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BANK OF SAN FRANCISCO

FINANCIAL STATEMENTS

As of December 31, 2024 and 2023 and for the years then ended and independent auditor's report

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors
Bank of San Francisco
San Francisco, California

Opinion

We have audited the financial statements of Bank of San Francisco, which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Bank of San Francisco as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Bank of San Francisco's ability to continue as a going concern for one year from the date the financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bank of San Francisco's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bank of San Francisco'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.

Crowe LLP

Crowe LLP

Sacramento, California
March 28, 2025

Bank of San Francisco
Balance Sheets
December 31, 2024 and 2023

	2024	2023
ASSETS		
Cash and due from financial institutions	$ 6,022,816	$ 12,852,724
Interest-bearing deposits in banks	69,200,264	88,701,655
Cash and cash equivalents	75,223,080	101,554,379
Debt securities available-for-sale, at fair value amortized cost of $23,849,798	23,623,438	-
Loans, net of allowance for credit losses of $6,661,858 and $6,744,495 as of December 31, 2024 and 2023, respectively	501,307,819	495,196,062
Federal Home Loan Bank stock, at cost	3,349,100	3,349,100
Premises and equipment, net	1,410,567	1,603,594
Accrued interest receivable and other assets	10,522,956	10,272,820
Total Assets	$ 615,436,960	$ 611,975,955
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 197,533,111	$ 190,040,311
Interest bearing	333,201,769	345,384,254
Total deposits	530,734,880	535,424,565
Accrued interest payable and other liabilities	9,380,999	8,178,126
Total liabilities	540,115,879	543,602,691
Commitments and Contingencies		
Shareholders' Equity		
Common stock, no par; 10,000,000 shares authorized; 2,136,822, and 2,108,162 shares issued and outstanding as of December 31, 2024 and 2023, respectively	28,756,815	28,167,814
Retained earnings	46,743,090	40,205,450
Accumulated other comprehensive income	(178,824)	-
Total Shareholders' Equity	75,321,081	68,373,264
Total Liabilities and Shareholders' Equity	$ 615,436,960	$ 611,975,955

Bank of San Francisco
Statements of Income and Comprehensive Income
Years ended December 31, 2024 and 2023

	2024	2023
Interest and dividend income		
Loans, including fees	$ 27,679,060	$ 25,034,897
Deposits in banks	4,793,948	4,031,736
Investments	283,289	-
Federal funds sold and other	293,448	242,003
Total interest income	33,049,745	29,066,633
Interest expense		
Deposits	8,880,703	7,571,400
Borrowings	162	3,612
Total interest expense	8,880,865	7,575,012
Net interest income	24,168,880	21,733,624
(Reversal) Provision for credit losses	(180,000)	290,000
Net interest income after (reversal) provision for credit losses	24,348,880	21,443,624
Non-interest income		
Service charges on deposits	395,631	354,028
Gain on sale of loans	305,582	299,022
Loan servicing fees, net	51,685	82,361
Other income	177,115	186,210
Total non-interest income	930,013	921,621
Non-interest expenses		
Salaries and employee benefits	10,541,521	8,194,227
Occupancy	1,239,035	947,808
Information technology and equipment	1,208,239	1,112,386
Professional fees	882,200	454,469
Other expenses	2,100,258	1,809,369
Total non-interest expenses	15,971,253	12,518,259
Income before income taxes	9,307,640	9,846,986
Income tax expense	2,770,000	2,917,000
Net income	$ 6,537,640	$ 6,929,986
Other comprehensive income (loss), net of tax:		
Unrealized loss on securities available-for-sale	(178,824)	-
Comprehensive income	$ 6,358,816	$ 6,929,986
Earnings per share		
Basic	$ 3.14	$ 3.35
Diluted	$ 3.10	$ 3.33

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

Bank of San Francisco
Statements of Changes in Shareholders' Equity
Years ended December 31, 2024 and 2023

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Shareholders' Equity
	Shares	Amount			
Balance, December 31, 2022	$ 2,093,754	$ 27,704,543	$ 33,836,815	-	$ 61,541,358
Cumulative change in accounting principle (Note 1)	-	-	(561,351)	-	(561,351)
Balance, January 1, 2023 (as adjusted for cumulative change in accounting principle)	2,093,754	27,704,543	33,275,464	-	60,980,007
Net income	-	-	6,929,986		6,929,986
Stock based compensation, net of taxes withheld	-	463,271	-	-	463,271
Restricted stock issued, net	14,408	-	-	-	-
Balance, December 31, 2023	2,108,162	28,167,814	40,205,450	-	68,373,264
Net income	-	-	6,537,640	-	6,537,640
Other comprehensive (loss) income	-	-	-	(178,824)	(178,824)
Stock based compensation, net of taxes withheld	-	589,001	-	-	589,001
Restricted stock issued, net	28,660	-	-	-	-
Balance, December 31, 2024	2,136,822	$ 28,756,815	$ 46,743,090	$ (178,824)	$ 75,321,081

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

Bank of San Francisco
Statements of Cash Flows
Years ended December 31, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Net income	$ 6,537,640	$ 6,929,986
Adjustments to reconcile net income to net cash from operating activities:		
(Reversal) provision for credit losses	(180,000)	290,000
Depreciation and amortization of premises and equipment	245,508	253,964
Change in deferred loan origination fees and discount, net	(194,404)	(173,322)
Share-based compensation expense	589,001	463,271
Gain on sale of loans	(305,582)	(299,022)
Deferred income tax expense (benefit)	(279,168)	(236,290)
Net changes in operating assets and liabilities:		
Accrued interest receivable and other assets	77,943	1,524,216
Accrued interest payable and other liabilities	1,202,873	654,404
Net cash from operating activities	7,693,811	9,407,207
Cash flows from investing activities:		
Purchase of securities avaliable-for-sale	(23,851,173)	-
Purchase of Federal Home Loan Bank stock	-	(237,500)
Loan originations and payments, net	(5,431,771)	19,654,101
Additions to premises and equipment	(52,481)	(446,144)
Net cash from investing activities	(29,335,425)	18,970,457
Cash flows from financing activities:		
Net change in demand, NOW, savings deposits	54,579,562	(51,383,574)
Net change in time deposits	(59,269,247)	64,521,076
Net cash from financing activities	(4,689,685)	13,137,502
Net change in cash and cash equivalents	(26,331,299)	41,515,166
Beginning cash and cash equivalents	101,554,379	60,039,213
Ending cash and cash equivalents	$ 75,223,080	$ 101,554,379
Supplemental cash flow information		
Cash paid for:		
Interest paid	$ 8,789,139	$ 7,031,208
Income taxes paid	$ 2,739,025	$ 2,340,000

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

1. Nature of Business and Summary of Significant Accounting Policies

General

Bank of San Francisco (the "Bank") is a state-chartered commercial bank that commenced business on August 1, 2005. The Bank provides a full range of banking services to businesses, nonprofits and individuals located in its community. A variety of deposit products are offered, including checking, savings and money market accounts and certificates of deposit. The Bank engages in mortgage banking activities and, as such, originates and both brokers and retains in portfolio one-to-four unit residential mortgage loans. The principal market for the Bank's financial services is the greater San Francisco Bay Area. The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of 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 these estimates because of the inherent subjectivity and inaccuracy of any estimation.

