GREATER PACIFIC BANCSHARES
AND SUBSIDIARY

Audited Consolidated Financial Statements

December 31, 2022

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RICHARDSON & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
Greater Pacific Bancshares and Subsidiary
Whittier, California

Opinion

We have audited the accompanying consolidated financial statements of Greater Pacific Bancshares (the Company) and its wholly-owned subsidiary, Bank of Whittier, N.A., which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company, 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. 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 the Company, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note S to the financial statements, the Company adopted Accounting Standard Update 842 related to the accounting for leases during the year ended December 31, 2022. Due to the implementation of this ASU, the Company recognized a right-of-use asset and operating lease liability in the financial statements as of January 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement 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 the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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.

Richardson & Company, LLP

March 14, 2023

GREATER PACIFIC BANCSHARES
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2022 and 2021

	2022	2021 As Restated
ASSETS		
Cash and due from banks	$ 841,942	$ 725,552
Interest-bearing deposits in other banks	117,973,598	117,021,926
Loans, net of allowance of $1,917,931 and $1,494,693 as of December 31, 2022 and 2021, respectively	57,763,167	43,524,881
Premises and equipment, net	46,043	55,260
Operating leases, right-of-use asset	645,554	825,064
Federal Reserve stock, restricted, at cost	378,790	350,290
Accrued interest receivable and other assets	830,565	277,363
Mortgage servicing rights, at fair value	3,242,647	2,722,830
TOTAL ASSETS	$ 181,722,306	$ 165,503,166
LIABILITIES		
Deposits		
Noninterest-bearing demand	$ 13,112,565	$ 13,029,725
NOW, money market and savings	25,355,317	21,921,161
Time deposits	119,797,686	109,273,261
Total deposits	158,265,568	144,224,147
Accrued interest and other liabilities	1,794,158	1,681,846
TOTAL LIABILITIES	160,059,726	145,905,993
SHAREHOLDERS' EQUITY		
Common stock, no par value; 50,000,000 shares authorized; 2,356,392 and 2,296,831 shares at December 31, 2022 and 2021, issued and outstanding	12,987,757	12,037,757
Retained earnings	8,674,823	7,559,416
TOTAL SHAREHOLDERS' EQUITY	21,662,580	19,597,173
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 181,722,306	$ 165,503,166

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

GREATER PACIFIC BANCSHARES
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2022 and 2021

	2022	2021 As Restated
INTEREST INCOME		
Interest and fees on loans	$ 2,156,173	$ 1,140,079
Interest on taxable investment securities and other	21,741	20,807
Interest on interest-bearing deposits in other banks	2,168,653	149,702
Total interest income	4,346,567	1,310,588
INTEREST EXPENSE		
NOW, money market and savings	136,564	37,640
Time deposits	1,434,934	850,831
Total interest expense	1,571,498	888,471
NET INTEREST INCOME	2,775,069	422,117
Provision for loan losses	300,000	250,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,475,069	172,117
NON-INTEREST INCOME		
Service charges and fees	56,767	61,929
Mortgage banking revenue, net	1,150,146	1,456,853
Gain on sale of loans	592,849	2,337,735
Total non-interest income	1,799,762	3,856,517
NON-INTEREST EXPENSE		
Salaries and employee benefits	1,509,214	795,396
Occupancy and equipment	337,484	318,981
Other	862,232	1,069,668
Total non-interest expense	2,708,930	2,184,045
Income before taxes	1,565,901	1,844,589
Provision for income taxes	450,494	519,091
NET INCOME	$ 1,115,407	$ 1,325,498
NET INCOME PER SHARE	$ 0.48	$ 0.59
WEIGHTED AVERAGE SHARES OUTSTANDING	2,340,727	2,267,230

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

GREATER PACIFIC BANCSHARES
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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

	2022	2021 As Restated
OPERATING ACTIVITIES		
Net income	$ 1,115,407	$ 1,325,498
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation	17,196	25,700
Provision for loan losses	300,000	250,000
Amortization of operating lease right of use asset	179,510	175,691
Net change in mortgage servicing rights capitalized	3,087	(246,955)
Change in fair value of mortgage servicing rights	(522,904)	(613,121)
Net change in accrued interest receivable and other assets	(553,202)	3,839,772
Net change in accrued interest payable and other liabilities	112,312	(302,284)
NET CASH PROVIDED BY OPERATING ACTIVITIES	651,406	4,454,301
INVESTING ACTIVITIES		
Change in interest-bearing deposits in other financial institutions	(951,672)	(40,751,608)
Loan originations and repayments, net	(14,538,286)	(9,911,492)
Purchases of premises and equipment	(7,979)	(4,029)
Purchase of Federal Reserve Bank stock	(28,500)	(48,950)
NET CASH USED BY INVESTING ACTIVITIES	(15,526,437)	(50,716,079)
FINANCING ACTIVITIES		
Net change in deposits	14,041,421	44,431,234
Issuance of common stock	950,000	1,631,903
NET CASH PROVIDED BY FINANCING ACTIVITIES	14,991,421	46,063,137
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	116,390	(198,641)
Cash and cash equivalents at beginning of year	725,552	924,193
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 841,942	$ 725,552
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 1,535,612	$ 903,266
Income taxes paid	$ 11,131	$ 732,452
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES		
Lease liabilities arising from obtaining right-of-use assets	$ -	$ 1,000,755

