BANK OF SAN FRANCISCO ◆ **FINANCIAL STATEMENTS**

BANK OF SAN FRANCISCO

WITH YOU WHEN IT MATTERS

As of December 31, 2019 and 2018 and for the years then ended
and independent auditor's report

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bank of San Francisco
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of Bank of San Francisco (the “Bank”), which comprise the balance sheets as of December 31, 2019 and 2018, 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 financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bank of San Francisco as of December 31, 2019 and 2018, 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.

Crowe LLP

Crowe LLP

San Francisco, California
March 24, 2020

Bank of San Francisco

BALANCE SHEETS

December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and due from financial institutions	$ 8,125,212	$ 9,343,873
Interest-bearing deposits in banks	65,484,152	38,757,611
Cash and cash equivalents	73,609,364	48,101,484
Loans, net of allowance of $4,330,000 and $3,940,000	316,885,082	276,695,791
Federal Home Loan Bank stock, at cost	1,680,200	1,325,200
Premises and equipment, net	342,248	273,933
Accrued interest receivable and other assets	4,829,103	2,690,685
Total assets	$ 397,345,997	$ 329,087,093
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 129,814,790	$ 118,326,878
Interest bearing	223,018,005	172,727,661
Total deposits	352,832,795	291,054,539
Accrued interest payable and other liabilities	3,531,868	1,288,767
Total liabilities	356,364,663	292,343,306
Commitments and contingent liabilities		
Shareholders' equity		
Common stock, no par; 10,000,000 shares authorized; 2,038,803 and 2,021,003 shares issued and outstanding	26,651,675	26,471,888
Retained earnings	14,329,659	10,271,899
Total shareholders' equity	40,981,334	36,743,787
	$ 397,345,997	$ 329,087,093

Bank of San Francisco

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years ended December 31, 2019 and 2018

	2019	2018
Interest and dividend income		
Loans, including fees	$ 15,785,128	$ 13,044,326
Deposits in banks	839,987	828,648
Federal funds sold and other	103,793	102,967
Total interest income	16,728,908	13,975,941
Interest expense		
Deposits	2,158,109	957,723
Borrowings	110,777	511
Total interest expense	2,268,886	958,234
Net interest income	14,460,022	13,017,707
Provision for loan losses	390,000	775,000
Net interest income after provision for loan losses	14,070,022	12,242,707
Non-interest income		
Service charges on deposits	279,738	270,583
Mortgage broker fees	7,478	5,422
Gains on sale of loans	405,589	284,770
Loan servicing fees, net	116,606	104,372
Other	3,653	34,499
Total non-interest income	813,064	699,646
Noninterest expense		
Salaries and employee benefits	5,976,414	5,500,221
Occupancy	803,084	637,940
Information technology and equipment	770,006	687,580
Professional Fees	421,104	496,751
Other	1,155,718	947,984
Total non-interest expense	9,126,326	8,270,476
Income before income taxes	5,756,760	4,671,877
Income tax expense	1,699,000	1,359,675
Net income	$ 4,057,760	$ 3,312,202
Earnings per share:		
Basic	$ 2.02	$ 1.84
Diluted	$ 2.01	$ 1.84
Comprehensive income	$ 4,057,760	$ 3,312,202

Bank of San Francisco

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2019 and 2018

	Common Stock		Retained	Total Shareholders'
	Shares	**Amount**	**Earnings**	**Amount**
Balance, January 1, 2018	1,521,003	$ 17,105,599	$ 6,959,697	$ 24,065,296
Net income	-	-	3,312,202	3,312,202
Issuance of common stock, net of $749,919 stock offering costs	500,000	9,250,081	-	9,250,081
Stock based compensation	-	116,208	-	116,208
Balance, December 31, 2018	2,021,003	26,471,888	10,271,899	36,743,787
Net income	-	-	4,057,760	4,057,760
Stock based compensation	-	179,787	-	179,787
Restricted stock issued, net	17,800	-	-	-
Balance, December 31, 2019	2,038,803	$ 26,651,675	$ 14,329,659	$ 40,981,334

The accompanying notes are an integral part of these statements.

