BSF

BANK OF SAN FRANCISCO

FINANCIAL STATEMENTS

As of December 31, 2023 and 2022 and for the years then ended and independent auditor’s report

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Bank of San Francisco, which comprise the balance sheets as of December 31, 2023 and 2022, 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2023, the entity changed its method for accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Crowe LLP

Crowe LLP

Sacramento, California
March 29, 2024

Bank of San Francisco
Balance Sheets
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and due from financial institutions	$ 12,852,724	$ 5,588,069
Interest-bearing deposits in banks	88,701,655	54,451,144
Cash and cash equivalents	101,554,379	60,039,213
Loans, net of allowance for credit losses of $6,744,495 and $6,382,000 as of December 31, 2023 and 2022, respectively	495,196,062	515,465,460
Federal Home Loan Bank stock, at cost	3,349,100	3,111,600
Premises and equipment, net	1,603,594	1,411,414
Accrued interest receivable and other assets	10,272,820	11,324,456
Total Assets	$ 611,975,955	$ 591,352,143
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 190,040,311	$ 242,362,814
Interest bearing	345,384,254	279,924,249
Total deposits	535,424,565	522,287,063
Accrued interest payable and other liabilities	8,178,126	7,523,722
Total liabilities	543,602,691	529,810,785
Commitments and Contingencies		
Shareholders' Equity		
Common stock, no par; 10,000,000 shares authorized; 2,108,162, and 2,093,754 shares issued and outstanding as of December 31, 2023 and 2022, respectively	28,167,814	27,704,543
Retained earnings	40,205,450	33,836,815
Total Shareholders' Equity	68,373,264	61,541,358
Total Liabilities and Shareholders' Equity	$ 611,975,955	$ 591,352,143

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, 2023 and 2022

	2023	2022
Interest and dividend income		
Loans, including fees	$ 25,034,897	$ 23,102,880
Deposits in banks	4,031,736	1,436,979
Federal funds sold and other	242,003	186,326
Total interest income	29,308,636	24,726,185
Interest expense		
Deposits	7,571,400	1,837,055
Borrowings	3,612	613
Total interest expense	7,575,012	1,837,668
Net interest income	21,733,624	22,888,517
Provision for Credit losses	290,000	3,122,551
Net interest income after provision for Credit losses	21,443,624	19,765,966
Non-interest income		
Service charges on deposits	354,028	335,936
Gain on sale of loans	299,022	271,168
Loan servicing fees, net	82,361	51,474
Other	186,210	5,905
Total non-interest income	921,621	664,483
Non-interest expenses		
Salaries and employee benefits	8,194,227	7,799,453
Occupancy	947,808	931,819
Information technology and equipment	1,112,386	999,455
Professional fees	454,469	748,893
Other	1,809,369	1,655,051
Total non-interest expenses	12,518,259	12,134,671
Income before income taxes	9,846,986	8,295,778
Income tax expense	2,917,000	2,434,000
Net income	$ 6,929,986	$ 5,861,778
Earnings per share		
Basic	$ 3.35	$ 2.87
Diluted	$ 3.33	$ 2.85
Comprehensive income	$ 6,929,986	$ 5,861,778

Bank of San Francisco
Statements of Changes in Shareholders' Equity
Years ended December 31, 2023 and 2022

	Common Stock		Retained	Total Shareholders'
	Shares	Amount	Earnings	Equity
Balance, January 1, 2022	2,074,540	$ 27,234,485	$ 27,975,037	55,209,522
Net income	-	-	5,861,778	5,861,778
Stock based compensation, net of taxes withheld	-	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
Cumulative change in accounting principle (Note 1)	-	-	(561,351)	(561,351)
Balance, January 1, 2023 (as adjusted for change in accounting principle)	-	-	33,275,464	60,980,007
Net income	-	-	6,929,986	6,929,986
Stock based compensation, net of taxes withheld	-	463,271	-	463,271
Restricted stock issued, net	14,408	-	-	-
Balance, December 31, 2023	2,108,162	$ 28,167,814	$ 40,205,450	$ 68,373,264

