BANK OF SAN FRANCISCO ◆ **FINANCIAL STATEMENTS**

BANK OF SAN FRANCISCO

WITH YOU WHEN IT MATTERS

As of December 31, 2020 and 2019 and for the years then ended and independent auditor's report

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, 2020 and 2019, 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, 2020 and 2019, 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 23, 2021

Bank of San Francisco
Balance Sheets
December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and due from financial institutions	$ 6,413,753	$ 8,125,212
Interest-bearing deposits in banks	118,618,398	65,484,152
Cash and cash equivalents	125,032,151	73,609,364
Loans, net of allowance of $7,060,000 and $4,330,000 as of December 31, 2020 and 2019, respectively	540,414,707	316,885,082
Federal Home Loan Bank stock, at cost	1,983,500	1,680,200
Premises and equipment, net	265,063	342,248
Accrued interest receivable and other assets	6,711,156	4,829,103
Total Assets	$ 674,406,577	$ 397,345,997
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 232,683,000	$ 129,814,790
Interest bearing	302,988,592	223,018,005
Total deposits	535,671,592	352,832,795
FHLB advances	15,000,000	-
Other borrowing	74,777,400	-
Accrued interest payable and other liabilities	3,031,607	3,531,868
Total liabilities	628,480,599	356,364,663
Commitments and Contingencies		
Shareholders' Equity		
Common stock, no par; 10,000,000 shares 2,055,507 and 2,038,803 shares issued and as of December 31, 2020 and 2019, respectively	26,938,159	26,651,675
Retained earnings	18,987,819	14,329,659
Total Shareholders' Equity	45,925,978	40,981,334
Total Liabilities and Shareholders' Equity	$ 674,406,577	$ 397,345,997

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

Bank of San Francisco
Statements of Income and Comprehensive Income
Years ended December 31, 2020 and 2019

	2020	2019
Interest and dividend income		
Loans, including fees	$ 20,073,405	$ 15,785,128
Deposits in banks	179,905	839,987
Federal funds sold and other	99,333	103,793
Total interest income	20,352,643	16,728,908
Interest expense		
Deposits	1,617,635	2,158,109
Borrowings	205,211	110,777
Total interest expense	1,822,846	2,268,886
Net interest income	18,529,797	14,460,022
Provision for Loan losses	2,730,000	390,000
Net interest income after provision for loan losses	15,799,797	14,070,022
Non-interest income		
Service charges on deposits	272,622	279,738
Mortgage broker fees	-	7,478
Gain on sale of loans	279,510	405,589
Loan servicing fees, net	123,124	116,606
Other	8,559	3,653
Total non-interest income	683,815	813,064
Non-interest expenses		
Salaries and employee benefits	6,397,692	5,976,414
Occupancy	824,104	803,084
Information technology and equipment	779,806	770,006
Professional fees	341,551	421,104
Other	1,524,799	1,155,718
Total non-interest expenses	9,867,952	9,126,326
Income before income taxes	6,615,660	5,756,760
Income tax expense	1,957,500	1,699,000
Net income	$ 4,658,160	$ 4,057,760
Earnings per share		
Basic	$ 2.31	$ 2.02
Diluted	$ 2.29	$ 2.01
Comprehensive income	$ 4,658,160	$ 4,057,760

Bank of San Francisco
Statements of Changes in Shareholders' Equity
Years ended December 31, 2020 and 2019

	Common Stock		Retained	Total Shareholders'
	Shares	**Amount**	**Earnings**	**Equity**
Balance, January 1, 2019	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
Net income	-	-	4,658,160	4,658,160
Stock based compensation	-	286,484	-	286,484
Restricted stock issued, net	16,704	-	-	-
Balance, December 31, 2020	2,055,507	$ 26,938,159	$ 18,987,819	$ 45,925,978