Bank of San Francisco

STATEMENT OF CASH FLOWS

Years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net income	$ 4,057,760	$ 3,312,202
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	390,000	775,000
Depreciation and amortization of premises and equipment	146,429	135,971
Loss on disposal of premises and equipment	2,435	208
Change in deferred loan origination fees and discount, net	221,035	324,736
Share-based compensation expense	179,787	116,208
Gain on sale of loans	(405,589)	(284,770)
Deferred income tax (benefit) expense	(169,985)	(270,556)
Net change in:		
Accrued interest receivable and other assets	417,380	(282,021)
Accrued interest payable and other liabilities	(142,712)	257,122
Net cash from operating activities	4,696,540	4,084,100
Cash flows from investing activities		
Purchase of Federal Home Loan Bank stock	(355,000)	(293,100)
Loan originations and payments, net	(40,394,737)	(51,154,457)
Additions to premises and equipment	(217,179)	(61,386)
Net cash from investing activities	(40,966,916)	(51,508,943)
Cash flows from financing activities		
Net change in demand, NOW, savings deposits	36,589,825	10,703,277
Net change in time deposits	25,188,431	15,557,512
Proceeds from issuance of common stock	-	9,250,081
Net cash from financing activities	61,778,256	35,510,870
Net change in cash and cash equivalents	25,507,880	(11,913,973)
Beginning cash and cash equivalents	48,101,484	60,015,457
Ending cash and cash equivalents	$ 73,609,364	$ 48,101,484
Supplemental cash flow information:		
Interest paid	$ 2,227,294	$ 939,799
Income taxes paid	$ 1,930,000	$ 1,615,000
Lease liabilities arising from right-of-use assets	$ 2,385,813	$ -

NOTE 1 - 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 is 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.

Subsequent Events
The Bank has evaluated subsequent events for recognition and disclosure through March 24, 2020, which is the date the financial statements were available to be issued. The County of San Francisco and the surrounding counties have been impacted by the Coronavirus Pandemic (COVID–19) which is rapidly evolving. The full impact and duration of the virus is currently unknown and may negatively impact the overall economic condition of San Francisco and surrounding counties. There were no other subsequent events requiring accrual or disclosure at December 31, 2019.

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.

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.

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 loan 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 the 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 credit 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 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 non-accrual status in accordance with the Bank’s policy, typically after 90 days of non-payment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

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 real estate, both commercial and residential real estate.

In management's judgment, a concentration of loans exists in real estate related loans with approximately 77% and 74% of the Bank's loans being real estate related at December 31, 2019 and 2018. A substantial decline in the performance of the economy in general or a continuing decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on the 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. While the Bank is a community bank focusing in San Francisco and the surrounding greater Bay Area, the majority of loans and collateral are in this geographic region. If the San Francisco Bay Area sustained a significant decline in market value or economic loss, this 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 Loan Losses

The allowance for loan losses is an estimate of probable credit losses in the Bank's loan portfolio as of the balance sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected in order to maintain the total allowance at a level management believes is adequate after loan growth and any potential credit losses. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are not impaired. The Bank maintains a separate allowance for each portfolio segment (loan type). These major portfolio segments include construction and land loans, residential real estate loans, commercial real estate loans, commercial and industrial loans, consumer loans and other loans.

The allowance for loan losses attributable to each portfolio segment, which includes both impaired loans and loans that are not impaired, is combined to determine the Bank's overall allowance, which is included on the balance sheet.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The Bank assigns a risk rating to all loans and periodically performs detailed reviews of all loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Bank and by the Bank's regulators.

During the 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. 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 risk ratings can be grouped into five major categories, defined as follows:

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

Special Mention – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses 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 – A substandard loan is 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. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

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

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

All segments of loans are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Loans determined to be impaired are individually evaluated for impairment.

Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

When a loan is impaired, the Bank measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Bank for economic or legal reasons related to a debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general reserve component of the allowance for loan losses also consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other qualitative factors.

The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the last three years. For portfolio segments where the Bank has not experienced any loss, the historical loss factors used are based on average loss factors of a peer group of banks. Other qualitative factors that are considered are economic conditions, unemployment, loan growth, asset quality, staffing and experience, loan policy and exceptions, and loan concentrations. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below.

