BANK OF SAN FRANCISCO

FINANCIAL STATEMENTS

As of December 31, 2021 and 2020 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

Opinion

We have audited the financial statements of Bank of San Francisco, which comprise the balance sheets as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

(Continued)

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

San Francisco, California
March 29, 2022

Bank of San Francisco
Balance Sheets
December 31, 2021 and 2020

	2021	2020
ASSETS		
Cash and due from financial institutions	$ 15,762,742	$ 6,413,753
Interest-bearing deposits in banks	75,375,240	118,618,398
Cash and cash equivalents	91,137,982	125,032,151
Loans, net of allowance of $7,160,000 and $7,060,000 as of December 31, 2021 and 2020, respectively	499,537,196	540,414,707
Federal Home Loan Bank stock, at cost	2,861,800	1,983,500
Premises and equipment, net	203,228	265,063
Accrued interest receivable and other assets	5,708,320	6,711,156
Total Assets	$ 599,448,526	$ 674,406,577
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 217,899,264	$ 232,683,000
Interest bearing	323,888,116	302,988,592
Total deposits	541,787,380	535,671,592
FHLB advances	-	15,000,000
Other borrowing	-	74,777,400
Accrued interest payable and other liabilities	2,451,624	3,031,607
Total liabilities	544,239,004	628,480,599
Commitments and Contingencies		
Shareholders' Equity		
Common stock, no par; 10,000,000 shares 2,074,540, and 2,055,507 shares issued and as of December 31, 2021 and 2020, respectively	27,234,485	26,938,159
Retained earnings	27,975,037	18,987,819
Total Shareholders' Equity	55,209,522	45,925,978
Total Liabilities and Shareholders' Equity	$ 599,448,526	$ 674,406,577

Bank of San Francisco
Statements of Income and Comprehensive Income
Years ended December 31, 2021 and 2020

	2021	2020
Interest and dividend income		
Loans, including fees	$ 24,296,293	$ 20,073,405
Deposits in banks	89,938	179,905
Federal funds sold and other	138,198	99,333
Total interest income	24,524,429	20,352,643
Interest expense		
Deposits	882,027	1,617,635
Borrowings	201,985	205,211
Total interest expense	1,084,012	1,822,846
Net interest income	23,440,417	18,529,797
Provision for Loan losses	100,000	2,730,000
Net interest income after provision for loan losses	23,340,417	15,799,797
Non-interest income		
Service charges on deposits	283,275	272,622
Gain on sale of loans	294,357	279,510
Loan servicing fees, net	74,250	123,124
Other	860	8,559
Total non-interest income	652,742	683,815
Non-interest expenses		
Salaries and employee benefits	7,241,853	6,397,692
Occupancy	876,194	824,104
Information technology and equipment	896,180	779,806
Professional fees	533,257	341,551
Other	1,684,457	1,524,799
Total non-interest expenses	11,231,941	9,867,952
Income before income taxes	12,761,218	6,615,660
Income tax expense	3,774,000	1,957,500
Net income	$ 8,987,218	$ 4,658,160
Earnings per share		
Basic	$ 4.42	$ 2.31
Diluted	$ 4.41	$ 2.29
Comprehensive income	$ 8,987,218	$ 4,658,160

Bank of San Francisco
Statements of Changes in Shareholders' Equity
Years ended December 31, 2021 and 2020

	Common Stock		Retained	Total Shareholders'
	Shares	**Amount**	**Earnings**	**Equity**
Balance, January 1, 2020	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
Net income	-	-	8,987,218	8,987,218
Stock based compensation	-	296,326	-	296,326
Restricted stock issued, net	19,033	-	-	-
Balance, December 31, 2021	2,074,540	$ 27,234,485	$ 27,975,037	$ 55,209,522

Bank of San Francisco
Statements of Cash Flows
Years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Net income	$ 8,987,218	$ 4,658,160
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	100,000	2,730,000
Depreciation and amortization of premises and equipment	127,850	127,631
Loss on disposal of premises and equipment	580	-
Change in deferred loan origination fees and discount, net	(1,022,346)	3,013,462
Share-based compensation expense	296,326	286,484
Gain on sale of loans	(294,357)	(279,510)
Deferred income tax (benefit) expense	(261,457)	(860,108)
Net changes in operating assets and liabilities:		
Accrued interest receivable and other assets	1,264,293	(1,021,945)
Accrued interest payable and other liabilities	(579,983)	(500,261)
Net cash from operating activities	8,618,124	8,153,913
Cash Flows from (used in) Investing Activities:		
Purchase of Federal Home Loan Bank stock	(878,300)	(303,300)
Loan originations and payments, net	42,094,214	(228,993,577)
Additions to premises and equipment	(66,595)	(50,446)
Net cash from (used in) investing activities	41,149,319	(229,347,323)
Cash flows (used in) from financing activities:		
Net change in demand, NOW, savings deposits	8,399,021	124,941,424
Net change in time deposits	(2,283,233)	57,897,373
FHLB advances	-	15,000,000
FHLB repayments	(15,000,000)	-
Other borrowing proceeds	31,837,772	84,172,000
Other borrowing repayment	(106,615,172)	(9,394,600)
Net cash (used in) from financing activities	(83,661,612)	272,616,197
Net (decrease)/increase in cash and cash equivalents	(33,894,169)	51,422,787
Beginning cash and cash equivalents	125,032,151	73,609,364
Ending cash and cash equivalents	$ 91,137,982	$ 125,032,151
Supplemental cash flow information		
Cash paid for:		
Interest paid	$ 1,248,551	$ 1,721,274
Income taxes paid	$ 4,142,369	$ 2,770,000

1. Nature of Business and Summary of Significant Accounting Policies

General

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates because of the inherent subjectivity and inaccuracy of any estimation.

