BSF

BANK OF SAN FRANCISCO

FINANCIAL STATEMENTS

As of December 31, 2022 and 2021 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

Opinion

We have audited the financial statements of Bank of San Francisco, which comprise the balance sheets as of December 31, 2022 and 2021, 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, 2022 and 2021, 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.

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 29, 2023

Bank of San Francisco
Balance Sheets
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and due from financial institutions	$ 5,588,069	$ 15,762,742
Interest-bearing deposits in banks	54,451,144	75,375,240
Cash and cash equivalents	60,039,213	91,137,982
Loans, net of allowance of $6,382,000 and $7,160,000 as of December 31, 2022 and 2021, respectively	515,465,460	499,537,196
Federal Home Loan Bank stock, at cost	3,111,600	2,861,800
Premises and equipment, net	1,411,414	203,228
Accrued interest receivable and other assets	11,324,456	5,708,320
Total Assets	$ 591,352,143	$ 599,448,526
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 242,362,814	$ 217,899,264
Interest bearing	279,924,249	323,888,116
Total deposits	522,287,063	541,787,380
Accrued interest payable and other liabilities	7,523,722	2,451,624
Total liabilities	529,810,785	544,239,004
Commitments and Contingencies		
Shareholders' Equity		
Common stock, no par; 10,000,000 shares 2,093,754, and 2,074,540 shares issued and as of December 31, 2022 and 2021, respectively	27,704,543	27,234,485
Retained earnings	33,836,815	27,975,037
Total Shareholders' Equity	61,541,358	55,209,522
Total Liabilities and Shareholders' Equity	$ 591,352,143	$ 599,448,526

Bank of San Francisco
Statements of Income and Comprehensive Income
Years ended December 31, 2022 and 2021

	2022	2021
Interest and dividend income		
Loans, including fees	$ 23,102,880	$ 24,296,293
Deposits in banks	1,436,979	89,938
Federal funds sold and other	186,326	138,198
Total interest income	24,726,185	24,524,429
Interest expense		
Deposits	1,837,055	882,027
Borrowings	613	201,985
Total interest expense	1,837,668	1,084,012
Net interest income	22,888,517	23,440,417
Provision for Loan losses	3,122,551	100,000
Net interest income after provision for loan losses	19,765,966	23,340,417
Non-interest income		
Service charges on deposits	335,936	283,275
Gain on sale of loans	271,168	294,357
Loan servicing fees, net	51,474	74,250
Other	5,905	860
Total non-interest income	664,483	652,742
Non-interest expenses		
Salaries and employee benefits	7,799,453	7,241,853
Occupancy	931,819	876,194
Information technology and equipment	999,455	896,180
Professional fees	748,893	533,257
Other	1,655,051	1,684,457
Total non-interest expenses	12,134,671	11,231,941
Income before income taxes	8,295,778	12,761,218
Income tax expense	2,434,000	3,774,000
Net income	$ 5,861,778	$ 8,987,218
Earnings per share		
Basic	$ 2.87	$ 4.42
Diluted	$ 2.85	$ 4.41
Comprehensive income	$ 5,861,778	$ 8,987,218

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, 2022 and 2021

	Common Stock		Retained	Total Shareholders'
	Shares	Amount	Earnings	Equity
Balance, January 1, 2021	2,055,507	$ 26,938,159	$ 18,987,819	$ 45,925,978
Net income	-	-	8,987,218	8,987,218
Stock based compensation	-	296,326	-	296,326
Restricted stock issued, net	19,033	-	-	-
Balance, December 31, 2021	2,074,540	27,234,485	27,975,037	55,209,522
Net income	-	-	5,861,778	5,861,778
Stock based compensation	-	470,058	-	470,058
Restricted stock issued, net	19,214	-	-	-
Balance, December 31, 2022	2,093,754	$ 27,704,543	$ 33,836,815	$ 61,541,358