Construction and Land – 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 time lines. 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.

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

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 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.

Consumer – Consumer loans are comprised mainly of lines or loans to individuals for consumer purposes. 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 flows 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 – Other loans are comprised of lines of credit or loans not included in the other categories, 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.

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 Business Oversight, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures
The Bank also maintains a separate allowance for off-balance sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance sheet commitments is included in accrued interest payable and other liabilities on the balance sheet.

Sales and Servicing of Loans
The Bank has originated loans to clients guaranteed by either the Small Business Administration ("SBA") or the U.S. Department of Agriculture (the "USDA"). These government agencies provide guarantees of 50% to 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 had received were subject to these recourse provisions as of December 31, 2019 and 2018. There were no USDA loans sold in 2019 or 2018. The guaranteed portion of SBA loans sold totaled approximately $5,308,000 and $3,498,000 in 2019 and 2018, respectively. The gain on the sold portion of the loan is recognized as income at the time of sale. 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 totaled $274,684 and $245,298 associated with loans previously sold which were included in "Accrued interest receivable and other assets" at December 31, 2019 and 2018, respectively. Servicing asset amortization totaled $96,863 and $110,695 and was included in "Loan servicing fees, net" under "Non-interest income".

Sales and Servicing of Loans
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, 2019 and 2018 and determined that no valuation allowance was needed.

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 $116,606 and $104,372 for the years ended December 31, 2019 and 2018, respectively. Late fees and ancillary fees related to loan servicing are not material.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 seven 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 adopted Accounting Standard Update “ASU” No. 2016-02 “Leases Topic 842” beginning of 2019, and determined if an arrangement contained a lease at inception. The right-of-use “ROU” assets 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 is recognized on a straight-line basis over the lease term. 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.
Prior to 2019, operating leases were not recognized on the Bank’s balance sheet. The ROU asset is reflected in “Accrued interest receivable and other assets” and the lease liability is reflected in “Accrued interest payable and other liabilities” on the Bank’s balance sheet as of December 31, 2019.

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.

Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 client financing needs. The face amount for these items represents the exposure to loss, before considering client 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 would be sustained upon examination by the taxing authorities, while others would 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.

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 24,100 and 13,552 shares of unvested restricted stock outstanding at December 31, 2019 and 2018, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 up to 150,067 shares of the Bank's common stock. Additionally, on January 1st of each year, shares equal to 10% of any increase in the number of shares during the previous year are added to the pool of shares available for issuance. At December 31, 2019 and 2018, 150,067 and 131,772 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.

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. 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 disclosure of other comprehensive income that historically has not been recognized in the calculation of net income. For the periods presented, the Bank's only element of comprehensive income was the net income from operations.

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. The amount of reserve balances required at the Federal Reserve Bank as of December 31, 2019 and 2018 was $2,924,000 and $4,935,000, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019, $8,680,327 was free of restrictions.

Fair Value 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.

Reclassifications
Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Adoption of New Accounting Standards
On January 1, 2019, the Bank adopted "ASU" No. 2016-02 "Leases Topic 842" and subsequent amendments thereto, which require the Bank to recognize most leases on the balance sheet. The Bank adopted the standard under a modified retrospective approach as of the date of the adoption and elected to apply several of the available practical expedients, including:

- Carry-over of historical lease determination and lease classification conclusions
- Carry-over of historical direct cost balances for existing leases
- Accounting for lease and non-lease components in contracts in which the Bank is a lessee as a single lease component.

Adoption of the leasing standard resulted in the recognition of operating "ROU" assets of $1,732,390, and operating lease liabilities of $1,883,026 as of January 1, 2019. Prior periods were not restated and continued to be presented under legacy GAAP. Disclosures about the Bank's leasing activities are presented in Note 6 – Premises and equipment.