Bank of San Francisco
Statements of Cash Flows
Years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net income	$ 4,658,160	$ 4,057,760
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	2,730,000	390,000
Depreciation and amortization of premises and equipment	127,631	146,429
Loss on disposal of premises and equipment	-	2,435
Change in deferred loan origination fees and discount, net	3,013,462	221,035
Share-based compensation expense	286,484	179,787
Gain on sale of loans	(279,510)	(405,589)
Deferred income tax (benefit) expense	(860,108)	(169,985)
Net changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(1,021,945)	417,380
Accrued interest payable and other liabilities	(500,261)	(142,712)
Net cash from operating activities	8,153,913	4,696,540
Cash Flows from Investing Activities:		
Purchase of Federal Home Loan Bank stock	(303,300)	(355,000)
Loan originations and payments, net	(228,993,577)	(40,394,737)
Additions to premises and equipment	(50,446)	(217,179)
Net cash from investing activities	(229,347,323)	(40,966,916)
Cash flows from financing activities:		
Net change in demand, NOW, savings deposits	124,941,424	36,589,825
Net change in time deposits	57,897,373	25,188,431
FHLB advances	15,000,000	-
Other borrowing proceeds	84,172,000	-
Other borrowing repayment	(9,394,600)	-
Net cash from financing activities	272,616,197	61,778,256
Net increase in cash and cash equivalents	51,422,787	25,507,880
Beginning cash and cash equivalents	73,609,364	48,101,484
Ending cash and cash equivalents	$ 125,032,151	$ 73,609,364
Supplemental cash flow information		
Cash paid for:		
Interest paid	$ 1,721,274	$ 2,227,294
Income taxes paid	$ 2,770,000	$ 1,930,000
Lease liabilities arising from right-of-use assets	$ -	$ 2,385,813

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

1. Nature of Business and Summary of Significant Accounting Policies

General

Bank of San Francisco (the "Bank") is a state-chartered commercial bank that commenced business on August 1, 2005. The Bank provides a full range of banking services to businesses, nonprofits and individuals located in its community. A variety of deposit products 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 two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on a different basis, than its interest-earning assets. Credit risk is the risk of default, primarily in the loan portfolio, that results from the borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable, the valuation of other investments, and the valuation of deferred tax assets.

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

Continued

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

Risks and Uncertainties (Continued)

The extent to which the COVID-19 pandemic will impact the Bank, its results of operations and financial condition will depend on future developments, which are highly uncertain and difficult to predict. Those developments and factors include the duration and spread of the pandemic, its severity, the actions to contain the pandemic or address its impact, the effectiveness of vaccination efforts and how quickly and to what extent normal economic and operating conditions can resume. During 2020, short-term payment relief was provided to certain borrowers impacted by the pandemic. The Bank does not yet know the full extent of the impact of the pandemic as circumstances can quickly change and could become more severe. The effects of the COVID-19 pandemic could have a material adverse impact on the financial condition and results of operations.

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 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.

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.

Continued

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

Concentration of Credit Risk

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

In management's judgment, a concentration of loans exists in real estate related loans, with approximately 57% of the Bank's loans being real estate related, or 80% excluding Paycheck Protection Program (PPP) loans, at December 31, 2020, and 77% at December 31, 2019. 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. As the Bank is a community bank focus, 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.

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.

Continued

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

Allowance for Loan Losses (Continued)

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.

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.

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 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.

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 cash flows of operating businesses which is uncertain in the current pandemic environment. 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. PPP loans are low risk as they are 100% guaranteed by the SBA.

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.

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 government agencies provide guarantees of 75% 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, 2020 and 2019. The guaranteed portion of SBA loans sold totaled approximately $2,120,000 and $5,308,000 in 2020 and 2019, 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 eligible lenders. The MSLP required the loans to meet certain criteria before approval or purchase of 95% of the loan. As of December 31, 2020, the Bank sold $10,450,000 under the MSLP. 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 totaling $277,522 and $274,684 associated with loans previously sold and are included in "Accrued interest receivable and other assets" at December 31, 2020 and 2019, respectively. Servicing asset amortization totaled $98,915 and $96,863 for the years ended December 31, 2020 and 2019, respectively, and was 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, 2020 and 2019 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 $123,124 and $116,606 for the years ended December 31, 2020 and 2019, respectively. Late fees and ancillary fees related to loan servicing are not material.

Continued

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 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" at the 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 are 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.

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

1. Nature of Business and 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.

Continued

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

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 22,226 and 24,100 shares of unvested restricted stock outstanding at December 31, 2020 and 2019, 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, 2020 and 2019, 149,048 and 163,972 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.

calculation of net income. For the periods presented, the Bank's only element of comprehensive income was the net income from operations.

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

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, 2020, and the reserve balances required at the Federal Reserve Bank as of December 31, 2019 were $2,924,000.

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, 2020, $12,028,122 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.