Bank of San Francisco
Statements of Cash Flows
Years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Net income	$ 6,929,986	$ 5,861,778
Adjustments to reconcile net income to net cash from operating activities:		
Provision for credit losses	290,000	3,122,551
Depreciation and amortization of premises and equipment	253,964	141,634
Change in deferred loan origination fees and discount, net	(173,322)	(803,099)
Share-based compensation expense	463,271	470,058
Gain on sale of loans	(299,022)	(271,168)
Deferred income tax (benefit) expense	(236,290)	285,160
Net changes in operating assets and liabilities:		
Accrued interest receivable and other assets	1,524,216	(5,901,296)
Accrued interest payable and other liabilities	654,404	5,072,098
Net cash from operating activities	9,407,207	7,977,716
Cash Flows from (used in) Investing Activities:		
Purchase of Federal Home Loan Bank stock	(237,500)	(249,800)
Loan originations and payments, net	19,654,101	(17,976,548)
Additions to premises and equipment	(446,144)	(1,349,820)
Net cash from (used in) investing activities	18,970,457	(19,576,168)
Cash flows used in financing activities:		
Net change in demand, NOW, savings deposits	(51,383,574)	285,746
Net change in time deposits	64,521,076	(19,786,063)
Net cash from (used in) financing activities	13,137,502	(19,500,317)
Net increase (decrease) in cash and cash equivalents	41,515,166	(31,098,769)
Beginning cash and cash equivalents	60,039,213	91,137,982
Ending cash and cash equivalents	$ 101,554,379	$ 60,039,213
Supplemental cash flow information		
Cash paid for:		
Interest paid	$ 7,031,208	$ 1,538,614
Income taxes paid	$ 2,340,000	$ 3,230,000
Lease liability arrising from right-of-use asset	$ -	$ 5,290,870

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.

Adoption of New Accounting Standards

On January 1st, 2023 the Bank adopted Accounting Standards Update “ASU” 2016-13, Financial Instruments-Credit Losses (Topic 326), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. 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 investments in leases recognized by a lessor in accordance with Topic 842 on leases. The previous incurred loss method included a general allowance on loans for known and inherent losses withing the portfolio. The CECL method requires the measurement of all expected credit losses for financial assets measured at amortized cost and certain off-balance-sheet credit exposures to consider credit losses expected to be incurred over the life of the financial asset based on past events, current conditions, and reasonable and supportable forecasts. The standard also requires enhanced disclosures related to the significant estimates and judgements used in estimating credit losses, as well as the credit quality. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write down on available-for sale debt securities management does not intend to sell or believes that is more likely than not they will be required to sell.

Continued

1. Nature of Business and Summary of Significant Accounting Policies

Adoption of New Accounting Standards (continued)

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

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

In March 2022, the FASB issued ASU 2022-02, Financial Instruments — Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. The amendments in this Update eliminated the TDR recognition and measurement guidance and, instead, required 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 also enhanced existing disclosure requirements and introduced new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Furthermore, the amendments in this Update required 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. The Bank adopted these amendments on January 1, 2023 and has observed no significant impact on the financial statements.

Risks and Uncertainties

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

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.

Continued

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

Risks and Uncertainties (Continued)

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

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

Subsequent Events

The Bank has evaluated events subsequent through March 29, 2024, 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 credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Continued

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

Loans (Continued)

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.

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 87% of the Bank's loans being real estate-related at December 31, 2023, and approximately 83% of the Bank's loans being real estate-related at December 31, 2022. 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.

Continued

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

Allowance for Credit Losses

ASC 326 requires the Bank to estimate expected future credit losses based on information about past events, current conditions, and reasonable and supportable forecasts of future conditions. Expected credit losses over the contractual life of a financial asset are recorded at origination using a weighted average remaining maturity model segregated by loan segments. The Bank has limited historical losses to derive the historical loss base for each segment. Therefore, the Bank has looked at historical losses for peer groups to determine the expected loss on the contractual life of the loan for non-residential loans. For residential loans the historical life approximates the fixed arm duration of the loan. Then the Bank considered peer group historical credit loss experience from 2008 to the current period which provides the basis for the estimation of expected credit losses. The Bank considers peers as financial institutions doing business in the same geographic region with similar asset groups, typically those Bank's viewed as competitors for various deals. Adjustments to historical loss information are made for differences in loan-specific risk characteristics, such credit quality of residential loans. In its loss forecasting framework, the Bank incorporates forward-looking information using macroeconomic scenarios applied over the a three year forecast period with a reversion period of fourteen quarters. These macroeconomic scenarios incorporate variables that have historically been key drivers of increases and decreases in credit losses. These variables include but are not limited to changes in the United States unemployment rates. The Bank also applies qualitative factors which consider the Bay Area unemployment rates, inflation, GPD, underwriting and lending management, concentrations, value of collateral, level of problem loans and credit quality of the residential portfolio.