In August 2017, the Financial Accounting Standards Board "FASB" issued ASU No. 2017-12, Derivatives and Hedging (topic 815): Targeted improvements to Accounting for Hedging Activities. The primary objective of the amendments in this update is to simplify the application of hedge accounting. More specifically, the amendments better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. Furthermore, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of hedging instruments and the hedged item in the financial statements. Additionally, the amendments require an entity to present the earnings effect of hedging instruments in the same income statement line item that the earnings effect of the hedged item is reported. Hedge ineffectiveness is no longer separately measured and reported.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards (Continued)

The amendments in this update are effective for fiscal years beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted in any interim period. The Bank adopted the amendments on January 1, 2019 with no impact on the financial statements.

In June 2016, FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326) and subsequent amendments. This guidance is to replace the incurred loss model with an excepted 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 measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investment in leases recognized by a lessor. The standard will be effective for fiscal years beginning after December 15, 2022, and interim periods within the fiscal years. Early adoption is permitted. The Bank will be assessing the impact of this new accounting standard over the next several years but anticipates that it will lead to an increase in the allowance for loan losses.

NOTE 2 - FAIR VALUE

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 company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

There are no assets or liabilities measured on a recurring and non-recurring basis as of December 31, 2019 and 2018.

NOTE 2 - FAIR VALUE (Continued)

The carrying amounts and estimated fair values of the Bank's financial instruments not carried at fair value, at December 31, 2019 are as follows (in thousands):

	December 31, 2019				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 73,609	$ 73,609	$ -	$ -	$ 73,609
Loans, net	316,885	-	-	326,716	326,716
FHLB stock	1,680	N/A	N/A	N/A	N/A
Accrued interest receivable	860	-	860	-	860
Financial liabilities:					
Deposits	$ 352,833	$ 283,384	$ 69,468	$ -	$ 352,852
Accrued interest payable	98	-	98	-	98

	December 31, 2018				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 48,101	$ 48,101	$ -	$ -	$ 48,101
Loans, net	276,696	-	-	275,237	275,237
FHLB stock	1,325	N/A	N/A	N/A	N/A
Accrued interest receivable	781	-	-	781	781
Financial liabilities:					
Deposits	$ 291,055	$ 246,793	$ 44,274	$ -	$ 291,067
Accrued interest payable	57	-	57	-	57

NOTE 2 - FAIR VALUE (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.

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, passbook savings, and certain types of money market accounts) are, 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 are estimated using a discounted cash flows 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.

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.

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.

NOTE 3- 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, 2019 and 2018, the Bank owned 16,802 and 13,252 shares, respectively, 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.

NOTE 4 – LOANS RECEIVABLE

Outstanding loans at December 31, 2019, and 2018, were as follows:

	December 31, 2019	December 31, 2018
Loans secured by real estate:		
Commercial	$ 111,183,587	$ 88,608,385
Residential	132,426,823	114,634,442
Construction and land	5,325,257	5,325,168
Total real estate	248,935,667	208,567,995
Commercial and industrial	74,130,255	69,524,478
Consumer	2,082	4,192,270
Other	32,149	15,083
Total outstanding loans	323,100,153	282,299,826
Deferred loan origination fees and discount, net	(1,885,071)	(1,664,035)
Allowance for loan losses	(4,330,000)	(3,940,000)
Net outstanding loans	$ 316,885,082	$ 276,695,791

Salaries and employee benefits totaling $521,440 and $503,930 were deferred as loan origination costs for the years ended December 31, 2019 and 2018, respectively.

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

NOTE 5 – ALLOWANCE FOR LOAN LOSSES

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2019 and 2018:

December 31, 2019	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial & Industrial	Consumer Loans	Other Loans	Totals
Allowance for Loan Losses:							
Beginning balance	$ 1,162,953	$ 1,484,550	$ 96,561	$ 1,140,474	$ 55,285	$ 177	$ 3,940,000
Provision for loan losses	101,913	90,159	(6,695)	259,729	(55,260)	154	390,000
Loans charged-off	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Total Ending Allowance Balance	$ 1,264,866	$ 1,574,709	$ 89,866	$ 1,400,203	$ 25	$ 331	$ 4,330,000