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

COVID-19 Loan Modifications

The Bank is assisting borrowers who are experiencing financial difficulties as a result of COVID-19. This generally includes deferring scheduled principal and/or interest payments for six months. The maturity of the loan may also be extended to allow for monthly payments to remain the same as they were pre-modification. Interest continues to accrue during the deferral period for those loans on principal and interest deferrals, and the deferred payments may be included in the borrower's final payment as a balloon payment, reamortized over the remaining maturity of the loan, or repaid over the extended term utilizing the pre-modification monthly payments, subject to the borrower's loan terms. Certain borrowers may receive additional relief beyond their initial modification period. The Bank has 28 loans with a balance of approximately $20 million on deferred payment terms, interest only or principal and interest deferrals, as of December 31, 2020.

Adoption of New Accounting Standards

In June 2016, FASB issued Accounting Standards Update "ASU" 2016-13, Financial Instruments-Credit Losses (Topic 326). 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 January 1, 2023. Early adoption is permitted. The Bank will be assessing the impact of this new accounting standard over the next years but anticipates that it will lead to an increase in the allowance for loan losses.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this ASU remove, modify, and add disclosure requirements for the fair value reporting of assets and liabilities. The modifications and additions relate to Level 3 fair value measurements at the end of the reporting period. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Entities should disclose and describe the range and weighted-average of significant observable inputs used to develop Level 3 fair value measurements prospectively. The Bank adopted the requirements of this ASU on January 1, 2020.

Continued

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

Adoption of New Accounting Standards (Continued)

In May 2019, the FASB issued ASU No. 2019-05, Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief. This ASU allows an option for entities to irrevocably elect the fair value option on an instrument-by-instrument basis for eligible financial assets measured at amortized cost basis upon adoption of the credit loss standards. This amendment provides relief for those entities electing the fair value option on newly originated or purchased financial assets, while maintaining existing similar financial assets at amortized cost, avoiding the requirement to maintain dual measurement methods for similar assets. The fair value option does not apply to held to-maturity debt securities. The Bank will be assessing the impact of this new accounting standard over the next years in conjunction with ASU 2016-13.

During March and April of 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, ("the agencies") issued regulatory guidance encouraging financial institutions to work with clients affected by the COVID-19 pandemic and providing additional information regarding loan modifications. The guidance clarifies the interaction between the interagency statement issued on March 22, 2020 and the temporary relief provided by the Coronavirus Aid, Relief, and Economic Security ("CARES") Act signed into law on March 27, 2020. Section 4013 allows financial institutions to suspend the requirements to classify certain loan modifications as troubled debt restructurings (TDRs). The revised statement also provides supervisory interpretations on past due and nonaccrual regulatory reporting of loan modification programs and regulatory capital. The Section 4013 TDR relief rules are being applied by the Bank to loan modifications made related to the COVID-19 pandemic as eligible and appropriate. The application of the guidance reduced the number of TDRs that were reported. In December, 2020, new legislation become effective extending the TDR relief under Section 4013 of the CARES Act to January 1, 2022 or the date that is 60 days after the date on which the COVID-19 emergency terminates. Future TDRs are indeterminable and will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

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, 2020 and 2019.

The carrying amounts and estimated fair values of the Bank's financial instruments not carried at fair value, at December 31, 2020 are as follows (in thousands):

	December 31, 2020				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 125,032	$ 125,032	$ -	$ -	$ 125,032
Loans, net	540,415	-	-	553,070	553,070
FHLB stock	1,984	N/A	N/A	N/A	N/A
Accrued interest receivable	2,527	-	-	2,527	2,527
Financial liabilities:					
Deposits	$ 535,672	$ 408,325	$ 127,396	$ -	$ 535,721
FHLB advances	15,000	-	15,000	-	15,000
Other borrowings	74,777	-	74,777	-	74,777
Accrued interest payable	200	-	200	-	200

Continued

2. Fair Value Measurements (Continued)

	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

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

2. Fair Value Measurements (Continued)

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, 2020 and 2019, the Bank owned 19,835 and 16,802 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, 2020, and 2019, were as follows:

	December 31,	
	2020	2019
Loans secured by real estate:		
Commercial	$ 136,124,886	$ 111,183,587
Residential	161,007,050	132,426,823
Construction and land	18,028,227	5,325,257
Total real estate	315,160,163	248,935,667
Commercial and industrial	78,824,097	74,130,255
Paycheck Protection Plan Loans	158,387,420	-
Consumer	-	2,082
Other	1,560	32,149
Total outstanding loans	552,373,240	323,100,153
Deferred loan origination fees and discount, net	(4,898,533)	(1,885,071)
Allowance for loan losses	(7,060,000)	(4,330,000)
Net outstanding loans	$ 540,414,707	$ 316,885,082

Salaries and employee benefits totaling $989,520 and $521,440 were deferred as loan origination costs for the years ended December 31, 2020 and 2019, respectively.