Adoption of New Accounting Standards

Accounting Standards Update ("ASU") No. 2023-07 "Segment Reporting (Topic 280):Improvements to Reportable Segment Disclosures" ("ASU 2023-07") requires the discloser of significant segment expenses, an amount and description for other segment items, the title and position of the entity's chief operating decision maker and an explanation of how the chief operating decision maker uses the reported measures of profit or loss to assess segment performance. This standard was adopted effective January 1, 2024 with no material impact on the financial statements.

Risks and Uncertainties

In the normal course of business, the Bank encounters a wide variety of risks, some of which may be outside of the Bank's control, that could materially impact the financial results. The risks described below are significant risks to the Bank and are not inclusive of all risks which may impact the Bank. Risks from global uncertainties, economic environment, geographic concentration, other institutional failures, risks currently deemed immaterial, or other unknown risks, may materially and adversely affect our business, results of operations, liquidity, financial condition, or the market price and liquidity of the Bank's stock.

Continued

1. Nature of Business and Summary of Significant Accounting Policies

Risks and Uncertainties (continued)

Two significant risks the Bank encounters are economic and regulatory risks. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on a different basis, than its interest-earning assets. Credit risk is the risk of default, primarily in the loan portfolio, that results from the borrowers' inability or unwillingness to make contractually required payments.

Market risk reflects changes in the value of collateral underlying loans receivable, the valuation of other investments, and the valuation of deferred tax assets.

The Bank is subject to the regulations of various governmental agencies. These regulations can change from period to period. Such regulations can also restrict the Bank's ability to sustain continued growth as a result of capital and other requirements. The Bank also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required allowance for credit losses and operating restrictions resulting from the regulators' judgments based upon information available to them at the time of their examination.

Subsequent Events

The Bank has evaluated events subsequent through March 28, 2025, the date that these financial statements were available to be issued. There have been no subsequent events that occurred during the period that would require recognition or disclosure in the financial statements.

Cash Flows

For the purpose of the statement of cash flows, the Bank considers all highly liquid investments with maturities of three months or less at date of acquisition to be cash equivalents. Cash equivalents include cash, due from banks, interest-bearing deposits in banks and Federal funds sold. Generally, Federal funds are sold for one-day periods.

Debt Securities

Debt Securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities not classified as held-to-maturity or trading are classified as available-for-sale. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Continued

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Debt Securities (Continued)

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage and commercial loans is discontinued at the time a loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due for closed-end credits and 180 days for revolving credits. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off status at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller-balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to nonaccrual status in accordance with the Bank’s policy, typically after 90 days of non-payment.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk

The Bank grants real estate mortgage, real estate construction, commercial and consumer loans to clients primarily in its principal market. Although management continues to diversify the Bank's loan portfolio, a noteworthy portion of the portfolio is secured by either commercial or residential real estate.

Continued

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk (Continued)

In management's judgment, a concentration of loans exists in real estate related loans, with approximately 88% of the Bank's loans being real estate-related at December 31, 2024, and approximately 87% of the Bank's loans being real estate-related at December 31, 2023. A substantial decline in the performance of the economy in general or a decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on the loans' collectability, increase the level of real estate-related nonperforming loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on the financial condition of the Bank. Reflecting its being a community bank, the majority of the Bank's loans and collateral are in the greater San Francisco Bay Area. If that area sustained a significant decline in market value, economic loss, or natural disaster, it could have an adverse impact on the collectability of those loans. Personal and business income represents the primary source of repayment for a majority of these loans.

Allowance for Credit Losses

Accounting standards require the Bank to estimate expected future credit losses based on information about past events, current conditions, and reasonable and supportable forecasts of future conditions. Expected credit losses over the contractual life of a financial asset are recorded at origination using a weighted average remaining maturity model segregated by loan segments. The Bank has limited historical losses to derive the historical loss base for each segment. Therefore, the Bank has looked at historical losses for peer groups to determine the expected loss on the contractual life of the loan for non-residential loans. For residential loans the historical life approximates the term of fixed interest rate duration of the loan. Next, the Bank considered peer group historical credit loss experience from 2008 to the current period which provides the basis for the estimation of expected credit losses. The Bank considers peers as financial institutions doing business in the same geographic region with similar asset groups, typically those Bank's viewed as competitors for various deals. Adjustments to historical loss information are made for differences in loan-specific risk characteristics, such credit quality of residential loans. In its loss forecasting framework, the Bank incorporates forward-looking information using macroeconomic scenarios applied over a three-year forecast period with a reversion period of fourteen quarters. These macroeconomic scenarios incorporate variables that have historically been key drivers of increases and decreases in credit losses. These variables include but are not limited to changes in the United States unemployment rates. The Bank also applies qualitative factors which consider the Bay Area unemployment rates, inflation, GPD, underwriting and lending management, concentrations, value of collateral, level of problem loans and credit quality of the residential portfolio.

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses (Continued)

The allowance of credit losses associated with unfunded lending commitments is calculated using the same segment and peer loss data and methodologies noted above with an assumption of the utilization at time of default. The reserve for unfunded commitments is maintained on the balance sheet in other liabilities.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

The Bank adopted ASC 326 on January 1, 2023 using the modified retrospective method for all financial assets measured at amortized costs. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable generally accepted accounting principles. The Bank recorded a net decrease to retained earnings of $561,351 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment includes an increase in the allowance for credit losses of $797,351 less deferred tax of $236,000.

The Bank elected to present the accrued interest receivable balance within the "Accrued interest receivable and other assets" line on the balance sheet. The accrued interest receivable balance as of December 31, 2024 and 2023 was $1,644,122 and $1,688,284, respectively.

Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

The Bank disaggregates the loan portfolio into segments of loans with similar risk characteristic for the purpose of estimating the allowance for credit losses. The loan segments are also considered for purposes of monitoring and assessing credit quality based on certain risk characteristics.

> <u>Construction and Land</u> – Construction and land loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified costs and timelines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Continued

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses (Continued)

Commercial Real Estate – Commercial real estate loans (includes multi-family real estate loans) generally possess a higher inherent risk of loss than other real estate portfolio segments, except construction and land loans. Adverse economic conditions or an overbuilt market impacts 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.