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

GREATER PACIFIC BANCSHARES
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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2022 and 2021

	Common Stock		Retained Earnings	
	Shares	Amount	As Restated	Total
BALANCE AT JANUARY 1, 2021	2,184,286	$ 10,405,854	$ 6,233,918	$ 16,639,772
Issuance of stock	112,545	1,631,903		1,631,903
Net income for the year - as restated			1,325,498	1,325,498
BALANCE AT DECEMBER 31, 2021	2,296,831	12,037,757	7,559,416	19,597,173
Issuance of stock	59,561	950,000		950,000
Net income for the year			1,115,407	1,115,407
BALANCE AT DECEMBER 31, 2022	2,356,392	$ 12,987,757	$ 8,674,823	$ 21,662,580

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Greater Pacific Bancshares (the Company), formed in 1987, is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Bank of Whittier, N.A. (the Bank). The Bank was incorporated in 1982 as a National Bank and, as such, is regulated by the Office of the Comptroller of the Currency. The regulations of this agency govern most aspects of the Bank's business. The Company opened a new branch in Richardson, Texas in June 2011. The financial statements of the Company are prepared in conformity with generally accepted accounting principles (GAAP) and general practice within the banking industry. The following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Bank of Whittier, N.A. All material intercompany accounts and transactions have been eliminated.

Nature of Operations: The Company provides a variety of banking services to individuals and businesses in its primary service areas of Los Angeles and Orange counties, California, Dallas-Fort Worth Metroplex, Texas and the immediate surrounding areas. The Company offers depository and lending services primarily to meet the needs of its business and professional clientele. These services include a variety of demand deposit, savings and time deposit, IRA and retirement account alternatives. The Company's lending activities are directed primarily towards granting short and medium-term real estate, commercial and consumer loans for such purposes as operating capital, business and professional financing, mortgage financing and personal financing.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains estimated market values from reliable sources such as: Interthinx, tax assessed values from the county or Loopnet.com as part of its annual evaluation of its loan portfolio. Only under special cases where the credit facility is rated "substandard – grade 5" and is collateral dependent would management obtain an appraised value from an independent appraiser. The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Mortgages Held for Delivery/Sale: Mortgage loans originated and intended for sale in the secondary market (Fannie Mae and Freddie Mac) are carried at the lower of aggregate cost of fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans: Loans are stated at the amount of unpaid principal reduced by net deferred loan fees. Loan origination fees, net of direct origination costs, are deferred and recognized as an adjustment of the yield on the related loan. Amortization of net deferred loan fees is discontinued when the loan is placed on nonaccrual status. Interest on loans is accrued and credited to income based on the principal amount outstanding.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses: The allowance is maintained at a level which, in the opinion of management, is adequate to absorb probable losses inherent in the loan portfolio. Management determines the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The allowance is based on estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed quarterly and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Loans deemed uncollectible are charged to the allowance. Provisions for loan losses and recoveries on loans previously charged off are added to the allowance.

All loans, except those to individuals, are considered impaired, based on current information and events, if it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Allowances on impaired loans are established based on the present value of expected future cash flows discounted at the loan's historical effective interest rate or, for collateral-dependent loans, on the fair value of the collateral. Cash receipts on impaired loans are used to reduce principal.

The Bank also maintains a separate allowance for off-balance-sheet commitments related to unfunded loan commitments and a mortgage recourse reserve related to various representations and warranties that reflect management's estimate of probable losses for mortgages for which they have a repurchase obligation. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance-sheet commitments and mortgage recourse reserve is included in accrued interest payable and other liabilities on the consolidated balance sheet.

Income Recognition on Impaired and Nonaccrual Loans: Loans, including those considered impaired, are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well-secured and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is classified as nonaccrual. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms of interest and principal.

While a loan is classified as nonaccrual and the future collectability of the recorded balance is doubtful, collections of interest and principal are generally applied as a reduction to the principal outstanding. When the future collectability of the recorded balance is expected, interest income may be recognized on a cash basis. In the case where a nonaccrual loan had been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. The provision for depreciation and amortization is computed principally by the straight-line method over the shorter of the estimated useful lives of the related assets or the lease terms.