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

Bank of San Francisco
Statements of Cash Flows
Years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net income	$ 5,861,778	$ 8,987,218
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	3,122,551	100,000
Depreciation and amortization of premises and equipment	141,634	127,850
Loss on disposal of premises and equipment	-	580
Change in deferred loan origination fees and discount, net	(803,099)	(1,022,346)
Share-based compensation expense	470,058	296,326
Gain on sale of loans	(271,168)	(294,357)
Deferred income tax (benefit) expense	285,160	(261,457)
Net changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(5,901,296)	1,264,293
Accrued interest payable and other liabilities	5,072,098	(579,983)
Net cash from operating activities	7,977,716	8,618,124
Cash Flows (used in) from Investing Activities:		
Purchase of Federal Home Loan Bank stock	(249,800)	(878,300)
Loan originations and payments, net	(17,976,548)	42,094,214
Additions to premises and equipment	(1,349,820)	(66,595)
Net cash (used in) from investing activities	(19,576,168)	41,149,319
Cash flows used in financing activities:		
Net change in demand, NOW, savings deposits	285,746	8,399,021
Net change in time deposits	(19,786,063)	(2,283,233)
FHLB repayments	-	(15,000,000)
Other borrowing proceeds	-	31,837,772
Other borrowing repayment	-	(106,615,172)
Net cash used in financing activities	(19,500,317)	(83,661,612)
Net decrease in cash and cash equivalents	(31,098,769)	(33,894,169)
Beginning cash and cash equivalents	91,137,982	125,032,151
Ending cash and cash equivalents	$ 60,039,213	$ 91,137,982
Supplemental cash flow information		
Cash paid for:		
Interest paid	$ 1,538,614	$ 1,248,551
Income taxes paid	$ 3,230,000	$ 4,142,369
Lease liability arrising from right-of-use asset	$ 5,290,870	$ -

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 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.

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.

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.

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.

Continued

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

Risks and Uncertainties (Continued)

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 loan 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 29, 2023, 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.

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 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.

Continued

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

Concentration of Credit Risk

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.

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.

In management's judgment, a concentration of loans exists in real estate related loans, with approximately 83% of the Bank's loans being real estate-related at December 31, 2022, and approximately 73% of the Bank's loans being real estate-related, or 81% excluding Paycheck Protection Program (PPP) loans, at December 31, 2021. 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 or economic loss, 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 Loan Losses

The allowance for loan losses is an estimate of probable incurred 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.

Continued

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

Allowance for Loan Losses (Continued)

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.

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. The loans 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.

Continued

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

Allowance for Loan Losses (Continued)

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.

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.

Continued

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

Allowance for Loan Losses (Continued)

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 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, excluding PPP 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. Paycheck Protection Program (PPP) loans are low risk as they are 100% guaranteed by the SBA.

Consumer – Consumer loans are comprised mainly of lines of credit 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 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.

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

Allowance for Loan Losses (Continued)

> 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 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 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 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 had received was subject to these recourse provisions as of December 31, 2022 and 2021. The guaranteed portion of SBA loans sold totaled approximately $3,070,000 and $2,488,000 in 2022 and 2021, respectively.

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

Sales and Servicing of Loans (Continued)

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 2022 and 2021. 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 $167,657 and $206,204 associated with loans previously sold are included in "Accrued interest receivable and other assets" as of December 31, 2022 and 2021, respectively. Servicing asset amortization totaled $128,369 and $120,909 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021 and determined that no impairment 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 $51,474 and $74,250 for the years ended December 31, 2022 and 2021, respectively. Late fees and ancillary fees related to loan servicing are not material.

1. Nature of Business and 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 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. 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.

Continued

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

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.

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.

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

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 38,117 and 33,917 shares of unvested restricted stock outstanding at December 31, 2022 and 2021, 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, 2022 and 2021, 115,466 and 136,616 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. 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.

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

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. There was no reserve requirement as of December 31, 2022 and 2021, 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, 2022, $19,507,156 was free of restrictions.

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.

Continued

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

Adoption of New Accounting Standards

In June 2020, FASB issued Accounting Standards Update "ASU" 2020-04, Reference Rate Reform (Topic 848). This ASU provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting due to the cessation of the London Interbank Offered Rate (LIBOR). The amendments are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued. The amendment in ASU 2021-01 clarifies that all derivative instruments affected by changes to interest rates used for discounting, margining or contract price alignment are in the scope of Accounting Standards Codification ("ASC") 848. Subsequently amendments were introduced to defer the expiration of the optional relief of topic 848 from December 21, 2022 to December 31, 2024, due to the cessation of commonly used tenors of USD LIBOR in 2023. The Bank initially adopted this guidance effective January 1, 2022, and subsequently effective December 31, 2022. This guidance was adopted prospectively with no impact to the Bank's consolidated financial.