December 31, 2018	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial & Industrial	Consumer Loans	Other Loans	Totals
Allowance for Loan Losses:							
Beginning balance	$ 1,056,102	$ 1,027,142	$ 62,866	$ 1,010,108	$ 8,560	$ 222	$ 3,165,000
Provision for loan losses	106,851	457,408	33,695	130,366	46,725	(45)	775,000
Loans charged-off	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Total Ending Allowance Balance	$ 1,162,953	$ 1,484,550	$ 96,561	$ 1,140,474	$ 55,285	$ 177	$ 3,940,000

Continued

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method as of December 31, 2019 and 2018:

December 31, 2019	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial & Industrial	Consumer Loans	Other Loans	Totals
Allowance for Loan Losses:							
Collectively evaluated for impairment	$ 1,264,866	$ 1,574,709	$ 89,866	$ 1,400,203	$ 25	$ 331	$ 4,330,000
Total Ending Allowance Balance	$ 1,264,866	$ 1,574,709	$ 89,866	$ 1,400,203	$ 25	$ 331	$ 4,330,000
Loans:							
Collectively evaluated for impairment	111,183,587	132,426,823	5,325,257	74,130,255	2,082	32,149	323,100,153
Total Ending Loans Balance	$111,183,587	$132,426,823	$5,325,257	$74,130,255	$ 2,082	$ 32,149	$323,100,153

December 31, 2018	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial & Industrial	Consumer Loans	Other Loans	Totals
Allowance for Loan Losses:							
Collectively evaluated for impairment	$ 1,162,953	$ 1,484,550	$ 96,561	$ 1,140,474	$ 55,285	$ 177	$ 3,940,000
Total Ending Allowance Balance	$ 1,162,953	$ 1,484,550	$ 96,561	$ 1,140,474	$ 55,285	$ 177	$ 3,940,000
Loans:							
Collectively evaluated for impairment	88,608,385	114,634,442	5,325,168	69,524,478	4,192,270	15,083	282,299,826
Total Ending Loans Balance	$ 88,608,385	$114,634,442	$5,325,168	$69,524,478	$4,192,270	$15,083	$282,299,826

Continued

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

There were no impaired loans at December 31, 2019 and 2018.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2019 and 2018 by class of loans:

December 31, 2019	30 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total Loans	Non-accrual loans
Loans secured by real estate:						
Commercial	$ -	$ -	$ -	$111,183,587	$111,183,587	$ -
Residential	-	-	-	132,426,823	132,426,823	-
Construction and land	-	-	-	5,325,257	5,325,257	-
Total real estate	-	-	-	248,935,667	248,935,667	-
Commercial and industrial	-	-	-	74,130,255	74,130,255	-
Consumer	-	-	-	2,082	2,082	-
Other	-	-	-	32,149	32,149	-
Totals	$ -	$ -	$ -	$323,100,153	$ 323,100,153	$ -

Continued

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2018	30 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total Loans	Non-accrual loans
Loans secured by real estate:						
Commercial	$ -	$ -	$ -	$ 88,608,385	$ 88,608,385	$ -
Residential	-	-	-	114,634,442	114,634,442	-
Construction and land	-	-	-	5,325,168	5,325,168	-
Total real estate	-	-	-	208,567,995	208,567,995	-
Commercial and industrial	-	-	-	69,524,478	69,524,478	-
Consumer	-	-	-	4,192,270	4,192,270	-
Other	-	-	-	15,083	15,083	-
Totals	$ -	$ -	$ -	$282,299,826	$ 282,299,826	$ -

There were no loans past due 90 days or more and still accruing interest at December 31, 2019 and 2018.

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

December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total Loans
Loans secured by real estate:					
Commercial	$111,183,587	$ -	$ -	$ -	$ 111,183,587
Residential	132,426,823	-	-	-	132,426,823
Construction and land	5,325,257	-	-	-	5,325,257
Total real estate	248,935,667	-	-	-	248,935,667
Commercial and industrial	66,464,851	2,693,792	4,971,612	-	74,130,255
Consumer	2,082	-	-	-	2,082
Other	32,149	-	-	-	32,149
Totals	$315,434,749	$ 2,693,792	$ 4,971,612	$ -	$ 323,100,153