Residential Real Estate – The degree of risk in residential real estate lending (includes home equity lines of credit) depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Commercial and Industrial – Commercial and industrial loans, generally possess a higher inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to operating businesses' cash flows, which are uncertain in the current business environment. Debt coverage 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.

Other – Other loans include consumer loans mainly lines of credit or loans to individual for consumer purpose. Consumer loans generally possess a higher inherent risk than commercial loans because the loans are underwritten based on personal cash flow and assets. Debt coverage is provided by personal cash flow, and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrower's capacity to repay their obligations may be deteriorating. Other loans are included and are mainly lines of credit or loans not included in the other segments, overdrafts on deposit accounts and loans to finance agricultural production and other loans to farmers (not including loans secured by farm land). Overdrafts and other loans possess a high inherent risk because of the nonstandard nature of the credit.

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses (Continued)

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors and management review the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors.

If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators, the Federal Deposit Insurance Corporation and the California Department of Financial Protection and Innovation, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Allowance for Credit losses - Debt Securities Available-For-Sale

For debt securities available-for-sale in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely that not that it will be required to sell the securities before recovery of its amortized cost basis. If either of the criteria regarding the intent or requirement to sell is met, the securities amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Bank evaluates weather the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extend to which fair value is less than amortized cost, any changes to the rating of the security by the rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of the cash flows expected to be collected from the security are compared to the amortized cost basis, a credit loss exists and an allowance for the credit loss is recorded for the credit loss. Limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the collectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled $193,698 at December 31, 2024 and is excluded from the estimate of credit losses.

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Sales and Servicing of Loans

The Bank has originated loans to clients guaranteed by either the Small Business Administration ("SBA") or the Main Street Lending Program ("MSLP"). The SBA provides guarantees of 75% or 90% of each loan. The Bank sells the guaranteed portion of some of these loans to a third party and retains the unguaranteed portion in its own portfolio. The Bank generally receives a premium in excess of the adjusted carrying value of the loan at the time of sale. The Bank may be required to refund a portion of the sales premium if the borrower defaults or the loan prepays within ninety days of the settlement date. However, none of the premiums the Bank received was subject to these recourse provisions as of December 31, 2024 and 2023. The guaranteed portion of SBA loans sold totaled approximately $3,567,105 and $4,350,144 in 2024 and 2023, respectively.

The Bank participated in the Federal Reserve's MSLP which purchased 95% of a loan originated by an eligible lender in 2020. The MSLP required the loans to meet certain criteria before approval or purchase of 95% of the loan. The Bank did not sell any MSLP loans in 2024 and 2023. The carrying value of the retained portion of the loan is discounted based on the estimated yield of a comparable non-guaranteed loan. Significant future prepayments of these loans will result in the recognition of additional amortization of related servicing assets.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are initially recorded at fair value and are subsequently amortized in proportion to, and over the period of the related net servicing income or expense. Fair values are estimated using discounted cash flows based on current market interest rates. Servicing assets totaling $135,394 and $173,319 associated with loans previously sold are included in "Accrued interest receivable and other assets" as of December 31, 2024 and 2023, respectively. Servicing asset amortization totaled $103,166 and $74,347 for the years ended December 31, 2024 and 2023, respectively, and is included in "Loan servicing fees, net" under "Non-interest income".

Servicing assets are periodically evaluated for impairment. Management assesses servicing rights for impairment as of each financial reporting date. The Bank evaluated the servicing asset for impairment at December 31, 2024 and 2023 and determined that no impairment was needed.

Continued

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Servicing Fee Income

Servicing fee income is reported on the statement of income and comprehensive income as "Loan servicing fees, net" and is recorded for fees earned for servicing the sold portion of government guaranteed loans. Loan servicing fees are presented net of the servicing asset amortization. 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. Net servicing fees totaled $51,685 and $82,361 for the years ended December 31, 2024 and 2023, respectively. Late fees and ancillary fees related to loan servicing are not material.

Transfers of Financial Assets

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

Premises and Equipment

Bank premises and equipment are carried at cost, less accumulated depreciation. Depreciation is determined using principally the straight-line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures and equipment are estimated to be three to ten years. Leasehold improvements are amortized over the useful life of the asset or the term of the related lease, including expected renewal periods, whichever is shorter.

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Leases

The Bank classified leases as operating or finance leases at the lease commencement date. The Bank records leases on the balance sheet as right-of-use "ROU" assets which represent the Bank's right to use an underlying asset for the lease term, and lease liabilities represent the Bank's obligation to make lease payments arising from the lease. The ROU assets and lease liabilities on the Bank's balance sheet are operating leases and are recognized on a straight-line basis over the lease term. The Bank considers the minimum lease term and any optional renewal periods the Bank is reasonably certain to be renewed. The Bank's leases do not contain residual value guarantees or material variable lease payments that would cause the Bank to incur additional expenses.

Continued

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Leases (Continued)

The Bank's variable lease components include expenses around common areas, utilities, parking, property taxes, insurance and other costs associated with the operations of the building. ROU assets and lease liabilities are recognized upon commencement of the lease based on the estimated present value of the lease payments over the lease term. The Bank uses its incremental borrowing rate at lease commencement to calculate the present value of the lease payments when the rate implicit in a lease liability is unknown.

Federal Home Loan Bank (FHLB) Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet clients' financing needs. The face amount of these items represents the exposure to loss, before considering clients' collateral or ability to repay. Such financial instruments are recorded when they are funded.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates which are expected to be applied 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. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Bank considers all tax positions recognized in its financial statements for the likelihood of realization. When tax returns are filed, it is highly certain that some positions taken will be sustained upon examination by the taxing authorities, while others will be subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Continued

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

Management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of the tax benefit that is more than 50 percent likely to being realized upon settlement with the applicable taxing authority.

Retirement Plans

Employee 401(k) plan expense is the amount of matching contributions and cost of services related to maintaining the plan.

Earnings Per Common Share

Basic Earnings per share (EPS) is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS, if applicable, reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options and restricted stock, result in the issuance of common stock which shares in the earnings of the Bank. The treasury stock method is applied to determine the dilutive effect of stock options and restricted stock in computing diluted earnings per share. There were 44,845 and 35,252 shares of unvested restricted stock outstanding at December 31, 2024 and 2023, respectively.

Share-Based Compensation

The Bank has one share-based compensation plan, the Bank of San Francisco 2017 Equity Incentive Plan (the "Plan"), which has been approved by its shareholders and permits the grant of restricted stock, stock options and other share-based awards for 150,067 of the Bank’s common shares. Additionally, on January 1st of each year, shares equal to 10% of any increase in the number of shares during the previous years are added to the pool of shares available for issuance. At December 31, 2024 and 2023, 71,333 and 101,131 shares, respectively, were available to grant. The Plan is designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. New shares are issued upon option exercise or restricted share grants.