New Accounting Standards That Have Not Yet Been Adopted

In June 2016, FASB issued Accounting Standards Update "ASU" 2016-13, Financial Instruments-Credit Losses (Topic 326), and is the final guidance on the new current expected credit loss (''CECL'') model. ASU 2016-13 requires the incurred loss impairment methodology in current GAAP be replaced with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate future credit loss estimates. As CECL encompasses all financial assets carried at amortized cost, the requirement that reserves be established based on an organization's reasonable and supportable estimate of expected credit losses extends to held to maturity (''HTM'') debt securities. ASU 2016-13 amends the accounting for credit losses on available-for-sale securities (''AFS''), whereby credit losses will be presented as an allowance as opposed to a write-down. In addition, CECL will modify the accounting for purchased loans with credit deterioration since origination, so that reserves are established at the date of acquisition for purchased loans. Lastly, ASU 2016-13 requires enhanced disclosures on the significant estimates and judgments used to estimate credit losses, as well as on the credit quality and underwriting standards of an organization's portfolio. These disclosures require organizations to present the currently required credit quality disclosures disaggregated by the year of origination or vintage.

ASU 2016-13 allows for a modified retrospective approach with a cumulative effect adjustment to the balance sheet upon adoption (charge to retained earnings instead of the income statement). ASU 2016-13 is effective for the Bank as of January 1, 2023. Management has taken steps to prepare for the implementation requirements of this standard, such as evaluating various models, gathering pertinent data, and discussing how various assumptions impact the Bank's models with outside professionals.

Continued

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

New Accounting Standards That Have Not Yet Been Adopted (Continued)

statements. As a result, all eligible loan contract modifications made prior to December 31, 2024 are accounted for as continuations of the existing loan contracts.

In March 2022, FASB issued Accounting Standards Update "ASU" 2022-02, Financial Instruments — Credit Losses (Topic 326). The amendments in this Update eliminate the TDR recognition and measurement guidance and, instead, require that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendments enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Furthermore, the amendments in this Update require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. These amendments are effective January 1, 2023 with no material impact expected to the financial statements.

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 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, 2022 and 2021.

2. Fair Value Measurements (Continued)

The carrying amounts and estimated fair values of the Bank's financial instruments not carried at fair value, at December 31, 2022 and 2021 are as follows (in thousands):

	December 31, 2022				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 60,039	$ 60,039	$ -	$ -	$ 60,039
Loans, net	515,465	-	-	486,598	486,598
FHLB stock	3,112	N/A	N/A	N/A	N/A
Accrued interest receivable	1,585	-	-	1,585	1,585
Financial liabilities:					
Deposits	$ 522,287	$ 417,010	$ 104,728	$ -	$ 521,738
Accrued interest payable	335	-	335	-	335

	December 31, 2021				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 91,138	$ 91,138	$ -	$ -	$ 91,138
Loans, net	499,537	-	-	511,047	511,047
FHLB stock	2,862	N/A	N/A	N/A	N/A
Accrued interest receivable	1,698	-	-	1,698	1,698
Financial liabilities:					
Deposits	$ 541,787	$ 416,723	125,003	$ -	$ 541,726
Accrued interest payable	35	-	35	-	35

Continued

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.

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) 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.

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. 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, 2022 and 2021, the Bank owned 31,116 and 28,618 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.