Continued

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total Loans
Loans secured by real estate:					
Commercial	$ 87,987,339	$ -	$ 621,046	$ -	$ 88,608,385
Residential	114,634,442	-	-	-	114,634,442
Construction and land	5,325,168	-	-	-	5,325,168
Total real estate	207,946,949	-	621,046	-	208,567,995
Commercial and industrial	64,374,853	4,807,757	341,868	-	69,524,478
Consumer	4,192,270	-	-	-	4,192,270
Other	15,083	-	-	-	15,083
Totals	$276,529,155	$ 4,807,757	$ 962,914	$ -	$ 282,299,826

The modification of the terms of loans that results in classification of the loans as troubled debt restructurings includes one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. There was one loan classified as a troubled debt restructuring during 2018 which was paid off prior to the year ended December 31, 2018. There were no loans classified as troubled debt restructuring during the year ending December 31, 2019.

NOTE 6 - PREMISES AND EQUIPMENT

Premises and equipment were as follows:

	December 31, 2019	December 31, 2018
Leasehold improvements	$ 297,348	$ 283,465
Equipment, furniture and software	1,185,662	993,814
	1,483,010	1,277,279
Less accumulated depreciation	(1,140,762)	(1,003,346)
	$ 342,248	$ 273,933

Depreciation and amortization included in "Information technology and equipment" expense totaled $146,429 and $135,971 for the years ended December 31, 2019 and 2018, respectively.

Leases

The Bank has two operating lease agreements for its San Francisco branch and administration office and its Walnut Creek loan production office, resulting in an ROU asset of $1,844,885 and lease liability of $2,014,381 as of December 31, 2019. Refer to Note 1, "Summary of Significant Accounting Policies" for additional information.

The Bank's leases, which are non-cancelable operating leases, have remaining terms ranging from 2 to 5 years. Both leases have renewal options of five years. After considering relevant economic and operating factors, it was determined that the exercise of the renewal options was not reasonably certain and subsequently is not included in the ROU asset and lease liability as of December 31, 2019. Lease expense included in "Occupancy" expense totaled $600,586 and $499,419 for the years ended December 31, 2019 and 2018, 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 3.25 years and the weighted average discount rate of 2.54% as of December 31, 2019.

NOTE 6 - PREMISES AND EQUIPMENT (Continued)

Future undiscounted lease payments as of December 31,2019 are as follows:

Year Ending December 31,	
2020	670,673
2021	686,798
2022	513,336
2023	146,252
2024	87,413
	$ 2,104,472

NOTE 7 – INTEREST-BEARING DEPOSITS

The Bank uses certificates of deposit acquired through the Certificate of Deposit Account Registry Service (CDARS) program 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 CDARS from other institutions and their clients in reciprocal transactions.

Interest bearing deposits were as follows:

	December 31,	
	2019	2018
Savings	$ 745,360	$ 942,156
Money market	134,098,561	111,425,046
NOW accounts	18,724,607	16,099,414
Time – less than $100,000	222,637	218,871
Time – $100,000 or more	52,278,982	16,139,038
Time – CDARS	16,947,858	27,903,136
	$223,018,005	$ 172,727,661

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at year-end 2019 and 2018 were $50,504,911 and $13,260,497.

NOTE 7 – INTEREST-BEARING DEPOSITS (Continued)

Scheduled maturities of time deposits are as follows:

Year Ending December 31,		
2020	$	68,026,634
2021		1,422,843
	$	69,449,477

Interest expense on deposits was as follows:

	December 31, 2019		December 31, 2018	
Savings	$	943	$	919
Money market		842,192		483,565
NOW accounts		79,346		39,292
Time – less than $100,000		2,846		1,798
Time – $100,000 or more		1,041,969		230,220
Time – CDARS		190,813		201,929
	$	2,158,109	$	957,723

At December 31, 2019 and 2018, the four largest deposit relationships accounted for approximately $101,622,000, or 29%, and $96,974,980, or 33% 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 brokered deposits and borrowing arrangements with the FHLB and the Bank’s correspondent banks (Note 15).