Restricted stock awards are grants of shares of common stock that are subject to forfeiture until specific conditions or goals are met. Conditions may be based on continuing employment or achieving specified performance goals. During the period of restriction, participants holding restricted stock may have full voting and dividend rights.

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Share-Based Compensation (Continued)

The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors or committee of the Board of Directors.

The Bank recognizes share-based compensation expense for the fair value of all restricted stock and stock options that are ultimately expected to vest as the requisite service is rendered and considering the probability of any performance criteria being achieved. The fair value of restricted stock awards is based on the value of the underlying shares at the date of the grant. Management makes estimates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the Plan.

Comprehensive Income

Comprehensive income is a more inclusive financial reporting methodology that includes other comprehensive income not recognized in the calculation of net income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale which are also recognized as separate components of equity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash

Federal Reserve Board (FRB) regulations require the Bank to maintain reserve balances on deposit with the Federal Reserve Bank. There was no reserve requirement as of December 31, 2024 and 2023, respectively.

Dividend Restriction

The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2024, $19,329,764 was free of restrictions.

Continued

1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Fair Values of Financial Instruments

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

Operating Segments

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed, and financial performance is evaluated on a Bank-wide basis. All the Bank's activities are interrelated, and each activity is dependent and assessed based on the manner in which it supports the other activities of the Bank. Accordingly, all the financial service operations are considered by management to be aggregated in one reportable operating segment.

2. Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

> Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3 – Significant unobservable inputs that reflect a Bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Continued

2. Fair Value Measurements (Continued)

Assets measured at fair value on a recuring basis, are summarized below (in thousands):

	December 31, 2024				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Debt securities avaliable-for-sale	$ 23,623	$ 23,623	$ -	$ -	$ 23,623

The Bank had no assets measured at fair value on a recuring basis as of December 31, 2023.

The carrying amounts and estimated fair value of financial instruments not carried at fair value, are summarized below (in thousands):

	December 31, 2024				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 75,223	$ 75,223	$ -	$ -	$ 75,223
Loans, net	501,308	-	-	478,548	478,548
FHLB stock	3,349	N/A	N/A	N/A	N/A
Accrued interest receivable - loans	1,644	-	-	1,644	1,644
Accrued interest receivable - securities	194	-	-	194	194
Financial liabilities:					
Deposits	$ 530,735	$ 420,205	$ 110,383	$ -	$ 530,588
FHLB advances	-	-	-	-	-
Other borrowings	-	-	-	-	-
Accrued interest payable	970	-	970	-	970

	December 31, 2023				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 101,554	$ 101,554	$ -	$ -	$ 101,554
Loans, net	495,196	-	-	473,973	473,973
FHLB stock	3,349	N/A	N/A	N/A	N/A
Accrued interest receivable	1,688	-	-	1,688	1,688
Financial liabilities:					
Other borrowings	-	-	-	-	-
Accrued interest payable	878	-	878	-	878

2. Fair Value Measurements (Continued)

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

Cash and Cash Equivalents - The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Securities – The fair value for securities are determined by quoted market prices, if available (level 1). For securities where quoted market prices are not available, fair values are calculated based on the market prices of similar securities (level 2) using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, value debt securities without relying exclusively on quoted prices for the specific securities but rather relying on the securities' relationship to other benchmark quoted securities (level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cashflows or other market indicators (level 3).

FHLB Stock - It is not practical to determine the fair value FHLB stock due to restrictions placed on its transferability.

Loans – The fair value of loans is estimated using a discounted cash flow calculation. Cash flows for each loan category are projected on the basis of the stated weighted-average coupon, weighted-average maturity, estimated prepayments, and net losses. The value of each loan category is then determined by discounting the projected cash flows to the present at a rate consistent with the expectations of market participants for cash flows with similar risk characteristics. Fair value of loans is estimated by using discounted cash flow analyses that use a base market interest rate adjusted by adding returns premiums, or credit spread to the base rate of return for risk factors associated with the subject assets resulting in a Level 3 classification.

Deposits - The fair value disclosed for demand deposits (e.g., interest and non-interest checking, savings, and certain types of money market accounts) is, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification.

Fair value for fixed rate certificates of deposit is estimated using a discounted cash flow calculation that applies adjusted current market rates and recent interest rates being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Accrued Interest Receivable - The carrying amounts of accrued interest approximate fair value resulting in Level 3 for accrued interest receivable on loans.

2. Fair Value Measurements (Continued)

Accrued Interest Payable – The carrying amounts of accrued interest payable approximate fair value resulting in a Level 2 classification, since accrued interest payable is from deposits that are generally classified using Level 2 inputs.

FHLB Advances and Other Borrowings – The carrying amounts of the borrowings approximate fair value resulting in a Level 2 classification, since the borrowings are short term in nature and are generally classified using Level 2 inputs.

Off-Balance Sheet Instruments – Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

3. Debt Securities

The following table summarizes the amortized cost, fair value, and allowance for credit losses of securities available-for-sale at December 31, 2024 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrealized gains and losses:

2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available-for-sale					
U.S. Treasury and federal agency	$ 23,849,798	$ -	$ (226,360)	$ -	$ 23,623,438
Total available-for-sale	$ 23,849,798	$ -	$ (226,360)	$ -	$ 23,623,438

Unrealized losses on U.S. Treasury and federal agency bonds have not been recognized into income because the issuer bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline of fair value is largely due to changes in interest rates and other market conditions. Payments of principal and interest continue to be received timely, the fair value is expected to recover as the bonds approach maturity.

The Bank had no sales or calls of debt securities for the year ended December 31, 2024. The tax benefit related to the net unrealized gains and losses was $48,911 as of December 31, 2024. The Bank had no debt securities for the year ended December 31, 2023.

3. Debt Securities (Continued)

The amortized cost and fair value of debt securities are shown by contractual maturity.

	December 31, 2024	
	Amortized Cost	Fair Value
Available-for-sale		
Within one year	$ 3,970,338	$ 3,969,688
One to five years	19,879,460	19,653,750
Five to ten years	-	-
Beyond ten years	-	-
Total	$ 23,849,798	$ 23,623,438

The following tables summarize debt securities available-for-sale in an unrealized loss position for which an allowance for credit loss has not been recorded at December 31, 2024, aggregated by major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
December 31, 2024	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale						
U.S. Treasury and federal agency	$ 23,623,438	$ (226,360)	$ -	$ -	$ 23,623,438	$ (226,360)
Total available-for-sale	$ 23,623,438	$ (226,360)	$ -	$ -	$ 23,623,438	$ (226,360)

There were no debt securities pledged as of December 31, 2024. At year-end 2024, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

4. Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank of San Francisco (FHLB), the Bank is required to own capital stock in an amount specified by regulation. At December 31, 2024 and 2023, the Bank owned 33,491 of $100 par value FHLB stock. The stock is carried at cost and is redeemable at par at the discretion of the FHLB. The amount of stock required to be held is adjusted periodically based on a determination made by the FHLB.

