 15. The stock is nonvoting.

Note 18 - Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2022 and 2021 are summarized as follows (dollars in thousands):

		2022		2021	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Cash and cash equivalents	Level 1	$ 19,225	$ 19,225	$ 46,829	$ 46,829
Debt securities available for sale	Level 2	35,073	35,073	22,486	22,486
Loans, net	Level 3	120,526	119,885	98,745	99,112
Restricted stock	Level 2	999	999	1,026	1,026
Liabilities					
Noninterest-bearing deposits	Level 1	12,623	12,623	32,945	32,945
Interest-bearing deposits	Level 2	149,826	147,714	121,727	122,085
FHLB advances	Level 2	-	-	3,000	2,999

Note 19 - Employee Retention Tax Credit

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provided an employee retention credit (the Credit) which is a refundable tax credit against certain employment taxes of up to $5,000 per employee for eligible employers. The credit is equal to 50% of qualified wages paid to employees, capped at $10,000 of qualified wages through December 31, 2020.

The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 (collectively the Acts) expanded the availability of the Credit and extended the Credit through December 31, 2021. The Infrastructure Investment and Jobs Act subsequently terminated the Credit program effective October 1, 2021. The Acts increased the credit to 70% of qualified wages, capped at $10,000 per quarter. As a result of the changes to the Credit, the maximum credit per employee increased from $5,000 in 2020 to $21,000 in 2021.

The Bank was eligible for the Credit in various quarters in 2020 and 2021 and during the year ended December 31, 2021 recorded a benefit of $478,695, which is included in noninterest income in the statement of operations.

The Bank filed for refunds of the Credit in 2021 and received all but $149,009 in 2022, which is the third quarter 2021 Credit. The Bank cannot reasonably estimate when it will receive this remaining claimed refund. Unpaid refund claims are included in accrued interest receivable and other assets in the December 31, 2022 and 2021 balance sheets.

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

Note 20 - Merger Agreement with Royal Business Bank ("RBB")

On December 28, 2021, the Bank announced that it had signed a definitive agreement ("Agreement") to be acquired by RBB at a cash price of approximately $22.9 million. The Agreement was most recently amended on November 18, 2022, with the expiration date extended to September 30, 2023. This amendment also provided RBB's consent to the issuance of the Series D Convertible Preferred Stock discussed in Note 16.

Note 21 - Restatement

During 2022, the Bank identified a misstatement within the 2021 financial statements related to the improper recognition of a recovery to the allowance for loan loss account on a restructured loan. The Bank restated its previously issued financial statements to reverse the recovery that was recognized and to appropriately reflect loans and the allowance for loan loss account as of December 31, 2021. The effect of the restatement was to decrease loans and the allowance for loan loss accounts by $88,152 in the December 31, 2021 Balance Sheet and related footnotes, including small adjustments to the risk-weighted regulatory capital ratios. There was no impact of the restatement on the other basic financial statements as of and for the year ended December 31, 2021.