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

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

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

Continued

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

Allowance for credit 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, 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.

Continued

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

Allowance for Credit Losses (Continued)

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

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.

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, 2023 and 2022. The guaranteed portion of SBA loans sold totaled approximately $4,350,144 and $3,070,000 in 2023 and 2022, respectively.

Continued

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 2023 and 2022. 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 \$173,319 and \$167,657 associated with loans previously sold are included in "Accrued interest receivable and other assets" as of December 31, 2023 and 2022, respectively. Servicing asset amortization totaled \$74,347 and \$128,369 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022 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 \$82,361 and \$51,474 for the years ended December 31, 2023 and 2022, respectively. Late fees and ancillary fees related to loan servicing are not material.

Transfers of Financial Assets

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

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

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.

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.

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 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.

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 35,252 and 38,117 shares of unvested restricted stock outstanding at December 31, 2023 and 2022, 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, 2023 and 2022, 101,131 and 115,466 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.

Continued

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, 2023 and 2022, 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, 2023, $21,778,982 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

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, 2023 and 2022.

Continued

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, 2023 and 2022 are as follows (in thousands):

	December 31, 2023				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 101,554	$ 101,554	$ -	$ -	$ 101,554
Loans, net	495,196	-	-	473,973	473,973
FHLB stock	3,349	N/A	N/A	N/A	N/A
Accrued interest receivable	1,688	-	-	1,688	1,688
Financial liabilities:					
Deposits	$ 535,425	$ 365,626	$ 169,435	$ -	$ 535,061
Accrued interest payable	878	-	878	-	878

	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

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.

Continued

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, 2023 and 2022, the Bank owned 33,491 and 31,116 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 and Allowance for Credit Losses

Outstanding loans at December 31, 2023 and 2022, were as follows:

	December 31,	
	2023	2022
Loans secured by real estate:		
Commercial	$ 158,844,858	$ 155,228,794
Residential	260,685,650	261,431,584
Construction and land	21,269,472	19,314,596
Total real estate	440,799,980	435,974,974
Commercial and industrial	63,069,453	81,197,313
Other	970,891	7,748,261
Total outstanding loans	504,840,324	524,920,548
Deferred loan origination fees and discount, net	(2,899,767)	(3,073,088)
Allowance for credit losses	(6,744,495)	(6,382,000)
Net outstanding loans	$ 495,196,062	$ 515,465,460

Salaries and employee benefits totaling $210,250 and $440,155 were deferred as loan origination costs for the years ended December 31, 2023 and 2022, respectively.

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

Certain loans have been pledged to secure borrowing arrangements (see Note 14).

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

The following table presents the activity in the allowance for credit losses by portfolio segment for the years ending December 31, 2023 and 2022:

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

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

Continued

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

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2023 and 2022:

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

December 31, 2022	Nonaccrual With No Allowance for Credit Losses	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Loans secured by real estate:			
Commercial	$ -	$ -	$ -
Residential	-	-	-
Construction and land	-	-	-
Total real estate	-	-	-
Commercial and industrial	-	4,394,331	-
Other	-	-	-
Consumer			
Sub-total	-	4,394,331	-
Less: Guaranteed loans	-	(3,498,496)	-
Net outstanding loans	$ -	$ 895,835	$ -

The Bank recognized no interest income on non accrual loans during the year ended December 31, 2023.

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

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

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

Continued

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

Impaired loans disclosures presented below as of December 31, 2022 represent requirements prior to the adoption of CECL on January 1, 2023.

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
Collectively 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

Continued

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

The following table presents the aging of the amortized cost in past due loans as of December 31, 2023 and 2022 by class of loans:

December 31, 2023	30 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Nonaccrual	Loans Not Past Due	Total Loans
Loans secured by real estate:						
Commercial	$ -	$ -	$ -	$ -	$ 158,844,858	$ 158,844,858
Residential	163,927	-	163,927	-	260,521,723	260,685,650
Construction and land	-	-		-	21,269,472	21,269,472
Total real estate	163,927	-	163,927	-	440,636,053	440,799,980
Commercial and industrial	-	301,947	301,947	3,770,625	58,996,881	63,069,453
Other	-	-	-	-	970,891	970,891
Totals	$ 163,927	$ 301,947	$ 465,874	$ 3,770,625	$ 500,603,825	$ 504,840,324

December 31, 2022	30 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Nonaccrual	Loans Not Past Due	Total 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	4,394,331	76,190,847	81,197,313
Other	-	-	-	-	7,748,261	7,748,261
Totals	$ 612,135	$ -	$ 612,135	$ 4,394,331	$ 519,914,082	$ 524,920,548

The Bank places all loans in various credit risk ratings 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. The reviews includes numerous factors including, but not limited to, collateral, current financial information on the borrower, collateral, historical payment, strength of guarantors, nature and value of the collateral if any, current economic trends, relevant public information, loan structure and documentation.