Continued

5. Loans Receivable and Allowance for Credit Losses

Outstanding loans at December 31, 2024 and 2023, were as follows:

	December 31, 2024	December 31, 2023
Loans secured by real estate:		
Commercial	$ 153,088,568	$ 158,844,858
Residential	276,651,556	260,685,650
Construction and land	17,838,835	21,269,472
Total real estate	447,578,959	440,799,980
Commercial and industrial	61,816,982	63,069,453
Other	1,279,099	970,891
Total outstanding loans	510,675,040	504,840,324
Deferred loan origination fees and discount, net	(2,705,363)	(2,899,767)
Allowance for credit losses	(6,661,858)	(6,744,495)
Net outstanding loans	$ 501,307,819	$ 495,196,062

Salaries and employee benefits totaling $408,420 and $210,250 were deferred as loan origination costs for the years ended December 31, 2024 and 2023, respectively.

The Bank has elected to present the accrued interest receivable balance within the "Accrued interest receivable and other assets" line on the balance sheet. The accrued interest receivable balance as of December 31, 2024 and 2023 was $1,644,122 and $1,688,284, respectively.

Certain loans have been pledged to secure borrowing arrangements (see Note 15).

Continued

5. Loans Receivable and Allowance for Credit Losses (Continued)

The following table presents the activity in the allowance for credit losses by portfolio segment for the years ending December 31, 2024 and 2023:

December 31, 2024	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial & Industrial	Other Loans	Totals
Allowance for credit losses:						
Beginning balance	$ 2,652,708	$ 2,519,163	$ 453,816	$ 1,105,528	$ 13,280	$ 6,744,495
Provision (reversal) for credit losses	(286,441)	84,752	(147,431)	166,484	2,636	(180,000)
Loans charged-off	-	-	-	(40,631)	-	(40,631)
Recoveries	137,994	-	-	-	-	137,994
Total Ending Allowance Balance	$ 2,504,261	$ 2,603,915	$ 306,385	$ 1,231,381	$ 15,916	$ 6,661,858

December 31, 2023	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial & Industrial	Other Loans	Totals
Allowance for credit losses:						
Beginning balance, prior to adoption of ASC 326	$ 2,139,324	$ 2,276,648	$ 210,209	$ 1,675,167	$ 80,652	$ 6,382,000
Impact of adopting ASC 326	424,662	49,673	183,950	144,169	(5,103)	797,351
Provision (reversal) for loan losses	80,073	192,842	59,657	19,697	(62,269)	290,000
Loans charged-off	-	-	-	(733,505)	-	(733,505)
Recoveries	8,649	-	-	-	-	8,649
Total Ending Allowance Balance	$ 2,652,708	$ 2,519,163	$ 453,816	$ 1,105,528	$ 13,280	$ 6,744,495

Continued

5. Loans Receivable and Allowance for Credit Losses (Continued)

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2024 and 2023:

December 31, 2024	Nonaccrual With No Allowance for Credit Losses	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Loans secured by real estate:			
Commercial	$ -	$ -	$ -
Residential	-	-	-
Construction and land	-	-	-
Total real estate	-	-	-
Commercial and industrial	-	1,357,861	-
Other	-	-	-
Sub-total	-	1,357,861	-
Less: Guaranteed loans	-	(890,264)	-
Net outstanding loans	$ -	$ 467,597	$ -

December 31, 2023	Nonaccrual With No Allowance for Credit Losses	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Loans secured by real estate:			
Commercial	$ -	$ -	$ -
Residential	-	-	-
Construction and land	-	-	-
Total real estate	-	-	-
Commercial and industrial	-	3,770,625	301,947
Other	-	-	-
Sub-total	-	3,770,625	301,947
Less: Guaranteed loans	-	(3,001,910)	-
Net outstanding loans	$ -	$ 768,715	$ 301,947

The Bank recognized $278,863 in interest income on nonaccrual loans during the year ended December 31, 2024, and no interest income on nonaccrual loans during the year ended December 31, 2023.

5. Loans Receivable and Allowance for Credit Losses (Continued)

The following tables present the amortized cost basis of collateral-dependent loans by segment of loans as of December 31, 2024 and 2023:

December 31, 2024	Real Estate	Business Assets	Total Loans
Loans secured by real estate:			
Commercial	$ -	$ -	$ -
Residential	-	-	-
Construction and land	-	-	-
Total real estate	-	-	-
Commercial and industrial	266,449	-	266,449
Consumer	-	-	-
Other	-	-	-
Totals	$ 266,449	$ -	$ 266,449

December 31, 2023	Real Estate	Business Assets	Total Loans
Loans secured by real estate:			
Commercial	$ -	$ -	$ -
Residential	-	-	-
Construction and land	-	-	-
Total real estate	-	-	-
Commercial and industrial	-	482,386	482,386
Consumer	-	-	-
Other	-	-	-
Totals	$ -	$ 482,386	$ 482,386

5. Loans Receivable and Allowance for Credit Losses (Continued)

The following table presents the aging of the amortized cost in past due loans as of December 31, 2024 and 2023 by class of loans:

December 31, 2024	0 - 29 Days Past Due	30 - 59 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total Loans
Loans secured by real estate:						
Commercial	$ -	$ -	$ -	$ -	$ 153,088,568	$ 153,088,568
Residential	-	-	-	-	276,651,556	276,651,556
Construction and land	-	-	-	-	17,838,835	17,838,835
Total real estate	-	-	-	-	447,578,959	447,578,959
Commercial and industrial	221,559	265,731	870,571	1,357,861	60,459,121	61,816,982
Other	-	-	-	-	1,279,099	1,279,099
Totals	$ 221,559	$ 265,731	$ 870,571	$ 1,357,861	$ 509,317,179	$ 510,675,040

All past due loans noted above are on nonaccrual as of December 31, 2024.

December 31, 2023	0 - 29 Days Past Due	30 - 59 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total Loans
Loans secured by real estate:						
Commercial	$ -	$ -	$ -	$ -	$ 158,844,858	$ 158,844,858
Residential	163,927	-	-	163,927	260,521,723	260,685,650
Construction and land	-	-	-	-	21,269,472	21,269,472
Total real estate	163,927	-	-	163,927	440,636,053	440,799,980
Commercial and industrial	1,719,945	-	2,352,627	4,072,572	58,996,881	63,069,453
Other	-	-	-	-	970,891	970,891
Totals	$1,883,872	$ -	$ 2,352,627	$ 4,236,499	$ 500,603,825	$ 504,840,324

As of December 31, 2023, the Bank had past due balances of $4,236,499 with $3,770,625 placed on nonaccrual.

The Bank did not modify loans for borrowers experiencing financial difficulty during the years ended December 31, 2024 and 2023.