Leases: Leases are classified as operating or finance leases as of the lease commencement date. The Company leases certain bank branch buildings, as discussed in Note F. The Company records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and an

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

impairment of the right-of-use asset, if applicable. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal. The Company does not record leases on the consolidated balance sheets that are classified as short term (less than one year).

At lease inception, the Company determines the lease term by considering the minimum lease term and all optional renewal periods that the Company is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Company's leases do not contain residual value guarantees or material variable lease payments that cause the Company to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in occupancy and equipment expense on the Company's consolidated statements of operations. The Company's variable lease expense includes rent escalators that are based on market conditions. The amortization of the right-to-use asset arising from financing leases is expensed through occupancy and equipment expense and the interest on the related lease liability is expensed through interest expense on borrowings on the Company's consolidated statements of income. The Company does not currently have any financing leases.

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.

Under the fair value measurement method, the Company 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 mortgage banking revenue, net on the income statement. The fair values of servicing rights are subjected to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Servicing fee income, which is reported on the income statement as mortgage banking revenue, net, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned.

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based and account maintenance services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which related primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Service charges on deposits are withdrawn from the customer's account balance.

Income Taxes: Provisions for income taxes are based on amounts reported in the statements of operations (after exclusion of non-taxable income such as interest on state and municipal securities) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Deferred taxes are computed using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized for deductible temporary differences and tax credit carryforwards, and then a valuation allowance is established to reduce that deferred tax asset if it is "more likely than not" that the related tax benefits may not be realized.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Income Per Share of Common Stock: Net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Net income per share – assuming dilution, is computed similar to net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Included in the denominator is the dilutive effect of stock options computed under the treasury method.

Advertising: Advertising costs are charged to operations in the year incurred.

Off-Balance-Sheet Financial Instruments: In the ordinary course of business the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the financial statements when they become payable.

Operating Segments: Reportable segments are based on products and services, geography, legal structure, management structure and any other manner in which management desegregates a company for making operating decisions and assessing performance. The Company has determined that its business is comprised of a single operating segment. The Company's subsidiary and its operations are considered to be an immaterial component of the Company's operations and have not been reported as a separate operating segment.

Cash and Cash Equivalents: For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and due from banks".

Subsequent events: The Company has evaluated subsequent events for recognition and disclosure through March 14, 2023, which is the date the financial statements were available to be issued.

New Pronouncements: In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the statement of financial condition the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The Company implemented this Update during the year ended December 31, 2022. See Notes F and S for the impact of the implementation of this Update.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326) providing guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measure at amortized cost, including loan receivables and held to maturity debt securities. It also applies to off-balance sheet credit exposure not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in certain leases recognized by a lessor. In addition, the amendments in this Update require credit losses be presented as an allowance rather than as a write-down on available-for-sale debt securities. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The expected impact of the implementation of this Update is disclosed in Note T.

In March 2022, the FASB issued ASU No. 2022-02, Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures. This Update eliminates the recognition and measurement guidance for troubled debt restructurings ("TDRs") by creditors in ASC 310-40. This Update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. This Update is effective for entities that have adopted ASU 2016-13 for fiscal years beginning after December 15, 2023. The Company is currently analyzing the impact of this Update.

NOTE B – RESTRICTIONS ON CASH AND DUE FROM BANKS

Cash and due from banks include amount the Bank is required to maintain to meet certain average reserve and compensating balance requirements of the Federal Reserve Bank. The Federal Reserve Bank suspended the reserve requirement due to the COVID-19 pandemic. Consequently, the Bank did not have a reserve requirement with the Federal Reserve Bank at December 31, 2022 and 2021.

NOTE C – LOANS, NET

Major classifications of loans at December 31 are summarized as follows:

	2022	2021
Commercial real estate	$ 37,461,674	$ 25,977,030
Home equity	19,738,127	14,730,149
Commercial		6,697
Commercial- Paycheck Protection Program (PPP)		3,097,173
Consumer	1,545,988	455,102
	58,745,789	44,266,151
Deferred loan costs, net	935,309	753,423
Allowance for credit losses	(1,917,931)	(1,494,693)
	$ 57,763,167	$ 43,524,881

The maturity and repricing of the loan portfolio is as follows at December 31:

	2022	2021
Three months or less	$ 13,058,981	$ 364,226
Over three months to twelve months	259,111	226,277
Over one year to three years	122,829	316,561
Over three years to five years	540,594	4,715,370
Over five years to fifteen years		
Variable rate loans at floor	20,385,239	10,990,797
Fixed rate loans	20,804,068	25,713,377
Over fifteen years		
Variable rate loans at floor	1,607,831	842,406
Fixed rate loans	1,967,136	1,097,137
	$ 58,745,789	$ 44,266,151

Variable rate loans that have reached their interest rate floor are presented in the table above based on the maturity date rather than the repricing date.