4. Loans Receivable

Outstanding loans at December 31, 2022 and 2021, were as follows:

	December 31,	
	2022	2021
Loans secured by real estate:		
Commercial	$ 155,228,794	$ 157,992,775
Residential	261,431,584	215,910,907
Construction and land	19,314,596	10,991,928
Total real estate	435,974,974	384,895,610
Commercial and industrial	77,957,313	77,970,157
Paycheck Protection Plan Loans	3,240,000	47,705,071
Other	7,748,261	2,545
Total outstanding loans	524,920,548	510,573,383
Deferred loan origination fees and discount, net	(3,073,088)	(3,876,187)
Allowance for loan losses	(6,382,000)	(7,160,000)
Net outstanding loans	$ 515,465,460	$ 499,537,196

Salaries and employee benefits totaling $440,155 and $1,014,635 were deferred as loan origination costs for the years ended December 31, 2022 and 2021, respectively.

Continued

4. Loans Receivable (Continued)

PPP loans are 100% guaranteed by the SBA. Due to this guarantee, PPP loans are considered not to have any expected credit losses. No allowance for loan loss has been recognized on these loans. PPP loans are classified in Commercial & Industrial portfolio segment in the allowance for loan losses footnote.

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

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, 2022 and 2021:

December 31, 2022	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial & Industrial	Other Loans	Totals
Allowance for Loan Losses:						
Beginning balance	$ 2,473,990	$ 2,617,541	$ 164,547	$ 1,903,863	$ 59	$ 7,160,000
Provision for loan losses	(334,666)	(340,893)	45,662	3,671,855	80,593	3,122,551
Loans charged-off	-	-	-	(3,900,551)	-	(3,900,551)
Recoveries	-	-	-	-	-	-
Total Ending Allowance Balance	$ 2,139,324	$ 2,276,648	$ 210,209	$ 1,675,167	$ 80,652	$ 6,382,000

December 31, 2021	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial & Industrial	Other Loans	Totals
Allowance for Loan Losses:						
Beginning balance	$ 2,367,312	$ 2,433,512	$ 456,440	$ 1,802,671	$ 65	$ 7,060,000
Provision for loan losses	106,678	184,029	(291,893)	101,192	(6)	100,000
Loans charged-off	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Total Ending Allowance Balance	$ 2,473,990	$ 2,617,541	$ 164,547	$ 1,903,863	$ 59	$ 7,160,000

Continued

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, 2022 and 2021:

December 31, 2022	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial & Industrial	Other Loans	Totals
Allowance for Loan Losses:						
Individually evaluated for impairment	$ -	$ -	$ -	$ 740,785	$ -	$ 740,785
evaluated for impairment	2,139,324	2,276,648	210,209	934,382	80,652	5,641,215
Total Ending Allowance Balance	$ 2,139,324	$ 2,276,648	$ 210,209	$ 1,675,167	$ 80,652	$ 6,382,000
Loans:						
Individually evaluated for impairment	$ -	$ -	$ -	$ 4,394,331	$ -	$ 4,394,331
Collectively evaluated for impairment	155,228,794	261,431,584	19,314,596	76,802,982	7,748,261	520,526,217
Total Ending Loans Balance	$ 155,228,794	$ 261,431,584	$ 19,314,596	$ 81,197,313	$ 7,748,261	$ 524,920,548

5. Allowance for Loan Losses (Continued)

December 31, 2021	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial & Industrial	Other Loans	Totals
Allowance for Loan Losses:						
Individually evaluated for impairment	$ -	$ -	$ -	$ 803,558	$ -	$ 803,558
Collectively evaluated for impairment	2,473,990	2,617,541	164,547	1,100,305	59	6,356,442
Total Ending Allowance Balance	$ 2,473,990	$ 2,617,541	$ 164,547	$ 1,903,863	$ 59	$ 7,160,000
Loans:						
Individually evaluated for impairment	$ -	$ -	$ -	$ 4,682,877	$ -	$ 4,682,877
Collectively evaluated for impairment	157,992,775	215,910,907	10,991,928	120,992,351	2,545	505,890,506
Total Ending Loans Balance	$ 157,992,775	$215,910,907	$ 10,991,928	$125,675,228	$ 2,545	$ 510,573,383

The Bank had $4,682,877 and 4,682,877 in impaired loans at December 30, 2022 and 2021, respectively.