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

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

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

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

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

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

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

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

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

Continued

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

The risk category of loans by class of loans as of December 31, 2022 represent requirements prior to the adoption of CECL on January 1, 2023, 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 industrial	70,693,136	3,382,341	2,727,505	4,394,331	81,197,313
Other	7,748,261	-	-	-	7,748,261
Totals	$ 502,005,575	$ 14,427,538	$ 4,093,104	$ 4,394,331	$ 524,920,548

There were no loans modified to borrowers experiencing financial difficulty during the year ending December 31, 2023.

Continued

5. Premises and Equipment

Premises and equipment were as follows:

	December 31,	
	2023	2022
Leasehold improvements	$ 927,032	$ 805,964
Equipment, furniture and software	1,617,679	1,382,628
	2,544,711	2,188,592
Less: accumulated depreciation	(941,117)	(777,178)
	$ 1,603,594	$ 1,411,414

Depreciation and amortization included in "Information technology and equipment" expense totaled $253,964 and $141,634 for the years ended December 31, 2023 and 2022, 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 $4,833,031, and lease liability was $5,423,178 as of December 31, 2023. The ROU asset was $5,359,960, and the lease liability was $5,591,205 as of December 31, 2022. 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 1 to 10 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, 2023 and 2022. Lease expense included in "Occupancy" expense totaled $738,086 and $670,425 for the years ended December 31, 2023 and 2022, 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 9.44 years and the weighted average discount rate of 4.01% as of December 31, 2023, and weighted average remaining lease term of 10.53 years and the weighted average discount rate of 3.97% as of December 31, 2022.

Continued

5. Premises and Equipment (Continued)

Leases (Continued)

Future lease payments due under existing operating leases as of December 31,2023 are as follows:

Year Ending December 31,	
2024	683,118
2025	613,576
2026	631,983
2027	650,943
2028	670,471
Thereafter	3,338,063
Total undiscounted lease payments	6,588,154
Less effects of discounting	1,164,976
Present value of lease payments	$5,423,178

6. 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,	
	2023	2022
Savings	$ 401,220	$ 224,489
Money market	101,620,994	139,265,505
NOW accounts	73,563,412	35,156,702
Time – less than $100,000	180,976	242,809
Time – $100,000 or more	121,410,723	67,033,145
Time – IntraFi Network of Deposits	48,206,929	38,001,599
	$345,384,254	$ 279,924,249

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at year-end 2023 and 2022 were $118,337,690 and $63,939,269.

6. Interest-Bearing Deposits (Continued)

Scheduled maturities of time deposits are as follows:

Year Ending December 31,	
2024	$169,356,004
2025	-
2026	442,624
2027	-
2028	-
	$169,798,628

Interest expense on deposits was as follows:

	December 31,	
	2023	2022
Savings	$ 685	$ 346
Money market	1,181,395	771,551
NOW accounts	460,885	155,722
Time – less than $100,000	31,209	3,339
Time – $100,000 or more	5,258,187	707,890
Time – IntraFi Network of Deposits	639,039	198,207
	$ 7,571,400	$ 1,837,055

At December 31, 2023 and 2022, the four largest deposit relationships accounted for approximately $133,582,681, or 25%, and $98,127,879, or 19%, 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 14).

7. 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 2023 and 2022. Expenses, which include the matching contributions and cost of services related to maintaining the plan, for 2023 and 2022 totaled $231,038 and $176,302, respectively.

8. Income Taxes

Income tax expense (benefit) was as follows:

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

	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

Continued

8. Income Taxes (Continued)

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

	2023	2022
Deferred tax assets:		
Allowance for Credit losses	$ 1,983,259	$ 1,886,749
Interest on nonaccrual loans	276,316	176,159
State income tax	235,415	175,492
Lease liability	1,594,718	1,652,962
Accrued Expenses	326,620	267,454
Other, net	128,022	114,223
Total deferred tax assets	4,544,350	4,273,039
Deferred tax liabilities:		
Depreciation, net	(17,574)	(18,877)
Deferred loan origination cost:	(339,395)	(375,655)
Right to Use Asset	(1,421,181)	(1,584,597)
Total deferred tax liabilities	(1,778,150)	(1,979,129)
Net deferred tax assets	$ 2,766,200	$ 2,293,910

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, 2023 and 2022.

