GREATER PACIFIC BANCSHARES
AND SUBSIDIARY

Audited Consolidated Financial Statements

December 31, 2021

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

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, 2021 and 2020, 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, 2021 and 2020, 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.

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.

The Shareholders and
Board of Directors
Greater Pacific Bancshares and Subsidiary

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 15, 2022

GREATER PACIFIC BANCSHARES
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2021 and 2020

	2021	2020
ASSETS		
Cash and due from banks	$ 725,552	$ 924,193
Interest-bearing deposits in other banks	117,021,926	76,270,318
Loans, net of allowance of $1,494,693 and $1,211,480 as of December 31, 2021 and 2020, respectively	43,524,881	33,863,389
Premises and equipment, net	55,260	76,931
Federal Reserve stock, restricted, at cost	350,290	301,340
Accrued interest receivable and other assets	277,363	4,117,135
Mortgage servicing rights, at fair value	2,722,830	1,862,754
TOTAL ASSETS	$ 164,678,102	$ 117,416,060
LIABILITIES		
Deposits		
Noninterest-bearing demand	$ 13,029,725	$ 18,601,161
NOW, money market and savings	21,921,161	16,094,683
Time deposits	109,273,261	65,097,069
Total deposits	144,224,147	99,792,913
Accrued interest and other liabilities	836,850	983,375
TOTAL LIABILITIES	145,060,997	100,776,288
SHAREHOLDERS' EQUITY		
Common stock, no par value; 50,000,000 shares authorized; 2,296,831 and 2,184,286 shares at December 31, 2021 and 2020, issued and outstanding	12,037,757	10,405,854
Retained earnings	7,579,348	6,233,918
TOTAL SHAREHOLDERS' EQUITY	19,617,105	16,639,772
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 164,678,102	$ 117,416,060

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, 2021 and 2020

	2021	2020
INTEREST INCOME		
Interest and fees on loans	$ 1,140,079	$ 1,138,568
Interest on taxable investment securities and other	20,807	14,024
Interest on interest-bearing deposits in other banks	149,702	320,360
Total interest income	1,310,588	1,472,952
INTEREST EXPENSE		
NOW, money market and savings	37,640	56,987
Time deposits	850,831	757,153
Total interest expense	888,471	814,140
NET INTEREST INCOME	422,117	658,812
Provision for loan losses	250,000	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	172,117	658,812
NON-INTEREST INCOME		
Service charges and fees	61,929	64,626
Mortgage banking revenue, net	1,456,853	655,960
Gain on sale of loans	2,337,735	3,349,576
Total non-interest income	3,856,517	4,070,162
NON-INTEREST EXPENSE		
Salaries and employee benefits	795,396	1,087,247
Occupancy and equipment	299,049	301,685
Other	1,069,668	1,212,443
Total non-interest expense	2,164,113	2,601,375
Income before taxes	1,864,521	2,127,599
Provision for income taxes	519,091	607,354
NET INCOME	$ 1,345,430	$ 1,520,245
NET INCOME PER SHARE	$ 0.59	$ 0.73
WEIGHTED AVERAGE SHARES OUTSTANDING	2,267,230	2,070,138

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, 2021 and 2020

	2021	2020
OPERATING ACTIVITIES		
Net income	$ 1,345,430	$ 1,520,245
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation	25,700	26,877
Provision for loan losses	(250,000)	
Net change in mortgage servicing rights capitalized	(246,955)	(272,701)
Change in fair value of mortgage servicing rights	(613,121)	101,173
Net change in loans held for sale		125,000
Net change in accrued interest receivable and other assets	3,839,772	(2,255,862)
Net change in accrued interest payable and other liabilities	(146,525)	219,662
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	3,954,301	(535,606)
INVESTING ACTIVITIES		
Change in interest-bearing deposits in other financial institutions	(40,751,608)	(33,581,619)
Loan originations and repayments, net	(9,411,492)	(7,293,469)
Purchases of premises and equipment	(4,029)	(3,832)
Purchase of Federal Reserve Bank stock	(48,950)	(116,550)
NET CASH USED BY INVESTING ACTIVITIES	(50,216,079)	(40,995,470)
FINANCING ACTIVITIES		
Net change in deposits	44,431,234	39,680,558
Issuance of common stock	1,631,903	2,112,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	46,063,137	41,792,558
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(198,641)	261,482
Cash and cash equivalents at beginning of year	924,193	662,711
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 725,552	$ 924,193
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 903,266	$ 829,674
Income taxes paid	$ 732,452	$ 665,000