NOTE 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 2% of the compensation was contributed for 2019 and 2018. Expenses, which include the matching contributions and cost of services related to maintaining the plan, for 2019 and 2018 totaled $113,899 and $113,802, respectively.

NOTE 9 - INCOME TAXES

Income tax expense (benefit) was as follows:

2019	Federal	State	Total
Current	$ 1,193,878	$ 675,107	$ 1,868,985
Deferred	(117,878)	(52,107)	(169,985)
Income tax expense	$ 1,076,000	$ 623,000	$ 1,699,000

2018	Federal	State	Total
Current	$ 1,063,419	$ 566,812	$ 1,630,231
Deferred	(189,723)	(80,833)	(270,556)
Income tax expense	$ 873,696	$ 485,979	$ 1,359,675

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

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 1,280,104	$ 1,164,806
Lease liability	595,524	-
Organization costs	4,989	13,539
State income tax	144,795	124,435
Accrued expenses	240,617	231,658
Other, net	50,692	30,466
Total deferred tax assets	2,316,721	1,564,904
Deferred tax liabilities:		
Depreciation, net	(13,782)	(2,871)
Right to use asset	(545,414)	-
Deferred loan origination costs	(300,020)	(274,513)
Total deferred tax liabilities	(859,216)	(277,384)
Net deferred tax assets	$ 1,457,505	$ 1,287,520

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 has been established as of December 31, 2019 and 2018.

NOTE 9 - INCOME TAXES (Continued)

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, 2019 and 2018.

The Bank files income tax returns in the United States and California jurisdictions. At December 31, 2019, 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, 2016 and by state and local taxing authorities for years ended before December 31, 2015.

NOTE 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 following is a summary of aggregate related party borrowing arrangements at December 31, 2019:

Beginning balance	$ 1,208,632
Disbursements	440,000
Amounts repaid	(1,026,621)
Ending balance	$ 622,011
Undisbursed commitments	$ -

Deposits
At December 31, 2019 and 2018, the Bank's deposits from related parties totaled approximately $9,091,649 and $12,571,000, respectively.

NOTE 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 up to 150,067 shares of the Bank's common stock, of which 150,067, and 131,772 shares were available for future grant at December 31, 2019 and 2018, respectively. The Plan has a feature that may increase the available shares for issuance. On January 1st of each year, shares equal to 10% of any increase in the number of shares during the previous year are added to the pool of shares available for issuance.

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 vests immediately without restriction.

Sixteen restricted stock awards totaling 18,208 shares were granted and issued during the year ended December 31, 2019. No shares were granted during the year ended December 31, 2018. These stock awards vest 33 and 1/3 percent of the total number of Shares granted on each of the first three anniversaries of the Grant Date, subject to Participant's Continuous Status.

The grant date fair value of these awards was $24.80 per share, or $451,558 total value of the grant for the 2019 stock awards granted. The grant date fair value of these awards was $17.15 per share, or $348,625 total value of the grant for the 2017 stock awards granted. Compensation expense recorded for the year ended December 31, 2019 and 2018 was $179,787 and $116,208, respectively. As of December 31, 2019, 14,028 shares were vested, 408 shares were forfeited and 24,100 were not yet vested. As of December 31, 2018, 6,776 shares were vested and 13,552 were not yet vested. For the year ended December 31, 2019 and 2018, the fair value of the restricted stock awards upon vesting were $179,849 and $138,906, respectively. Unamortized compensation expense for 2019 and 2018 equals $481,598 and $203,365, respectively. The unamortized compensation expense for 2019 is expected to be recognized over a weighted average 2.32 years.

NOTE 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. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% for 2019. The capital conservation buffer for 2019 is 2.5% and for 2018 is 1.875%. The net unrealized gain or loss on available for sales securities is not included in computing regulatory capital. Management believes that the Bank met all its capital adequacy requirements as of December 31, 2019 and 2018.

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 2019 and 2018, 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.