Continued

5. Allowance for Loan Losses (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2022 and 2021 by class of loans:

December 31, 2022	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	$ -	$ -	$ -	$ 155,228,794	$ 155,228,794	$ -
Residential	-	-	-	261,431,584	261,431,584	-
Construction and land	-	-		19,314,596	19,314,596	-
Total real estate	-	-	-	435,974,974	435,974,974	-
Commercial and industrial	612,135	-	612,135	80,585,178	81,197,313	4,394,331
Consumer	-	-	-	-	-	-
Other	-	-	-	7,748,261	7,748,261	-
Totals	$ 612,135	$ -	$ 612,135	$ 524,308,413	$ 524,920,548	$ 4,394,331

Continued

5. Allowance for Loan Losses (Continued)

December 31, 2021	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	$ -	$ -	$ -	$ 157,992,775	$ 157,992,775	$ -
Residential	-	-	-	215,910,907	215,910,907	-
Construction and land	-	-		10,991,928	10,991,928	-
Total real estate	-	-	-	384,895,610	384,895,610	-
Commercial and industrial	-	-	-	125,675,228	125,675,228	4,682,877
Consumer	-	-	-	-	-	-
Other	-	-	-	2,545	2,545	-
Totals	$ -	$ -	$ -	$ 510,573,383	$ 510,573,383	$ 4,682,877

No loans past 90 days were accruing interest at December 31,2022 or December 31, 2021.

Continued

5. Allowance for Loan Losses (Continued)

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

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total Loans
Loans secured by real estate:					
Commercial	$ 142,817,998	$ 11,045,197	$ 1,365,599	$ -	$ 155,228,794
Residential	261,431,584	-	-	-	261,431,584
Construction and land	19,314,596	-	-	-	19,314,596
Total real estate	423,564,178	11,045,197	1,365,599	-	435,974,974
Commercial and	70,693,136	3,382,341	2,727,505	4,394,331	81,197,313
Consumer	-	-	-	-	-
Other	7,748,261	-	-	-	7,748,261
Totals	$ 502,005,575	$ 14,427,538	$ 4,093,104	$ 4,394,331	$ 524,920,548

Continued

5. Allowance for Loan Losses (Continued)

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Total Loans
Loans secured by real estate:					
Commercial	$ 152,841,919	$ 4,725,756	$ 425,100	$ -	$ 157,992,775
Residential	215,910,907	-	-	-	215,910,907
Construction and land	10,991,928	-	-	-	10,991,928
Total real estate	379,744,754	4,725,756	425,100	-	384,895,610
Commercial and	112,983,846	4,775,781	7,915,601	-	125,675,228
Consumer	-	-	-	-	-
Other	2,545	-	-	-	2,545
Totals	$ 492,731,145	$ 9,501,537	$ 8,340,701	$ -	$ 510,573,383

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. During 2020 and 2021 the Bank had loans modified under the Coronavirus Aid, Relief, and Economic Security Act in response to the COVID-19 pandemic. A few loans continued to receive modifications in 2022 as their principal and/or interest payments were deferred. They were considered troubled debt restructurings in 2022, with no change in their principal balance pre-modification and post-modification. These loans are guaranteed by the Small Business Administration or the State of California, with the unguaranteed portions of the loans fully reserved in the Allowance for Loan Loss of $740,785. The Bank has these loans on non-accrual in the amount of $4,394,331 as of December 31, 2022. There were no loans classified as troubled debt restructurings during the year ending December 31, 2021.

6. Premises and Equipment

Premises and equipment were as follows:

	December 31,	
	2022	2021
Leasehold improvements	$ 805,964	$ 297,348
Equipment, furniture and software	1,382,628	1,299,570
	2,188,592	1,596,918
Less: accumulated depreciation	(777,178)	(1,393,690)
	$ 1,411,414	$ 203,228

Depreciation and amortization included in "Information technology and equipment" expense totaled $141,634 and $127,850 for the years ended December 31, 2022 and 2021, respectively.

Leases

The Bank has two operating lease agreements for its San Francisco branch and administration office and its Walnut Creek loan production office. The ROU asset was $5,359,960, and lease liability was $5,591,205 as of December 31, 2022. The ROU asset was $656,968, and the lease liability was $731,042 as of December 31, 2021. 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 2 to 11 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, 2022 and 2021. Lease expense included in "Occupancy" expense totaled $670,425 and $630,891 for the years ended December 31, 2022 and 2021, 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 10.53 years and the weighted average discount rate of 3.97% as of December 31, 2022, and weighted average remaining lease term of 1.62 years and the weighted average discount rate of 1.57% as of December 31, 2021.