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, 2021 and 2020

	Common Stock		Retained	
	Shares	Amount	Earnings	Total
BALANCE AT JANUARY 1, 2020	1,992,286	$ 8,293,854	$ 4,713,673	$ 13,007,527
Issuance of stock	192,000	2,112,000		2,112,000
Net income for the year			1,520,245	1,520,245
BALANCE AT DECEMBER 31, 2020	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			1,345,430	1,345,430
BALANCE AT DECEMBER 31, 2021	2,296,831	$ 12,037,757	$ 7,579,348	$ 19,617,105

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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".

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent events: The Company has evaluated subsequent events for recognition and disclosure through March 15, 2022, 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 amendments in this update are effective for fiscal years beginning after December 15, 2021. The Company is evaluating the potential impact of the new standard on the Bank's financial statements.

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 Company believes the amendments in this standard will have an impact on the Bank's financial statements and is working to evaluate the significance of that impact.

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, 2021 and 2020.

NOTE C – LOANS, NET

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

	2021	2020
Commercial real estate	$ 25,977,030	$ 18,180,842
Home equity	14,730,149	10,636,788
Commercial	6,697	16,234
Commercial- Paycheck Protection Program (PPP)	3,097,173	5,121,332
Consumer	455,102	361,938
	44,266,151	34,317,134
Deferred loan costs, net	753,423	757,735
Allowance for credit losses	(1,494,693)	(1,211,480)
	$ 43,524,881	$ 33,863,389

NOTE C – LOANS, NET (Continued)

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

	2021	2020
Three months or less	$ 364,226	$ 987,448
Over three months to twelve months	226,277	
Over one year to three years	316,561	5,061,424
Over three years to five years	4,715,370	838,813
Over five years to fifteen years		
Variable rate loans at floor	10,990,797	395,673
Fixed rate loans	25,713,377	24,365,184
Over fifteen years		
Variable rate loans at floor	842,406	698,564
Fixed rate loans	1,097,137	1,970,028
	$ 44,266,151	$ 34,317,134

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.

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 $249,640,615 and $220,418,164 for the years ended December 31, 2021 and 2020, respectively. The balance of loans serviced above includes loans that were transferred effective December 31, 2021 and 2020, but were not posted to the loan system until January 2022 and 2021, 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 and 2020, the Bank has approximately 66 and 123 PPP loans, totaling $3,097,173 and $5,121,332, respectively. Net deferred costs include $11,375 net deferred fees for the PPP loan-related origination costs net of fees at December 31, 2021 and $101,929 of net deferred costs for the PPP loan-related origination costs net of fees at December 31, 2020. 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, the majority of the loan balances are expected to be forgiven by the SBA, which will accelerate the recognition of these net deferred costs at the forgiveness date.

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:

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

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.

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.

Home Equity—The home equity loan portfolio is for 2nd 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 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.

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

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, 2021 and 2020:

	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

	Commercial Real Estate	Home Equity	Commercial	Commercial PPP	Consumer	Total
2020						
Allowance for credit losses						
Beginning balance	$ 669,199	$ 480,362	$ 1,397		$ 17,826	$ 1,168,784
Recoveries		17,352	25,344			42,696
Provision	176,295	(144,586)	(26,095)		(5,614)	-
Ending balance	$ 845,494	$ 353,128	$ 646	$ -	$ 12,212	$ 1,211,480
Ending balance: Individually evaluated for impairment			$ -			$ -
Ending balance: Collectively evaluated for impairment	$ 845,494	$ 353,128	$ 646	$ -	$ 12,212	$ 1,211,480
Loans						
Ending balance: Collectively evaluated for impairment	$ 18,180,842	$ 10,636,788	$ 16,234	$ 5,121,332	$ 361,938	$ 34,317,134

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

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.