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, 2023 and 2022.

The Bank files income tax returns in the United States, California, Georgia, and Connecticut jurisdictions. At December 31, 2023, 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, 2020 and by state and local taxing authorities for years ended before December 31, 2019.

9. 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, 2023:

Beginning balance	$ 2,947
Disbursements	-
Amounts repaid	(2,947)
Ending balance	$ -

Deposits

At December 31, 2023 and 2022, the Bank's deposits from related parties totaled approximately $2,396,669 and $4,271,875, respectively.

10. 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, 2023 and 2022, 101,131 and 115,466 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, 2023	Shares	Weighted-average Grant-Date Fair Value
Nonvested beginning balance	38,117	$ 24.14
Granted	16,987	$ 22.01
Vested	17,273	$ 23.63
Forfeited	2,579	$ 23.40
Nonvested ending balance	35,252	$ 23.42

10. Share-Based Compensation (Continued)

Compensation expense recorded for the years ended December 31, 2023 and 2022 was $517,503 and $518,319, respectively. Shares forfeited to pay taxes on the restricted stock vesting for the years ended December 31, 2023 and 2022 was $54,232 and $48,261, respectively. For the years ended December 31, 2023 and 2022, the fair values of the restricted stock awards upon vesting were $468,465 and $414,321, respectively. Unamortized compensation expense for 2023 and 2022 was $562,173 and $705,845, respectively. The unamortized compensation expense for 2023 is expected to be recognized over a weighted average 1.55 years.

11. 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, 2023 and 2022.

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 2023 and 2022, 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.

11. Regulatory Capital Matters (Continued)

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

	2023		2022	
	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital Ratio				
Bank of San Francisco	$73,207	18.36%	$66,593	16.00%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	39,868	10.00%	41,626	10.00%
Minimum regulatory requirement	31,895	8.00%	33,301	8.00%

	2023		2022	
	Amount	Ratio	Amount	Ratio
Tier 1 Risk-Based Capital Ratio				
Bank of San Francisco	$68,200	17.11%	$61,373	14.74%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	31,895	8.00%	33,301	8.00%
Minimum regulatory requirement	23,921	6.00%	24,975	6.00%

	2023		2022	
	Amount	Ratio	Amount	Ratio
Common Tier 1 Risk-Based Capital Ratio				
Bank of San Francisco	$68,200	17.11%	$61,373	14.74%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	25,914	6.50%	27,057	6.50%
Minimum regulatory requirement	17,941	4.50%	18,732	4.50%

	2023		2022	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Bank of San Francisco	$68,200	11.21%	$61,373	10.26%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	30,410	5.00%	29,914	5.00%
Minimum regulatory requirement	24,328	4.00%	23,931	4.00%

12. 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,	
	2023	2022
Commitments to extend credit	92,848	87,540
Standby letters of credit	1,096	1,785

Continued

13. 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, 2023 and 2022.

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

14. Borrowing Arrangements

Correspondent Banks

The Bank could borrow up to $24,500,000 and $35,500,000 at December 31, 2023 and 2022, respectively, under unsecured Federal funds lines of credit with its correspondent banks. There were no amounts outstanding under these borrowing arrangements at December 31, 2023 and 2022.

Federal Home Loan Bank

At December 31, 2023 and 2021 the Bank's remaining borrowing capacity totaled approximately $47,263,000 and $66,704,000, respectively. The Bank has a blanket lien pledge arrangement with the FHLB, and various loans totaling approximately $177,120,000 and $198,113,000 were specifically identified to secure FHLB borrowings as of December 31, 2023 and 2022, respectively. There were no advances outstanding as of December 31, 2023 and 2022. There were six letters of credit totaling $48,442,000 and five letters of credit totaling $37,942,000 outstanding as of December 31, 2023 and 2022, 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, 2023, mature in 2024.

14. Borrowing Arrangements (Continued)

Federal Reserve Bank

The Bank pledges residential loans through the Federal Reserve's discount window. At December 31, 2023 and 2022 the Bank's borrowing capacity totaled approximately $126,842,000 and $108,575,000, 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 $221,675,000 and $208,330,000 as of December 31, 2023 and 2022, respectively. There were no amounts outstanding under this borrowing arrangement at December 31, 2023 and 2022.

Continued

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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