NOTE C – LOANS, NET (Continued)

The Bank receives fees for servicing retained on mortgages delivered to Fannie Mae and Freddie Mac and for participations sold. Loans being serviced by the Bank for others, including participations sold, totaled approximately $249,357,594 and $249,640,615 for the years ended December 31, 2022 and 2021, respectively. The balance of loans serviced above includes loans that were transferred effective December 31, 2022 and 2021, but were not posted to the loan system until January 2023 and 2022, and thus are not reflected in the call report.

In response to the COVID-19 crisis, the federal government created the PPP, sponsored by the SBA, under the CARES Act. The Bank participated in the PPP to originate SBA loans designated to help businesses maintain their workforce and cover other working capital needs during the COVID-19 pandemic. As of December 31, 2021, the Bank had approximately 123 PPP loans, totaling $3,097,173. The PPP net deferred costs are a yield adjustment over the remaining term of these loans. The loans are fully guaranteed by the SBA and the maximum term of the loans is either two or five years; however, all of the loan balances were forgiven by the SBA, during the year ended December 31, 2022.

NOTE D – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

The Company's methodology for assessing the appropriateness of the allowance consists of three key elements, which include the general allowance, the specific allowance and an allowance for changing environmental factors. These various components are factored into a single allowance analysis.

General Allowance: The determination of the general allowance is based on estimates made by management, including but not limited to, consideration of historical losses by portfolio segment, analysis of the economy, market, rate environment, underwriting standards and other criteria as identified by the Strategic Credit Assessment Group (SCAG). The portfolio segments include real estate, commercial and consumer loans. The general allowance consists of reserve factors that are based on charge-off history and management's assessment of each portfolio segment. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below:

> Commercial Real Estate—These loans generally possess a higher inherent risk of loss than other segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.
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> Commercial—Commercial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.
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> Home Equity—The home equity loan portfolio is for 2^{nd} mortgage jumbo financing/refinancing and home improvements. These are secured by 1-4 family residential property.
>
> Consumer—The consumer loan portfolio is comprised of a large number of small loans scheduled to be amortized over a specific period. Consumer loans are made directly for consumer purchases.

Specific Allowance: Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. A loan is considered impaired when, based on current information and events, the Company determines that they will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When the Company identifies a loan as impaired, they measure the impairment using discounted cash flows, except when the sole remaining source of repayment for the loans is the liquidation of the collateral. In these cases, they use the current fair value of the collateral, less selling costs. If the Company determines that the

NOTE D – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY (Continued)

value of the impaired loan is less than the recorded investment in the loan, they either recognize an impairment reserve as a specific allowance to be provided for in the allowance or charge-off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. Loans determined to be impaired with a specific allowance are excluded from the general allowance so as not to double-count the loss exposure.

Qualitative Factors: This component of the allowance is management's best estimate of the probable impact that various qualitative factors may have on the loan portfolio. It is not allocated to specific loans or groups of loans, but rather is intended to absorb losses caused by several factors, including changes in the nature and volume of the portfolio, changes in the terms of loans, changes in lending policies and procedures, underwriting collection practices, changes in international, national, regional, and local economic and business conditions, changes in the experience and ability of lending management and staff, changes in the volume and severity of past due loans, changes in the volume of non-accrual loans, changes in the volume and severity of adversely classified or graded loans, changes in the quality of the Company's loan review system, changes in the value of underlying collateral, the existence and effect of any concentrations of credit, changes in the level of concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. The Board of Directors reviews the adequacy of the allowance quarterly, including consideration of current economic conditions, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, or past loan experience 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 OCC, review the adequacy of the allowance as an integral part of their examination process. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

The following table summarizes activity related to the allowance for loan losses by loan portfolio segment and the allocation of the allowance for loan losses by loan portfolio segment and by impairment methodology for the year ended December 31, 2022 and 2021:

	Commercial Real Estate	Home Equity	Commercial	Commercial PPP	Consumer	Total
2022						
Allowance for credit losses						
Beginning balance	$ 880,302	$ 494,834	$ 225	$ 104,044	$ 15,288	$ 1,494,693
Recoveries			123,238			123,238
Provision	341,229	150,934	(123,463)	$ (104,044)	35,344	300,000
Ending balance	$ 1,221,531	$ 645,768	$ -	$ -	$ 50,632	$ 1,917,931
Ending balance: Individually evaluated for impairment			$ -			$ -
Ending balance: Collectively evaluated for impairment	$ 1,221,531	$ 645,768	$ -	$ -	$ 50,632	$ 1,917,931
Loans						
Ending balance: Collectively evaluated for impairment	$ 37,461,674	$ 19,738,127	$ -	$ -	$ 1,545,988	$ 58,745,789