NOTE 12 - REGULATORY CAPITAL MATTERS (Continued)

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

	2019		2018	
	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital Ratio				
Bank of San Francisco	$ 44,060	16.48%	$ 39,408	17.02%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	26,729	10.00%	23,161	10.00%
Minimum regulatory requirement	21,383	8.00%	18,529	8.00%
Tier 1 Risk-Based Capital Ratio				
Bank of San Francisco	$ 40,706	15.23%	$ 36,499	15.76%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	21,383	8.00%	18,529	8.00%
Minimum regulatory requirement	16,037	6.00%	13,896	6.00%
Common Tier 1 Risk-Based Capital Ratio				
Bank of San Francisco	$ 40,706	15.23%	$ 36,499	15.76%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	17,374	6.50%	15,055	6.50%
Minimum regulatory requirement	12,028	4.50%	10,422	4.50%
Leverage Ratio				
Bank of San Francisco	$ 40,706	10.84%	$ 36,499	10.97%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	18,780	5.00%	16,641	5.00%
Minimum regulatory requirement	15,024	4.00%	13,313	4.00%

Continued

NOTE 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,	
	2019	2018
Commitments to extend credit	$ 64,288	$ 50,815
Standby letters of credit	$ 1,963	$ 1,080

NOTE 14 - EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

For the Year Ended	Net Income Available to Common Shareholders	Weighted Average Number of Shares Outstanding	Per Share Amount
December 31, 2019			
Basic earnings per share	$ 4,057,760	2,009,387	$ 2.02
Diluted earnings per share	$ 4,057,760	2,018,432	$ 2.01
December 31, 2018			
Basic earnings per share	$ 3,312,202	1,799,662	$ 1.84
Diluted earnings per share	$ 3,312,202	1,799,662	$ 1.84

NOTE 15 - BORROWING ARRANGEMENTS

Correspondent Banks

The Bank could borrow up to $9,500,000 and $9,500,000 at December 31, 2019 and 2018, respectively, under unsecured Federal funds lines of credit with its correspondent banks. There were no amounts outstanding under these borrowing arrangements at December 31, 2019 and 2018.

Federal Home Loan Bank Advances

At December 31, 2019 and 2018 the Bank's remaining borrowing capacity totaled approximately $83,483,000 and $85,792,000, respectively. The Bank has a blanket lien pledge arrangement with the FHLB, and various loans totaling approximately $173,651,000 and $160,548,000 were specifically identified to secure FHLB borrowings as of December 31, 2019 and 2018, respectively. There were no advances outstanding as of December 31, 2019 and 2018. There were four letters of credit totaling $21,500,000 and two letters of credit totaling $10,750,000 outstanding as of December 31, 2019 and 2018, respectively. The letters of credit outstanding were issued as collateral to support public funds deposits. Of the letters of credit outstanding as of December 31, 2019, $16,250,000 matures in 2020, and $5,250,000 matures in 2021.

NOTE 16 - CAPITAL RAISE

On May 16, 2018, the California Department of Business Oversight issued a stock permit that authorized the Bank to offer and sell up to 500,000 shares of common stock at a cash price of $20.00 per share. The stock permit had an expiration date of November 19, 2018. The capital raise ended on May 29, 2018. In 2018, the Bank issued 500,000 new shares of common stock and added $9,250,081 (net of cost) to capital. Gross proceeds from the capital raise were $10,000,000 with gross cost of $749,919. No shares were issued in 2019.

OUR MISSION

Bank of San Francisco's mission is to enhance the success of our communities by providing exceptional service and expertise to support the goals and aspirations of people, businesses, and nonprofits.

WHO WE ARE

Bank of San Francisco is a modern community bank that reflects the best qualities of the Bay Area's rich culture. We are entrepreneurial, diverse, flexible and forward thinking. We have extensive local ownership and exclusively local decision making.

Bank of San Francisco delivers high touch, personalized financial services, with agility and accountability, to Bay Area businesses, nonprofits, individuals, and families. Our advanced technology platform and mobile apps enable our clients to transact in real time, wherever they are, and each of our bankers is only a phone call or a text away. At Bank of San Francisco, we are "with you when it matters."

We invest in our employees by supporting their professional development, time off to volunteer, and local nonprofit board membership.

We invite you to learn more about Bank of San Francisco and to join our family of community-minded clients, employees, and investors.

Bank of San Francisco trades on OTCQX under the symbol "BSFO."

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