The following table shows the loan portfolio allocated by management's internal risk ratings at December 31, 2021 and 2020:

	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

	Commercial Real Estate	Home Equity	Commercial	Commercial PPP	Consumer	Total
2020						
Grade:						
Pass	$ 18,180,842	$ 10,636,788	$ 16,234	$ 5,121,332	$ 361,938	$ 34,317,134
Watch						-
Special Mention						-
Substandard						-
Doubtful						-
Total	$ 18,180,842	$ 10,636,788	$ 16,234	$ 5,121,332	$ 361,938	$ 34,317,134

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

There were no impaired loans at December 31, 2021 and 2020. There were no past due loans or loans on nonaccrual at December 31, 2021 and 2020.

The Company is working with borrowers impacted by COVID-19 and providing modifications to include three months deferral of principal and interest and six months interest only payments. These modifications are excluded from the troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. There were no Company modified commercial loans for the year ended December 31, 2021. For the year ended December 31, 2020, the Company modified 13 commercial loans with outstanding balances of $7,808,640. All modified loans were performing under the modified terms as of December 31, 2021 and 2020.

NOTE E – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

	2021	2020
Leasehold improvements	$ 242,440	$ 242,440
Furniture, fixtures and equipment	723,265	719,236
	965,705	961,676
Less: Accumulated depreciation	(910,445)	(884,745)
	$ 55,260	$ 76,931

Depreciation and amortization included in occupancy and equipment expense totaled $25,700 and $26,877 respectively, in 2021 and 2020.

NOTE F – MORTGAGE SERVICING RIGHTS

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

	2021	2020
Fair value, beginning of year	$ 1,862,754	$ 1,691,226
Additions for new mortgage servicing rights capitalized	260,536	290,610
Reduction of servicing assets	(13,581)	(17,909)
Changes in fair value:		
Due to changes in model inputs and assumptions	613,121	(101,173)
Fair value, end of year	$ 2,722,830	$ 1,862,754
Balance of loans serviced for others	$ 249,640,615	$ 220,418,164
Mortgage servicing rights as a percentage of serviced loans	1.09%	0.85%

The balance of loans serviced above includes loans that were originated effective December 31, 2021 and 2020, but were not posted to the loan system until January 2022 and 2021. 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 $596,777 and $484,432 for the years ended December 31, 2021 and 2020, respectively. Changes in fair value are also included in mortgage banking revenue on the consolidated statements of operations.

NOTE F – MORTGAGE SERVICING RIGHTS (Continued)

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 G – TIME DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2021 and 2020 were $57,742,622 and $30,939,111, respectively.

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

	2021	2020
Due in one year or less	$ 100,331,514	$ 55,132,562
Due from one to three years	8,941,747	9,936,269
Due from three to five years		28,238
	$ 109,273,261	$ 65,097,069

NOTE H – FEDERAL FUNDS CREDIT LINE

The Company had a federal funds line of credit agreement through June 30, 2022. The maximum borrowings available under this line amounted to $2,500,000 at December 31, 2021 and 2020. At December 31, 2021 and 2020, there were no borrowings outstanding under this agreement.

NOTE I – OTHER EXPENSES

Other expenses consisted of the following at December 31:

	2021	2020
Data processing	$ 170,609	$ 170,428
Professional services	149,985	104,956
Regulatory assessments	78,126	48,741
Office expenses	66,712	84,830
Marketing expense	40,163	59,732
Messenger and courier expenses	14,643	15,680
Directors' fees and expenses	12,558	73,739
Other expenses	536,872	654,337
	$ 1,069,668	$ 1,212,443

Other expenses in 2021 consists primarily of loan origination-related expenses ($265,642), software license and internet fees ($79,839), bank and other fees ($64,044), and insurance ($30,920).