Continued

6. Premises and Equipment (Continued)

Leases (Continued)

Future lease payments due under existing operating leases as of December 31,2022 are as follows:

Year Ending December 31,	
2023	$ 390,573
2024	683,118
2025	613,576
2026	631,983
2027	650,943
Thereafter	4,008,534
Total undiscounted lease payments	6,978,727
Less effects of discounting	1,387,522
Present value of lease payments	$ 5,591,205

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,	
	2022	2021
Savings	$ 224,489	$ 409,466
Money market	139,265,505	163,007,478
NOW accounts	35,156,702	35,407,556
Time – less than $100,000	242,809	242,454
Time – $100,000 or more	67,033,145	86,395,855
Time – IntraFi Network of Deposits	38,001,599	38,425,307
	$279,924,249	$ 323,888,116

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at year-end 2022 and 2021 were $63,939,269 and $84,065,250.

Continued

7. Interest-Bearing Deposits (Continued)

Scheduled maturities of time deposits are as follows:

Year Ending December 31,	
2023	$103,738,576
2024	1,099,994
2025	-
2026	438,983
2027	-
	$105,277,553

Interest expense on deposits was as follows:

	December 31, 2022	December 31, 2021
Savings	$ 346	$ 164
Money market	771,551	561,931
NOW accounts	155,722	17,476
Time – less than $100,000	3,339	555
Time – $100,000 or more	707,890	186,467
Time – IntraFi Network of Deposits	198,207	115,434
	$ 1,837,055	$ 882,027

At December 31, 2022 and 2021, the four largest deposit relationships accounted for approximately $98,127,879, or 19%, and $94,964,796, or 18%, 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).

Continued

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 2022 and 2021. Expenses, which include the matching contributions and cost of services related to maintaining the plan, for 2022 and 2021 totaled $176,302 and $172,424, respectively.

9. Income Taxes

Income tax expense (benefit) was as follows:

	Federal	State	Total
2022			
Current	$ 1,319,398	$ 829,442	$ 2,148,840
Deferred	222,334	62,826	285,160
Income tax expense	$ 1,541,732	$ 892,268	$ 2,434,000

	Federal	State	Total
2021			
Current	$ 2,593,612	$ 1,441,845	$ 4,035,457
Deferred	(203,612)	(57,845)	(261,457)
Income tax expense	$ 2,390,000	$ 1,384,000	$ 3,774,000

Continued

9. Income Taxes (Continued)

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

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 1,886,749	$ 2,116,754
Interest on nonaccrual loans	176,159	71,473
State income tax	175,492	301,951
Depreciation, net	-	34,927
Lease liability	1,652,962	216,122
Accrued expenses	267,454	353,829
Other, net	114,223	84,903
Total deferred tax assets	4,273,039	3,179,959
Deferred tax liabilities:		
Depreciation, net	(18,877)	-
Deferred loan origination costs	(375,655)	(406,666)
Right to use asset	(1,584,597)	(194,223)
Total deferred tax liabilities	(1,979,129)	(600,889)
Net deferred tax assets	$ 2,293,910	$ 2,579,070

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, 2022 and 2021.

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, 2022 and 2021.

The Bank files income tax returns in the United States and California jurisdictions. At December 31, 2022, 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, 2019 and by state and local taxing authorities for years ended before December 31, 2018.