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, 2020 and 2019:

December 31, 2020	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial & Industrial	Consumer Loans	Other Loans	Totals
Allowance for Loan Losses:							
Beginning balance	$ 1,264,866	$ 1,574,709	$ 89,866	$ 1,400,203	$ 25	$ 331	$ 4,330,000
Provision for loan losses	1,102,446	858,803	366,574	402,468	(25)	(266)	2,730,000
Loans charged-off	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Total Ending Allowance Balance	$ 2,367,312	$ 2,433,512	$ 456,440	$ 1,802,671	$ -	$ 65	$ 7,060,000

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

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, 2020 and 2019:

December 31, 2020	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial & Industrial	Consumer Loans	Other Loans	Totals
Allowance for Loan Losses:							
Individually evaluated for impairment	$ -	$ -	$ -	$ 379,685	$ -	$ -	$ 379,685
Collectively evaluated for impairment	2,367,312	2,433,512	456,440	1,422,986	$ -	65	6,680,315
Total Ending Allowance Balance	$ 2,367,312	$ 2,433,512	$ 456,440	$ 1,802,671	$ -	$ 65	$ 7,060,000
Loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ 2,307,464	$ -	$ -	$ 2,307,464
Collectively evaluated for impairment	136,124,886	161,007,050	18,028,227	234,904,053	-	1,560	550,065,776
Total Ending Loans Balance	$136,124,886	$161,007,050	$ 18,028,227	$237,211,517	$ -	$ 1,560	$ 552,373,240

Continued

5. Allowance for Loan Losses (Continued)

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

The Bank had $2,307,464 in impaired loans at December 30, 2020. There were no impaired loans at December 31, 2019.

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, 2020 and 2019 by class of loans:

December 31, 2020	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	$ 321,723	$ -	$ 321,723	$ 135,803,163	$ 136,124,886	$ -
Residential	6,008,640	-	6,008,640	154,998,410	161,007,050	-
Construction and land	-	2,814,227	2,814,227	15,214,000	18,028,227	-
Total real estate	6,330,363	2,814,227	9,144,590	306,015,573	315,160,163	-
Commercial and industrial	1,533,765	-	1,533,765	235,677,752	237,211,517	2,208,903
Consumer	-	-	-	-	-	-
Other	-	-	-	1,560	1,560	-
Totals	$ 7,864,128	$ 2,814,227	$10,678,355	$ 541,694,885	$ 552,373,240	$ 2,208,903

Continued

5. Allowance for Loan Losses (Continued)

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	$ -

There was one loan past due 90 days accruing interest at December 31, 2020 with a principal balance of $2,814,227. The loan has not been classified as non-accrual as the loan is well secured, and in the process of collection. This loan is a construction loan secured by the project's real estate, to be repaid with the sale of the property. There were no loans past due 90 days or more and still accruing interest at December 31, 2019.

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, 2020	Pass	Special Mention	Substandard	Doubtful	Total Loans
Loans secured by real estate:					
Commercial	$ 130,824,738	$ 5,300,148	$ -	$ -	$ 136,124,886
Residential	161,007,050	-	-	-	161,007,050
Construction and land	15,214,000	-	2,814,227	-	18,028,227
Total real estate	307,045,788	5,300,148	2,814,227	-	315,160,163
Commercial and industrial	223,801,066	4,930,366	6,172,621	2,307,464	237,211,517
Consumer	-	-	-	-	-
Other	1,560	-	-	-	1,560
Totals	$ 530,848,414	$ 10,230,514	$ 8,986,848	$ 2,307,464	$ 552,373,240

Continued

5. Allowance for Loan Losses (Continued)

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

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 were no loans classified as troubled debt restructuring during the year ending December 31, 2019 and 2020.