NOTE D – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY (Continued)

	Commercial Real Estate	Home Equity	Commercial	Commercial PPP	Consumer	Total
2021						
Allowance for credit losses						
Beginning balance	$ 845,494	$ 353,128	$ 646		$ 12,212	$ 1,211,480
Recoveries			33,213			33,213
Provision	34,808	141,706	(33,634)	$ 104,044	3,076	250,000
Ending balance	$ 880,302	$ 494,834	$ 225	$ 104,044	$ 15,288	$ 1,494,693
Ending balance: Individually evaluated for impairment			$ -			$ -
Ending balance: Collectively evaluated for impairment	$ 880,302	$ 494,834	$ 225	$ 104,044	$ 15,288	$ 1,494,693
Loans						
Ending balance: Collectively evaluated for impairment	$ 25,977,030	$ 14,730,149	$ 6,697	$ 3,097,173	$ 455,102	$ 44,266,151

Credit Quality of Loans: The Company assigns a risk rating to loans over a certain threshold and periodically performs detailed reviews of all such loans to identify credit risks and to assess the overall collectability of the portfolio. 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. These risk ratings can be grouped into the following major categories, defined as follows:

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

Watch List—A watch list loan possesses some uncertainty as the borrower's financial condition is perceived to be in a state of transition and require closer monitoring.

Special Mention—A special mention loan has potential weaknesses that deserve management's close attention.

Substandard—A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. These loans have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt and are characterized by distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful—Loans classified as doubtful have characteristics of those classified as substandard, but the weaknesses make collection or liquidation in full questionable and improbable based on currently existing facts, conditions, and collateral values.

Loss—Loans classified as loss are considered uncollectible or of such little value.

NOTE D – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY (Continued)

The following table shows the loan portfolio allocated by management's internal risk ratings at December 31, 2022 and 2021:

	Commercial Real Estate	Home Equity	Commercial	Commercial PPP	Consumer	Total
2022						
Grade:						
Pass	$ 37,461,674	$ 19,738,127	$ -	$ -	$ 1,545,988	$ 58,745,789
Watch						-
Special Mention						-
Substandard						-
Doubtful						-
Total	$ 37,461,674	$ 19,738,127	$ -	$ -	$ 1,545,988	$ 58,745,789

	Commercial Real Estate	Home Equity	Commercial	Commercial PPP	Consumer	Total
2021						
Grade:						
Pass	$ 25,977,030	$ 14,730,149	$ 6,697	$ 3,097,173	$ 455,102	$ 44,266,151
Watch						-
Special Mention						-
Substandard						-
Doubtful						-
Total	$ 25,977,030	$ 14,730,149	$ 6,697	$ 3,097,173	$ 455,102	$ 44,266,151

There were no impaired loans at December 31, 2022 and 2021. There were no past due loans or loans on nonaccrual at December 31, 2022 and 2021.

NOTE E – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

	2022	2021
Leasehold improvements	$ 242,440	$ 242,440
Furniture, fixtures and equipment	731,244	723,265
	973,684	965,705
Less: Accumulated depreciation	(927,641)	(910,445)
	$ 46,043	$ 55,260

Depreciation and amortization included in occupancy and equipment expense totaled $17,196 and $25,700 respectively, in 2022 and 2021.

NOTE F - LEASES

The Bank leases all of its facilities under noncancellable operating leases. In November 2019, the Bank extended its Whittier lease through October 30, 2025. The Bank leases a facility in Richardson, Texas and operates a second full service banking facility. In October 2021, the bank extended its Richardson lease through December 31, 2026.

NOTE F – LEASES (Continued)

Right-of-use assets and lease liabilities, all of which are operating leases, and the associated balance sheet classifications, are as follows:

	Balance Sheet Classification	2022	2021
Right-of-use asset	Right-of-use asset	$ 645,554	$ 825,064
Lease liabilities	Accrued interest payable and other liabilities	$ 665,145	$ 844,996

Operating lease cost for the years ended December 31, 2022 and 2021 were $217,685 and $217,687, respectively. The weighted average remaining lease term at December 31, 2022 and 2021 was 3.33 years and 4.31 years, respectively. The weighted average discount rate was 5.0% at December 31, 2022 and 2021.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2022 are as follows:

Year ended December 31:	
2023	$ 220,832
2024	223,696
2025	201,390
2026	77,760
Total undiscounted lease payments	723,678
Less: imputed interest	(58,533)
Net lease liabilities	$ 665,145

As of December 31, 2021, future minimum lease payments under all noncancellable operating leases are:

Year ended December 31:	
2022	$ 233,741
2023	236,547
2024	239,411
2025	217,105
2026	93,475
Total minimum lease commitments	$1,020,279

Rent expense for the year ended December 31, 2021 for all operating leases totaled $222,543.