NOTE I – OTHER EXPENSES (Continued)

Other expenses in 2020 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 J – 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 $31,147 and $29,328 for the years ended December 31, 2021 and 2020, respectively.

NOTE K – INCOME TAXES

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

	2021	2020
Currently payable:		
Federal	$ 207,661	$ 402,651
State	65,785	196,462
	273,446	599,113
Deferred tax (benefit) expense:		
Federal	164,662	6,765
State	80,983	1,476
	245,645	8,241
Net provision for income taxes	$ 519,091	$ 607,354

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:

	2021	2020
Income tax at Federal statutory rate	$ 391,549	$ 446,796
State franchise taxes, less Federal income tax benefit	129,919	155,107
Meals and entertainment	433	548
Nondeductible expenses and other	(2,810)	4,903
Provision for income taxes	$ 519,091	$ 607,354

NOTE K – INCOME TAXES (Continued)

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:

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 293,600	$ 219,691
Reserve for mortgage servicing rights	79,338	79,338
Depreciation	12,784	8,905
State franchise tax		546
Total deferred tax assets	385,722	308,480
Deferred tax liabilities:		
Mortgage servicing rights	(804,967)	(550,697)
Adjustment to cash basis	(219,898)	(177,421)
State franchise tax	(26,140)	
Total deferred tax liabilities	(1,051,005)	(728,118)
Net deferred tax liabilities	$ (665,283)	$ (419,638)

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 $449,391 and $6,418, at December 31, 2021 and 2020, 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 2018 and 2017, 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 L – 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, 2021 and 2020, 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 $3,937,968 and $7,324,807 at December 31, 2021 and 2020, respectively.

NOTE M – CONTINGENT LIABILITIES AND COMMITMENTS

Lease Commitments: 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

NOTE M – CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

December 31, 2026. 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	$ 1,020,278

Rent expense for the years ended December 31, 2021 and 2020 for all operating leases totaled $222,543 and $228,255, respectively.

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	
	2021	2020
Commitments to extend credit	$ 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 N – 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, 72% and 56% of the loans were made outside of the area as of December 31, 2021 and 2020, 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

NOTE N – CONCENTRATIONS OF CREDIT RISK (Continued)

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.

The concentrations of credit by type of loan are set forth in Note D. While the Company has a diversified loan portfolio, approximately 92% and 84% of these loans are secured by real estate at December 31, 2021 and 2020, 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, 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 Company has loan commitments in the following industries at December 31, 2020: retail trade, 10%; commercial building, 12%; consumer credit facilities, 41%; educational services, 11%; non-profit and faith-based organizations, 9%; and PPP loans, 15%. 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 O – 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, 2021 and 2020, $3,252,886 and $2,312,520 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, 2021, 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 2021 and 2020, 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.

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

NOTE O – REGULATORY MATTERS (Continued)

Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio 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. Under the interim final rules the community bank leverage ratio minimum requirement is 8.5% as of December 31, 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7.5% as of December 31, 2021, and greater than 8% thereafter.

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, 2021, 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, 2021				
Tier I (Core) Capital				
(to Average Total Assets)	$ 19,484	11.17%	$ 14,825	≥ 8.50%

	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
As of December 31, 2020				
Tier I (Core) Capital				
(to Average Total Assets)	$ 16,491	15.11%	$ 8,729	≥ 8.00%

NOTE P – 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

NOTE P – FAIR VALUE MEASUREMENT (Continued)

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.

The following table presents information about the Company's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2021 and 2020, 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, 2021:					
Mortgage servicing rights	$ 3,335,951			$ 2,722,830	$ 613,121
December 31, 2020:					
Mortgage servicing rights	$ 1,761,581			$ 1,862,754	$ (101,173)

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, 2021 and 2020:

	Fair Value	Valuation Techniques	Unobservable Inputs	Range	Weighted Average
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%	
December 31, 2020:					
Mortgage servicing rights	$ 1,862,754	Discounted cash flow approach	Constant prepayment rate	15.5%	15.5%
			Discount rate	8.25% to 10.25%	

NOTE Q – 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.