Continued

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, 2022:

Beginning balance	$ 28,553
Disbursements	-
Amounts repaid	(25,606)
Ending balance	$ 2,947

Deposits

At December 31, 2022 and 2021, the Bank's deposits from related parties totaled approximately $4,271,875 and $4,191,690, 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, 2022 and 2021, 115,466 and 136,616 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, 2022	Shares	Weighted-average Grant-Date Fair Value
Nonvested beginning balance	33,917	$ 23.88
Granted	22,300	$ 24.30
Vested	15,738	$ 23.86
Forfeited	2,362	$ 23.60
Nonvested ending balance	38,117	$ 24.14

Continued

11. Share-Based Compensation (Continued)

Compensation expense recorded for the years ended December 31, 2022 and 2021 was $470,058 and $296,326, respectively. For the years ended December 31, 2022 and 2021, the fair values of the restricted stock awards upon vesting were $414,321 and $281,440, respectively. Unamortized compensation expense for 2022 and 2021 was $705,845 and $682,274, respectively. The unamortized compensation expense for 2022 is expected to be recognized over a weighted average 1.96 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. Failure to meet capital requirements can initiate regulatory action. Management believes that the Bank met all its capital adequacy requirements as of December 31, 2022 and 2021.

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 2022 and 2021, the most recent regulatory notifications categorized the Bank as "well-capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Continued

12. Regulatory Capital Matters (Continued)

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

	2022		2021	
	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital Ratio				
Bank of San Francisco	$66,593	16.00%	$59,565	16.45%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	41,626	10.00%	36,216	10.00%
Minimum regulatory requirement	33,301	8.00%	28,972	8.00%

	2022		2021	
	Amount	Ratio	Amount	Ratio
Tier 1 Risk-Based Capital Ratio				
Bank of San Francisco	$61,373	14.74%	$55,004	15.19%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	33,301	8.00%	28,972	8.00%
Minimum regulatory requirement	24,975	6.00%	21,729	6.00%

	2022		2021	
	Amount	Ratio	Amount	Ratio
Common Tier 1 Risk-Based Capital Ratio				
Bank of San Francisco	$61,373	14.74%	$55,004	15.19%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	27,057	6.50%	23,540	6.50%
Minimum regulatory requirement	18,732	4.50%	16,297	4.50%

	2022		2021	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Bank of San Francisco	$61,373	10.26%	$55,004	9.13%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	29,914	5.00%	30,116	5.00%
Minimum regulatory requirement	23,931	4.00%	24,093	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,	
	2022	2021
Commitments to extend credit	87,540	86,027
Standby letters of credit	1,785	492

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, 2022 and 2021.

	Net Income Available to Common Shareholders	Weighted Average Number of Shares Outstanding	Per Share Amount
For the Year Ended December 31, 2022			
Basic earnings per share	$ 5,861,778	2,044,086	2.87
Diluted earnings per share	$ 5,861,778	2,054,380	2.85
For the Year Ended December 31, 2021			
Basic earnings per share	$ 8,987,218	2,032,757	4.42
Diluted earnings per share	$ 8,987,218	2,039,763	4.41

15. Borrowing Arrangements

Correspondent Banks

The Bank could borrow up to $35,500,000 and $24,500,000 at December 31, 2022 and 2021, respectively, under unsecured Federal funds lines of credit with its correspondent banks. There were no amounts outstanding under these borrowing arrangements at December 31, 2022 and 2021.

Federal Home Loan Bank

At December 31, 2022 and 2021 the Bank's remaining borrowing capacity totaled approximately $66,704,000 and $63,838,000, respectively. The Bank has a blanket lien pledge arrangement with the FHLB, and various loans totaling approximately $198,113,000 and $185,060,956 were specifically identified to secure FHLB borrowings as of December 31, 2022 and 2021, respectively. There were no advances outstanding as of December 31, 2022 and 2021. There were five letters of credit totaling $37,942,000 and six letters of credit totaling $48,250,000 outstanding as of December 31, 2022 and 2021, 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, 2022, mature in 2023.

15. Borrowing Arrangements (Continued)

Federal Reserve Bank

The Bank pledges residential loans through the Federal Reserve’s discount window. At December 31, 2022 and 2021 the Bank's borrowing capacity totaled approximately $108,575,000 and $118,710,000, 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 $208,330,000 and $185,798,000 as of December 31, 2022 and 2021, respectively. There were no amounts outstanding under this borrowing arrangement at December 31, 2022 and 2021.

During 2020, the Bank was approved to pledge PPP loans through the Federal Reserve’s PPP lending facility (PPPLF). The Bank did not have any outstanding balance under the facility as of December 31, 2022 and 2021.

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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