NOTE G – MORTGAGE SERVICING RIGHTS

The following table presents the changes in the Bank's mortgage servicing rights for the years ended December 31:

	2022	2021
Fair value, beginning of year	$ 2,722,830	$ 1,862,754
Additions for new mortgage servicing rights capitalized	7,804	260,536
Reduction of servicing assets	(10,891)	(13,581)
Changes in fair value:		
Due to changes in model inputs and assumptions	522,904	613,121
Fair value, end of year	$ 3,242,647	$ 2,722,830
Balance of loans serviced for others	$ 249,357,594	$ 249,640,615
Mortgage servicing rights as a percentage of serviced loans	1.30%	1.09%

The balance of loans serviced above includes loans that were originated effective December 31, 2022 and 2021, but were not posted to the loan system until January 2023 and 2022. The amounts of contractually specified servicing fees, late fees and ancillary fees earned, recorded in mortgage banking revenue on the consolidated statements of operations, were $630,330 and $596,777 for the years ended December 31, 2022 and 2021, respectively. Changes in fair value are also included in mortgage banking revenue on the consolidated statements of operations.

The fair value of servicing rights is calculated through a discounted cash flow analysis using a computer pricing model. The valuation is based on the objective characteristics of the portfolio (loan amount, note rate, current loan age, amortization period, escrow balance, etc.), commonly used industry assumptions (prepayment speeds, float earnings rates, discount rates, cost to service, cost of advances) and supplemented by actual portfolio performance characteristics unique to the Bank. The assumptions taken into account are those that are typically employed by entities who own the mortgage servicing asset. The valuation takes into account the unique characteristics of the secondary servicing market. The market value of the servicing can vary based upon the level of prepayments, especially when rates fall. Higher prepayments would negatively impact the recorded value of the mortgage servicing rights.

NOTE H – TIME DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2022 and 2021 were $67,939,642 and $57,742,622, respectively.

The maturities of time deposits at December 31 are as follows:

	2022	2021
Due in one year or less	$ 111,243,889	$ 100,331,514
Due from one to three years	8,553,797	8,941,747
	$ 119,797,686	$ 109,273,261

NOTE I – FEDERAL FUNDS CREDIT LINE

The Company had a federal funds line of credit agreement through June 30, 2023. The maximum borrowings available under this line amounted to $5,000,000 and $2,500,000 at December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, there were no borrowings outstanding under this agreement.

NOTE J – OTHER EXPENSES

Other expenses consisted of the following at December 31:

	2022	2021
Data processing	$ 203,052	$ 170,609
Regulatory assessments	100,305	78,126
Professional services	97,895	149,985
Office expenses	77,085	66,712
Marketing expense	37,974	40,163
Messenger and courier expenses	12,887	14,643
Directors' fees and expenses	10,218	12,558
Other expenses	322,816	536,872
	$ 862,232	$ 1,069,668

Other expenses in 2022 consists primarily of loan origination-related expenses ($130,175), software license and internet fees ($78,644), bank and other fees ($56,774), and insurance ($32,737).

Other expenses in 2021 consisted primarily of loan origination-related expenses ($308,906), software license and internet fees ($123,117), provision for mortgage servicing ($86,453), bank and other fees ($56,361), and insurance ($26,824).

NOTE K – RETIREMENT PLANS

The Company had a defined contribution retirement plan covering substantially all of the Company's employees. Employees may elect to have a portion of their compensation contributed to the plan in conformity with the requirements of Section 401(k) of the Internal Revenue Code. The Company may make contributions to the plan at the discretion of the Board of Directors in an amount not to exceed the maximum amount deductible under the profit sharing plan rules of the Internal Revenue Service. All employees are eligible for participation following 12 months of employment and 1,000 hours of service each plan year. The Company's contributions vest over a three-year period. The Company made contributions totaling $32,494 and $31,147 for the years ended December 31, 2022 and 2021, respectively.