5. Loans Receivable and Allowance for Credit Losses (Continued)

The Bank places all loans in various credit risk ratings and periodically performs detailed reviews of all loans over certain thresholds to identify credit risks and to assess the overall collectability of the portfolio. The reviews include numerous factors including, but not limited to, collateral, current financial information on the borrower, historical payment, strength of guarantors, current economic trends, relevant public information, loan structure and documentation.

The Bank analyzes loans individually by classifying the loans as to credit risk. These credit quality indicators are used to assign a risk rating to each individual loan. The Bank uses the following definitions for risk ratings:

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

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

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

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

5. Loans Receivable and Allowance for Credit Losses (Continued)

The following table presents the classes of the loan portfolio summarized by the amortized cost basis by origination year and rating as of December 31, 2024 and 2023, respectively:

	Term Loans Amortized Cost Basis by Origination Year					
December 31, 2024	2024	2023	2022	2021	Prior	Total Loans
Commercial Real Estate:						
Risk Rating						
Pass	$ 20,506,370	$ 8,317,855	$ 24,432,377	$ 19,413,838	$ 64,052,994	$ 136,723,434
Special Mention	-	-	-	10,906,723	4,215,817	15,122,540
Substandard	-	-	-	-	1,242,594	1,242,594
Doubtful	-	-	-	-	-	-
Total Commercial Loans	$ 20,506,370	$ 8,317,855	$ 24,432,377	$ 30,320,561	$ 69,511,405	$ 153,088,568
Commercial Real Estate:						
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -
Construction and land:						
Risk Rating						
Pass	$ 995,921	$ 6,798,837	$ -	$ 10,044,077	$ -	$ 17,838,835
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Total Construction and Land Loans	$ 995,921	$ 6,798,837	$ -	$ 10,044,077	$ -	$ 17,838,835
Construction and land:						
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -
Commercial and industrial:						
Risk Rating						
Pass	$ 14,750,798	$ 5,427,157	$ 13,795,765	$ 4,812,529	$ 18,645,169	$ 57,431,418
Special Mention	-	-	-	1,158,124	245,840	1,403,964
Substandard	-	-	-	915,437	1,195,592	2,111,029
Doubtful	-	-	-	-	870,571	870,571
Total Commercial and Industrial Loans	$ 14,750,798	$ 5,427,157	$ 13,795,765	$ 6,886,090	$ 20,957,172	$ 61,816,982
Commercial and industrial:						
Current period gross write offs	$ -	$ -	$ -	$ 40,631	$ -	$ 40,631
Residential Real Estate:						
Risk Rating						
Pass	$ 43,460,701	$ 12,695,485	$ 63,952,210	$ 75,065,615	$ 81,477,545	$ 276,651,556
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Total Residential Real Estate Loans	$ 43,460,701	$ 12,695,485	$ 63,952,210	$ 75,065,615	$ 81,477,545	$ 276,651,556
Residential Real Estate:						
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -
Other Loans:						
Risk Rating						
Pass	$ 413,136	$ -	$ -	$ 865,963	$ -	$ 1,279,099
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Total Other Loans	$ 413,136	$ -	$ -	$ 865,963	$ -	$ 1,279,099
Other Loans:						
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -
Total Loans	$ 80,126,926	$ 33,239,334	$ 102,180,352	$ 123,182,306	$ 171,946,122	$ 510,675,040

Continued

5. Loans Receivable and Allowance for Credit Losses (Continued)

	Term Loans Amortized Cost Basis by Origination Year				
December 31, 2023	2023	2022	2021	Prior	Total Loans
Commercial Real Estate:					
Risk Rating					
Pass	$ 4,666,255	$ 27,108,435	$ 20,205,348	$ 75,811,990	$ 127,792,028
Special Mention	4,408,335	-	11,375,000	4,381,804	20,165,139
Substandard	-	-	1,875,961	9,011,730	10,887,691
Doubtful	-	-	-	-	-
Total Commercial Loans	$ 9,074,590	$ 27,108,435	$ 33,456,309	$ 89,205,524	$ 158,844,858
Commercial Real Estate:					
Current period gross write offs	$ -	$ -	$ -	$ -	$ -
Construction and land:					
Risk Rating					
Pass	$ 6,612,257	$ 3,948,842	$ 10,708,373	$ -	$ 21,269,472
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Total Construction and Land Loans	$ 6,612,257	$ 3,948,842	$ 10,708,373	$ -	$ 21,269,472
Construction and land:					
Current period gross write offs	$ -	$ -	$ -	$ -	$ -
Commercial and industrial:					
Risk Rating					
Pass	$ 4,756,011	$ 14,930,808	$ 6,672,019	$ 27,434,906	$ 53,793,744
Special Mention	-	223,615	2,373,950	358,987	2,956,552
Substandard	-	-	40,631	2,507,901	2,548,532
Doubtful	-	-	-	3,770,625	3,770,625
Total Commercial and Industrial Loans	$ 4,756,011	$ 15,154,423	$ 9,086,600	$ 34,072,419	$ 63,069,453
Commercial and industrial:					
Current period gross write offs	$ -	$ -	$ -	$ 733,505	$ 733,505
Residential Real Estate:					
Risk Rating					
Pass	$ 14,566,527	$ 68,652,473	$ 79,329,464	$ 97,494,482	$ 260,042,946
Special Mention	642,704	-	-	-	642,704
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Total Residential Real Estate Loans	$ 15,209,231	$ 68,652,473	$ 79,329,464	$ 97,494,482	$ 260,685,650
Residential Real Estate:					
Current period gross write offs	$ -	$ -	$ -	$ -	$ -
Other Loans:					
Risk Rating					
Pass	$ -	$ -	$ 970,891	$ -	$ 970,891
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Total Other Loans	$ -	$ -	$ 970,891	$ -	$ 970,891
Other Loans:					
Current period gross write offs	$ -	$ -	$ -	$ -	$ -
Total Loans	$ 35,652,089	$ 114,864,173	$ 133,551,637	$ 220,772,425	$ 504,840,324

Continued

6. Premises and Equipment

Premises and equipment were as follows:

	December 31,	
	2024	2023
Leasehold improvements	$ 942,288	$ 927,032
Equipment, furniture and software	1,654,904	1,617,679
	2,597,192	2,544,711
Less: accumulated depreciation	(1,186,625)	(941,117)
	$ 1,410,567	$ 1,603,594

Depreciation and amortization included in "Information technology and equipment" expense totaled $245,508 and $253,964 for the years ended December 31, 2024 and 2023, respectively.

Leases

The Bank has two operating lease agreements for its San Francisco branch and administration office and its Walnut Creek location. The ROU asset was $4,932,982, and lease liability was $5,587,571 as of December 31, 2024. The ROU asset was $4,833,031, and the lease liability was $5,423,178 as of December 31, 2023. ROU assets are recorded in "Accrued interest receivable and other assets" and lease liabilities are recorded in "Accrued interest payable and other liabilities" on the balance sheet.