Continued

6. Premises and Equipment

Premises and equipment were as follows:

	December 31,	
	2020	2019
Leasehold improvements	$ 297,348	$ 297,348
Equipment, furniture and software	1,236,108	1,185,662
	1,533,456	1,483,010
Less: accumulated depreciation	(1,268,393)	(1,140,762)
	$ 265,063	$ 342,248

Depreciation and amortization included in "Information technology and equipment" expense totaled $127,631 and $146,429 for the years ended December 31, 2020 and 2019, 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 $1,259,466, and the lease liability was $1,389,313 as of December 31, 2020. The ROU asset was $1,844,885, and lease liability was $2,014,381 as of December 31, 2019.

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, 2020 and 2019. Lease expense included in "Occupancy" expense totaled $630,984 and $600,586 for the years ended December 31, 2020 and 2019, 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 2.33 years and the weighted average discount rate of 2.63% as of December 31, 2020.

Continued

6. Premises and Equipment (Continued)

Leases (Continued)

Future lease payments due under existing operating leases as of December 31,2020 are as follows:

Year Ending December 31,	
2021	$ 686,798
2022	513,336
2023	146,252
2024	87,413
Total undiscounted lease payments	1,433,799
Less effects of discounting	(44,486)
Present value of lease payments	$ 1,389,313

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,	
	2020	2019
Savings	$ 473,444	$ 745,360
Money market	152,392,296	134,098,561
NOW accounts	22,776,003	18,724,607
Time – less than $100,000	341,769	222,637
Time – $100,000 or more	94,116,546	52,278,982
Time – CDARS	32,888,534	16,947,858
	$302,988,592	$ 223,018,005

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at year-end 2020 and 2019 were $92,086,845 and $50,504,911.

7. Interest-Bearing Deposits (Continued)

Scheduled maturities of time deposits are as follows:

Year Ending December 31,	
2021	$125,372,884
2022	1,973,965
	$127,346,849

Interest expense on deposits was as follows:

	December 31, 2020	December 31, 2019
Savings	$ 281	$ 943
Money market	780,329	842,192
NOW accounts	34,796	79,346
Time – less than $100,000	1,182	2,846
Time – $100,000 or more	571,313	1,041,969
Time – CDARS	229,734	190,813
	$1,617,635	$ 2,158,109

At December 31, 2020 and 2019, the four largest deposit relationships accounted for approximately $100,949,033, or 19%, and $101,622,000, or 29%, 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).

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 2020 and 2019. Expenses, which include the matching contributions and cost of services related to maintaining the plan, for 2020 and 2019 totaled $113,493 and $113,899, respectively.

9. Income Taxes

Income tax expense (benefit) was as follows:

	Federal	State	Total
2020			
Current	$1,873,768	$ 943,840	$ 2,817,608
Deferred	(634,268)	(225,840)	(860,108)
Income tax expense	$1,239,500	$ 718,000	$ 1,957,500

	Federal	State	Total
2019			
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

Continued

9. Income Taxes (Continued)

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

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 2,087,190	$ 1,280,104
Interest on nonaccrual loans	15,249	-
Organization costs	-	4,989
State income tax	211,583	144,795
Depreciation, net	10,030	-
Lease liability	410,731	595,524
Accrued Expenses	252,643	240,617
Other, net	106,402	50,692
Total deferred tax assets	3,093,828	2,316,721
Deferred tax liabilities:		
Depreciation, net	-	(13,782)
Deferred loan origination cost	(403,871)	(300,020)
Right to Use Asset	(372,344)	(545,414)
Total deferred tax liabilities	(776,215)	(859,216)
Net deferred tax assets	$ 2,317,613	$ 1,457,505

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, 2020 and 2019.

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, 2020 and 2019.

The Bank files income tax returns in the United States and California jurisdictions. At December 31, 2020, 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, 2017 and by state and local taxing authorities for years ended before December 31, 2016.

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, 2020:

Beginning balance	$622,011
Disbursements	599,299
Amounts repaid	(622,011)
Directors or Officers no longer associated with the Bank	(490,300)
Ending balance	$108,999

Deposits

At December 31, 2020 and 2019, the Bank's deposits from related parties totaled approximately $10,165,946 and $9,091,649, 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, 2020 and 2019, 149,048 and 163,972 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 vests immediately without restriction.