NOTE L – INCOME TAXES

The components of income tax expense included in the statements of operations were as follows for the years ended December 31:

	2022	2021
Currently payable:		
Federal	$ 197,598	$ 207,661
State	70,597	65,785
	268,195	273,446
Deferred tax (benefit) expense:		
Federal	108,799	164,662
State	73,500	80,983
	182,299	245,645
Net provision for income taxes	$ 450,494	$ 519,091

NOTE L – INCOME TAXES (Continued)

The following is a reconciliation of income taxes computed at the Federal statutory rate of 21% to the effective income tax rate used for the provision for income taxes:

	2022	2021
Income tax at Federal statutory rate	$ 328,768	$ 391,549
State franchise taxes, less Federal income tax benefit	113,204	129,919
Meals and entertainment	22	433
Nondeductible expenses and other	8,500	(2,810)
Provision for income taxes	$ 450,494	$ 519,091

The tax effects of temporary differences that give rise to the components of the net deferred tax assets as of December 31 were as follows:

	2022	Restated 2021
Deferred tax assets:		
Allowance for loan losses	$ 382,291	$ 293,600
Lease liability	196,617	249,781
Reserve for mortgage servicing rights	79,338	79,338
Depreciation	13,944	13,198
Total deferred tax assets	672,190	635,917
Deferred tax liabilities:		
Mortgage servicing rights	(958,643)	(804,967)
Adjustment to cash basis	(354,539)	(219,898)
Right-of-use asset	(190,826)	(243,889)
State franchise tax	(9,523)	(26,104)
Other	(5,791)	(5,892)
Total deferred tax liabilities	(1,519,322)	(1,300,750)
Net deferred tax liabilities	$ (847,132)	$ (664,833)

Amounts presented for the tax effects of temporary differences are based upon estimates and assumptions and could vary from amounts ultimately reflected on the Company's tax returns. Accordingly, the variances from amounts reported for prior years are primarily the result of adjustments to conform to the tax returns as filed.

Income tax receivable was $182,696 and $459,670, at December 31, 2022 and 2021, respectively.

The Company and its subsidiary file an income tax return in the U.S. federal jurisdiction and file a franchise tax return in the State of Texas and the State of California jurisdictions. The Company is no longer subject to U.S. federal income tax examinations and State franchise tax examinations by taxing authorities for years prior to 2019 and 2018, respectively.

There have been no adjustments identified for unrecognized tax benefits requiring an adjustment to the income statement under FASB ASC 740-10. The Bank recognizes interest accrued and penalties related to unrecognized tax benefits, if any, in tax expense.

NOTE M – RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank has entered into transactions with its directors, executive officers, significant shareholders, and their affiliates (related parties). The Bank's policy prohibits loans to related parties. As of December 31, 2022 and 2021, the Bank had no outstanding loans to any officers, directors, or companies with which they are associated. The Bank has received deposits from directors and officers and their related interests totaling $7,152,632 and $3,937,968 at December 31, 2022 and 2021, respectively.

NOTE N – CONTINGENT LIABILITIES AND COMMITMENTS

Financial Instruments with Off-Balance-Sheet Risk: The Bank's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit. A summary of the Bank's commitments and contingent liabilities at December 31, are as follows:

	Contractual Amounts	
	2022	2021
Commitments to extend credit	$ 4,844,000	$ 3,800,000

Commitments to extend credit include exposure to some credit loss in the event of nonperformance of the customer. The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for extension of credit that are recorded on the balance sheet. Because most of these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Bank.

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. The Bank evaluates each customer's credit worthiness 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 of the customer. Collateral held varies but may include accounts receivable, inventory, deeds of trust on residential real estate and income-producing commercial properties.

Contractual Commitments: On June 1, 2020, the Bank entered into a five-year agreement with Fiserv Solutions, LLC to provide software license maintenance and services. The contract includes fixed and variable charges depending on the type of service and number of transactions. Contract provides an early termination penalty and has an option for a three-year extension.

NOTE O – CONCENTRATIONS OF CREDIT RISK

Most of the Company's business activity is with customers located within the State of California, primarily within Los Angeles, Orange, Riverside, and San Bernardino Counties, and the State of Texas in the Dallas/Fort Worth area. While a significant amount of the Company's loans have been granted to customers in the Company's market area, 67% and 72% of the loans were made outside of the area as of December 31, 2022 and 2021, respectively. General economic conditions or natural disasters affecting the primary market area could affect the ability of customers to repay loans and the value of real property used as collateral. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers. The Company requires that all loans have adequate collateral to secure the loans or that the borrower have evidence of sufficient cash flows to repay loans when the loans are made. All collateral must have an appraisal, if applicable, and collateral is generally secured by liens. The Company's access to this collateral is through judicial procedures.