The Bank's leases, which are non-cancelable operating leases, have remaining terms ranging from 5 to 8 years. The San Francisco Lease has a renewal option of five years. After considering relevant economic and operating factors, it was determined that the exercise of the renewal option was not reasonably certain and subsequently is not included in the ROU asset and lease liability as of December 31, 2024 and 2023. Lease expense included in "Occupancy" expense totaled $746,138 and $738,086 for the years ended December 31, 2024 and 2023, respectively.

The Bank estimated the discount rate for each lease based on its estimated incremental borrowing rate at the lease adoption date or commencement date of the lease. The assumptions used in calculating the ROU asset and lease liability include the weighted average remaining lease term of 8.18 years and the weighted average discount rate of 4.06% as of December 31, 2024, and weighted average remaining lease term of 9.44 years and the weighted average discount rate of 4.01% as of December 31, 2023.

Continued

6. Premises and Equipment (Continued)

Leases (Continued)

Future lease payments due under existing operating leases as of December 31, 2024 are as follows:

Year Ending December 31,	
2025	724,292
2026	768,491
2027	791,546
2028	815,293
2029	839,751
Thereafter	2,685,414
Total undiscounted lease payments	6,624,787
Less effects of discounting	(1,037,216)
Present value of lease payments	$ 5,587,571

7. Interest-Bearing Deposits

The Bank uses certificates of deposit acquired through the IntraFi Network of Deposits to offer its deposit clients full FDIC insurance coverage on their balances by placing them at multiple banks with individual balances not exceeding the FDIC insured limit. In return, the Bank typically receives equal amounts of certificates of deposit through the IntraFi Network Deposits from other institutions and their clients in reciprocal transactions.

Interest-bearing deposits were as follows:

	December 31,	
	2024	2023
Savings	$ 81,741	$ 401,220
Money market	116,293,206	101,620,994
NOW accounts	106,297,440	73,563,412
Time – less than $100,000	1,442,517	180,976
Time – $100,000 or more	56,646,045	121,410,723
Time – IntraFi Network of Deposits	52,440,820	48,206,929
	$ 333,201,769	$ 345,384,254

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at year-end 2024 and 2023 were $51,998,348 and $118,337,690, respectively.

7. Interest-Bearing Deposits (Continued)

Scheduled maturities of time deposits are as follows:

Year Ending December 31,		
2025	$	109,909,343
2026		564,049
2027		55,990
2028		-
2029		-
	$	110,529,382

Interest expense on deposits was as follows:

	December 31, 2024	December 31, 2023
Savings	$ 557	$ 685
Money market	1,885,765	1,181,395
NOW accounts	710,917	460,885
Time – less than $100,000	34,443	31,209
Time – $100,000 or more	4,562,723	5,258,187
Time – IntraFi Network of Deposits	1,686,298	639,039
	$ 8,880,703	$ 7,571,400

At December 31, 2024 and 2023, the four largest deposit relationships accounted for approximately $130,978,993, or 25%, and $133,582,681, or 25%, of total deposits, respectively. The loss of these clients could have a material impact on the Bank's operations.

The Bank has a contingent funding plan in place which provides management guidance on courses of action and liquidity options if a liquidity need occurs. Liquidity options include obtaining broker deposits and borrowing arrangements with the FHLB and the Bank's correspondent banks (Note 15).

8. Other Benefit Plans

401(k) Plan

A 401(k) plan was established in 2011. Subject to eligibility requirements, employees may contribute up to 100% of their compensation or the maximum amount allowed by law. A discretionary match equal to 100% of the first 3% of the compensation was contributed for 2024 and 2023. Expenses, which include the matching contributions and cost of services related to maintaining the plan, for 2024 and 2023 totaled $225,622 and $231,038, respectively.

9. Income Taxes

Income tax expense (benefit) was as follows:

	Federal	State	Total
2024			
Current	$ 1,938,707	$ 1,110,461	$ 3,049,168
Deferred	(183,206)	(95,962)	(279,168)
Income tax expense	$ 1,755,501	$ 1,014,499	$ 2,770,000

	Federal	State	Total
2023			
Current	$ 2,030,016	$ 1,123,274	$ 3,153,290
Deferred	(184,885)	(51,405)	(236,290)
Income tax expense	$ 1,845,131	$ 1,071,869	$ 2,917,000

Continued

9. Income Taxes (Continued)

Year-end deferred tax assets and liabilities were due to the following:

	2024	2023
Deferred tax assets:		
Allowance for Credit losses	$ 1,953,170	$ 1,983,259
Interest on nonaccrual loans	251,347	276,316
State income tax	228,517	235,415
Lease liability	1,638,203	1,594,718
Accrued Expenses	626,067	326,620
Unrealized loss on securities	47,535	-
Other, net	155,191	128,022
Total deferred tax assets	4,900,030	4,544,350
Deferred tax liabilities:		
Depreciation, net	(13,730)	(17,574)
Deferred loan origination costs	(347,111)	(339,395)
Right to Use Asset	(1,446,286)	(1,421,181)
Total deferred tax liabilities	(1,807,127)	(1,778,150)
Net deferred tax assets	$ 3,092,903	$ 2,766,200

Management believes that based on its tax planning strategies, historical taxable income and estimated future taxable income, it is more likely than not the Bank will generate sufficient taxable income to fully utilize the net deferred tax assets. Accordingly, no valuation allowance was established as of December 31, 2024 and 2023.

The primary difference between the federal statutory tax rate and the tax expense recorded in the financial statements is due to the state income tax for the tax year ended December 31, 2024 and 2023.

The Bank files income tax returns in the United States, California, Georgia, and Connecticut jurisdictions. At December 31, 2024, the Bank had no net operating loss carryforwards (NOLs).

The Bank is no longer subject to tax examination by U.S. Federal taxing authorities for years ended before December 31, 2021 and by state and local taxing authorities for years ended before December 31, 2020.

10. Related-Party Transactions

During the normal course of business, the Bank enters into transactions with related parties, including Directors, executive officers and affiliates.

Loans

The Bank had no aggregate related party borrowing arrangements with related parties for the year ended December 31, 2024.

Deposits

At December 31, 2024 and 2023, the Bank's deposits from related parties totaled approximately $4,923,721 and $2,396,669, respectively.

11. Share-Based Compensation

The Bank issued the Bank of San Francisco 2017 Equity Incentive Plan ("the Plan"), which was approved by its shareholders and permits the grant of stock options, restricted stock and other share-based awards for 150,067 of the Bank's common shares. Additionally, on January 1st of each year, shares equal to 10% of any increase in the number of shares during the previous years are added to the pool of shares available for issuance. At December 31, 2024 and 2023, 71,333 and 101,131 shares, respectively, are available to grant.