For the Year Ended December 31, 2020	Shares	Weighted-average Grant-Date Fair Value
Nonvested beginning balance	24,100	$ 22.93
Granted	16,704	$ 19.66
Vested	13,052	$ 21.35
Nonvested ending balance	27,752	$ 21.71

Continued

11. Share-Based Compensation (Continued)

Compensation expense recorded for the years ended December 31, 2020 and 2019 was $286,484 and $179,787, respectively. For the years ended December 31, 2020 and 2019, the fair values of the restricted stock awards upon vesting were $259,409 and $179,849, respectively. Unamortized compensation expense for 2020 and 2019 equals $520,717 and $481,598, respectively. The unamortized compensation expense for 2020 is expected to be recognized over a weighted average 2.13 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. 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 was phased in from 0.0% for 2015 to 2.50% for 2019. The capital conservation buffer for 2020 and 2019 is 2.5%. Management believes that the Bank met all its capital adequacy requirements as of December 31, 2020 and 2019.

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 2020 and 2019, 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.

	2020		2019	
	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital Ratio				
Bank of San Francisco	$49,647	15.67%	$44,060	16.48%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	31,675	10.00%	26,729	10.00%
Minimum regulatory requirement	25,340	8.00%	21,383	8.00%

	2020		2019	
	Amount	Ratio	Amount	Ratio
Tier 1 Risk-Based Capital Ratio				
Bank of San Francisco	$45,648	14.41%	$40,706	15.23%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	25,340	8.00%	21,383	8.00%
Minimum regulatory requirement	19,005	6.00%	16,037	6.00%

	2020		2019	
	Amount	Ratio	Amount	Ratio
Common Tier 1 Risk-Based Capital Ratio				
Bank of San Francisco	$45,648	14.41%	$40,706	15.23%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	20,589	6.50%	17,374	6.50%
Minimum regulatory requirement	14,254	4.50%	12,028	4.50%

	2020		2019	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Bank of San Francisco	$45,648	8.25%	$40,706	10.84%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	27,672	5.00%	18,780	5.00%
Minimum regulatory requirement	22,138	4.00%	15,024	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,	
	2020	2019
Commitments to extend credit	74,374	64,288
Standby letters of credit	2,638	1,963

Continued

14. Earnings Per Share

The factors used in the earnings per share computation follow:

		Net Income Available to Common Shareholders	Weighted Average Number of Shares Outstanding	Per Share Amount
For the Year Ended December 31, 2020				
Basic earnings per share	$	4,658,160	2,018,476	2.31
Diluted earnings per share	$	4,658,160	2,032,897	2.29
For the Year Ended 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

15. Borrowing Arrangements

Correspondent Banks

The Bank could borrow up to $9,500,000 and $9,500,000 at December 31, 2020 and 2019, respectively, under unsecured Federal funds lines of credit with its correspondent banks. There were no amounts outstanding under these borrowing arrangements at December 31, 2020 and 2019.

Federal Home Loan Bank Advances

At December 31, 2020 and 2019 the Bank's remaining borrowing capacity totaled approximately $31,591,000 and $83,483,000, respectively. The Bank has a blanket lien pledge arrangement with the FHLB, and various loans totaling approximately $147,974,862 and $173,651,000 were specifically identified to secure FHLB borrowings as of December 31, 2020 and 2019, respectively. There were $15,000,000 in advances outstanding as of December 31, 2020. Advances for $10,000,000 mature in 2021 with an interest of .55%, the remaining $5,000,000 matures in 2021 with an interest rate of .00%. No advances outstanding as of December 31, 2019. There were seven letters of credit totaling $48,250,000 and four letters of credit totaling $21,500,000 outstanding as of December 31, 2020 and 2019, 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, 2020, mature in 2021.

Continued

15. Borrowing Arrangements (Continued)

Federal Reserve Bank

During the year 2020, the Bank was approved to pledge residential loans through the Federal Reserve's discount window. At December 31, 2020 the Bank's borrowing capacity totaled approximately $77,889,000. The Bank has a lien pledge arrangement with the Federal Reserve over specific residential loans totaling approximately $117,559,000 specifically identified to secure the discount window borrowings as of December 31, 2020. There were no amounts outstanding under this borrowing arrangement at December 31, 2020.

During the year 2020, the Bank was approved to pledge PPP loans through the Federal Reserve's PPP lending facility (PPPLF). The Bank's outstanding balance under the facility and PPP loans pledged under the facility totaled $74,777,400, at December 31, 2020, and the outstanding balance is included in "other borrowings". The interest rate on the facility is .35%. The outstanding advances under the facility are to be repaid upon the forgiveness or repayment of the PPP loan pledged. The timing of the repayment will vary depending upon PPP loan forgiveness in 2021 or loan amortization over two to five years.

Continued

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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