NOTE O – CONCENTRATIONS OF CREDIT RISK (Continued)

The concentrations of credit by type of loan are set forth in Note D. While the Company has a diversified loan portfolio, approximately 97% and 92% of these loans are secured by real estate at December 31, 2022 and 2021, respectively. The distribution of commitments to extend credit approximates the distribution of loans outstanding. The Company has loan commitments in the following industries at December 31, 2022: retail trade, 6%; commercial building, 25%; consumer credit facilities, 36%; educational services, 10%; non-profit and faith-based organizations, 15%; health care and social assistance, 5%; and accommodation and food services, 3%. The Company has loan commitments in the following industries at December 31, 2021: retail trade, 7%; commercial building, 24%; consumer credit facilities, 34%; educational services, 8%; non-profit and faith-based organizations, 9%; health care and social assistance, 7%; accommodation and food services, 4%; and PPP loans, 7%. The National Banking Laws, Title 12 of the United States Code, generally restricts loans to a single borrower or group of related borrowers and investments by the Company to 25% of the sum of the Company's equity capital plus the allowance for loan losses, subject to certain adjustments. The Company evaluates each customer's credit worthiness 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 customer. Collateral held varies but may include residential and commercial real property, marketable securities, accounts receivable, inventory, equipment and savings accounts.

NOTE P – REGULATORY MATTERS

The Bank, as a national bank, is subject to the dividend restrictions set forth by the Office of the Comptroller of the Currency (OCC). Under such restrictions, the Bank may not, without the prior approval of the OCC, declare dividends in excess of the sum of the current year's net income plus the retained earnings from the prior two years. As of December 31, 2022 and 2021, $4,006,505 and $3,252,886 was available for dividend distribution without prior approval, which has been reinvested into the Bank.

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the OCC. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Management believes, as of December 31, 2022, that the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2022 and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank follows the community bank leverage ratio framework, which 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 community bank leverage ratio 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 (generally applicable rule) 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.

NOTE P – REGULATORY MATTERS (Continued)

The Bank can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2022, both the Company and Bank were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

Actual and required capital amounts (in thousands) and ratios are presented below at year-end.

	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
As of December 31, 2022				
Tier I (Core) Capital				
(to Average Total Assets)	$ 21,540	11.71%	$ 15,636	≥ 9.00%

	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
As of December 31, 2021				
Tier I (Core) Capital				
(to Average Total Assets)	$ 19,464	11.11%	$ 14,895	≥ 8.50%

NOTE Q – FAIR VALUE MEASUREMENT

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date, including during periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

In general, fair values are determined by:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

NOTE Q – FAIR VALUE MEASUREMENT (Continued)

The following table presents information about the Company's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
December 31, 2022:					
Mortgage servicing rights	$ 3,765,550			$ 3,242,646	$ 522,904
December 31, 2021:					
Mortgage servicing rights	$ 3,335,951			$ 2,722,830	$ 613,121

The following methods were used to estimate the fair value of each class of financial instrument above:

Mortgage Servicing Rights – Mortgage servicing rights do not trade in an active market with readily observable prices. Accordingly, the Company determines the fair value of mortgage servicing rights using a valuation model that calculates the present value of estimated future net servicing income. Fair value measurements of the mortgage servicing rights use significant unobservable inputs and, accordingly, are classified as Level 3.

The following table presents quantitative information about level 3 fair value measurements for assets measured at fair value on a non-recurring basis at December 31, 2022 and 2021:

	Fair Value	Valuation Techniques	Unobservable Inputs	Range	Weighted Average
December 31, 2022:					
Mortgage servicing rights	$ 3,242,646	Discounted cash flow approach	Constant prepayment rate	4.2%	4.2%
			Discount rate	8.25% to 10.25%	
December 31, 2021:					
Mortgage servicing rights	$ 2,722,830	Discounted cash flow approach	Constant prepayment rate	10.8%	10.8%
			Discount rate	8.25% to 10.25%	

NOTE R – CONTINGENCIES

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the customers, employees and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition or results of operations is uncertain.

NOTE S – CHANGES IN ACCOUNTING PRINCIPLES

During the year ended December 31, 2022, the Company adopted ASU No. 2016-02 "Leases (Topic 842)" retroactively as of January 1, 2021 and subsequent amendments thereto, which requires the Company to recognize most leases on the consolidated balance sheet. Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of $1,000,755, and operating lease liabilities of $1,000,755 as of January 1, 2021. These amounts were determined based on the present value of remaining lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company's Consolidated Income Statements. Due to implementation of this Statement, the balances previously reported as of January 1, 2021 and December 31, 2021 changed as follows:

NOTE S – CHANGES IN ACCOUNTING PRINCIPLES (Continued)

	January 1, 2021	December 31, 2021
Assets	$ 1,000,755	$ 825,064
Liabilities	1,000,755	844,996
Shareholder's equity		(19,932)
Net income		(19,932)

NOTE T – SUBSEQUENT EVENTS

As described in Note A, the Company is required to implement ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), during the year ended December 31, 2023. The Company prepared a pro forma allowance calculation under ASU 2016-13 as of December 31, 2022 and added $300,000 to the existing required allowance for loan losses. The calculation has been approved by Management and Board of Directors.