The Plan is designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. New shares are issued upon option exercise or restricted share grants. Shares may also be granted under the Plan that vest immediately without restriction.

For the Year Ended December 31, 2024	Shares	Weighted-average Grant-Date Fair Value
Nonvested beginning balance	35,252	$ 23.42
Granted	37,640	$ 27.81
Vested	19,066	$ 23.94
Forfeited	8,980	$ 25.50
Nonvested ending balance	44,846	$ 26.46

Continued

11. Share-Based Compensation (Continued)

Share-based compensation expense recorded for the years ended December 31, 2024 and 2023 was $664,519 and $517,503, respectively. Shares forfeited to pay taxes on the restricted stock vesting for the years ended December 31, 2024 and 2023 was $75,518 and $54,232, respectively. For the years ended December 31, 2024 and 2023, the fair values of the restricted stock awards upon vesting were $587,495 and $468,465, respectively. Unamortized compensation expense for 2024 and 2023 was $897,910 and $562,173, respectively. The unamortized compensation expense for 2024 is expected to be recognized over a weighted average of 1.97 years.

12. Regulatory Capital Matters

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes that the Bank met all its capital adequacy requirements as of December 31, 2024 and 2023.

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-ends 2024 and 2023, 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.

Continued

12. Regulatory Capital Matters (Continued)

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

	2024		2023	
	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital Ratio				
Bank of San Francisco	$80,427	19.95%	$73,207	18.36%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	40,323	10.00%	39,868	10.00%
Minimum regulatory requirement	32,258	8.00%	31,895	8.00%

	2024		2023	
	Amount	Ratio	Amount	Ratio
Tier 1 Risk-Based Capital Ratio				
Bank of San Francisco	$75,365	18.69%	$68,200	17.11%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	32,258	8.00%	31,895	8.00%
Minimum regulatory requirement	24,194	6.00%	23,921	6.00%

	2024		2023	
	Amount	Ratio	Amount	Ratio
Common Tier 1 Risk-Based Capital Ratio				
Bank of San Francisco	$75,365	18.69%	$68,200	17.11%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	26,210	6.50%	25,914	6.50%
Minimum regulatory requirement	18,145	4.50%	17,941	4.50%

	2024		2023	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Bank of San Francisco	$75,365	12.05%	$68,200	11.21%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	31,270	5.00%	30,410	5.00%
Minimum regulatory requirement	25,016	4.00%	24,328	4.00%

Continued

13. Loan Commitments and Other Related Activities

Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of its clients and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet. The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the balance sheet.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance or financial obligation of a client to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients.

The contractual amounts of financial instruments with off-balance sheet risk at year end were as follows (dollars in thousands):

	December 31,	
	2024	2023
Commitments to extend credit	102,164	92,848
Standby letters of credit	1,281	1,096

Continued

14. Earnings Per Share

The following table presents the factors used in the earnings per share computation. There were no anti-dilutive shares as of December 31, 2024 and 2023.

	Net Income Available to Common Shareholders	Weighted Average Number of Shares Outstanding	Per Share Amount
For the Year Ended December 31, 2024			
Basic earnings per share	$ 6,537,640	2,084,423	3.14
Diluted earnings per share	$ 6,537,640	2,107,815	3.10
For the Year Ended December 31, 2023			
Basic earnings per share	$ 6,929,986	2,071,000	3.35
Diluted earnings per share	$ 6,929,986	2,082,704	3.33

15. Borrowing Arrangements

Correspondent Banks

The Bank could borrow up to $24,500,000 at December 31, 2024 and 2023, under unsecured Federal funds lines of credit with its correspondent banks. There were no amounts outstanding under these borrowing arrangements at December 31, 2024 and 2023.

Federal Home Loan Bank

The Bank has a blanket lien pledge arrangement with the FHLB, and various loans totaling approximately $164,974,000 and $177,120,000 were specifically identified to secure FHLB borrowings as of December 31, 2024 and 2023, respectively. At December 31, 2024 and 2023 the Bank's remaining borrowing capacity totaled approximately $56,425,000 and $47,263,000, respectively. There were no advances outstanding as of December 31, 2024 and 2023. There were five (5) letters of credit totaling $37,442,000 and six (6) letters of credit totaling $48,442,000 outstanding as of December 31, 2024 and 2023, respectively. The letters of credit outstanding were issued as collateral to support public funds deposits. All the letters of credit outstanding as of December 31, 2024, mature in 2025.

15. Borrowing Arrangements (Continued)

Federal Reserve Bank

The Bank pledges residential loans through the Federal Reserve's discount window. At December 31, 2024 and 2023 the Bank's borrowing capacity totaled approximately $105,528,000 and $126,842,000, respectively. The Bank has a lien pledge arrangement with the Federal Reserve over specifically identified residential loans to secure the discount window borrowings, totaling approximately $209,975,000 and $221,675,000 as of December 31, 2024 and 2023, respectively. There were no amounts outstanding under this borrowing arrangement at December 31, 2024 and 2023.

16. Segment Information

The Bank's reportable segment is determined by the Chief Executive Officer, who is the designated chief operating decision-maker. The Chief Executive Officer along with others in the Bank's executive management evaluates performance and allocates resources for the Bank as one operating segment or unit. The activities of the Bank comprise one reportable segment, "Community Banking." All the Bank's activities are interrelated, and each activity is dependent and assessed based on the manner in which it supports the other activities of the Bank. All the Bank's assets are attributable to the Community Banking segment.

The chief operating decision-maker will evaluate the financial performance of the Bank's business components such as by evaluating revenue streams, significant expenses, and budget to actual results in assessing the Bank's segment and in the determination of allocating resources. The chief operating decision maker uses revenue streams to evaluate products and significant expenses to assess performance and evaluate return on assets. The chief operating decision maker uses net interest income and net income to benchmark the Bank against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results are used in assessment performance and in establishing compensation. All revenues are derived from banking operations within the United States.

Accounting policies of the Community Banking segment are the same as those described in Note 1.

Who We Are

We created BSF to match the entrepreneurial energy of the diverse Bay Area, where we live and work. Our ownership is primarily local and our decision-making is entirely local – no big-bank mentality here! We are a forward-thinking community bank that reflects the best qualities of the Bay Area's rich culture.

We combine advanced, modern technology with the traditional values of high-touch, personalized financial services, delivered with agility and accountability. Like the businesses, nonprofits, individuals and families we serve, the Bay Area is our home. We take our motto, "With You When It Matters" seriously; our bankers are never more than a phone call, text or email away.

We encourage you to contact us to learn more about BSF, and to join our family of community-minded clients, employees and investors.

BSF trades on OTC Markets (OTCQX: BSFO).

With You When It Matters

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