Risks and Uncertainties

In the normal course of business, the Bank encounters a wide variety of risks, some of which may be outside of the Bank’s control that could materially impact the financial results. The risks described below are significant risks to the Bank, and are not inclusive of all risks which may impact the Bank. Risks from global uncertainties, COVID-19 pandemic impacts, risks currently deemed immaterial, or other unknown risks, may materially and adversely affect our business, results of operations, liquidity, financial condition, or the market price and liquidity of the Bank’s stock.

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

Continued

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

Risks and Uncertainties (Continued)

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

Subsequent Events

The Bank has evaluated events subsequent through March 29, 2022, the date that these financial statements were available to be issued. There have been no subsequent events that occurred during the period that would require recognition or disclosure in the financial statements.

Cash Flows

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

Loans

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

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

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

Concentration of Credit Risk

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

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

In management's judgment, a concentration of loans exists in real estate related loans, with approximately 73% of the Bank's loans being real estate-related, or 81% excluding Paycheck Protection Program (PPP) loans, at December 31, 2021, and approximately 57% of the Bank's loans being real estate-related, or 80% excluding Paycheck Protection Program (PPP) loans, at December 31, 2020. A substantial decline in the performance of the economy in general or a decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on the loans' collectability, increase the level of real estate-related nonperforming loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on the financial condition of the Bank. Reflecting its being a community bank, the majority of the Bank's loans and collateral are in the greater San Francisco Bay Area. If that area sustained a significant decline in market value or economic loss, it could have an adverse impact on the collectability of those loans. Personal and business income represents the primary source of repayment for a majority of these loans.

Allowance for Loan Losses

The allowance for loan losses is an estimate of probable 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.

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

Allowance for Loan Losses (Continued)

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

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

During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. The Bank analyzes loans individually by classifying the loans as to credit risk. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

> **Pass** – A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.
>
> **Special Mention** – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses could result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.
>
> **Substandard** – A substandard loan is not adequately protected by the current net worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or a project's failure to fulfill economic expectations. The loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
>
> **Doubtful** – Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.
>
> **Loss** – Loans classified as loss are considered uncollectible and charged off immediately.

Continued

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

Allowance for Loan Losses (Continued)

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

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

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

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

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

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

Allowance for Loan Losses (Continued)

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

Commercial Real Estate – Commercial real estate loans (includes multi-family real estate loans) generally possess a higher inherent risk of loss than other real estate portfolio segments, except construction and land loans. Adverse economic conditions or an overbuilt market impacts commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

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

Commercial and Industrial – Commercial and industrial loans, excluding PPP loans, generally possess a higher inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to operating businesses' cash flows, which are uncertain in the current pandemic 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. PPP loans are low risk as they are 100% guaranteed by the SBA.

Consumer – Consumer loans are comprised mainly of lines of credit or loans to individuals for consumer purposes. Consumer loans generally possess a higher inherent risk than commercial loans because the loans are underwritten based on personal cash flow and assets. Debt coverage is provided by personal cash flow, and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrower's capacity to repay their obligations may be deteriorating.

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

Allowance for Loan Losses (Continued)

> Other – Other loans are comprised of lines of credit or loans not included in the other categories, overdrafts on deposit accounts and loans to finance agricultural production and other loans to farmers (not including loans secured by farm land). Overdrafts and other loans possess a high inherent risk because of the nonstandard nature of the credit.

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

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

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

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

Sales and Servicing of Loans

The Bank has originated loans to clients guaranteed by either the Small Business Administration ("SBA") or the Main Street Lending Program ("MSLP"). The SBA provides guarantees of 75% or 90% of each loan. The Bank sells the guaranteed portion of some of these loans to a third party and retains the unguaranteed portion in its own portfolio. The Bank generally receives a premium in excess of the adjusted carrying value of the loan at the time of sale. The Bank may be required to refund a portion of the sales premium if the borrower defaults or the loan prepays within ninety days of the settlement date. However, none of the premiums the Bank had received was subject to these recourse provisions as of December 31, 2021 and 2020. The guaranteed portion of SBA loans sold totaled approximately $2,488,000 and $2,120,000 in 2021 and 2020, 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. 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 2021. MSLP loans sold totaled $10,450,000 in 2020. 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 $206,204 and $277,522 associated with loans previously sold are included in "Accrued interest receivable and other assets" as of December 31, 2021 and 2020, respectively. Servicing asset amortization totaled $120,909 and $98,915 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020 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 $74,250 and $123,124 for the years ended December 31, 2021 and 2020, 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" 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 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 33,917 and 27,752 shares of unvested restricted stock outstanding at December 31, 2021 and 2020, 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, 2021 and 2020, 136,616 and 149,048 shares, respectively, were available to grant. The Plan is designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. New shares are issued upon option exercise or restricted share grants.

Restricted stock awards are grants of shares of common stock that are subject to forfeiture until specific conditions or goals are met. Conditions may be based on continuing employment or achieving specified performance goals. During the period of restriction, participants holding restricted stock may have full voting and dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors or committee of the Board of Directors.

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

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

Comprehensive Income

Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income that historically has not been recognized in the calculation of net income. For the periods presented, the Bank's only element of comprehensive income was the net income from operations.

Loss Contingencies

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

Restrictions on Cash

Federal Reserve Board (FRB) regulations require the Bank to maintain reserve balances on deposit with the Federal Reserve Bank. There was no reserve requirement as of December 31, 2021 and 2020, 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, 2021, $17,703,138 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.

Continued

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

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 year but anticipates that it will lead to an increase in the allowance for loan losses.

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.

In June 2020, FASB issued Accounting Standards Update "ASU" 2020-04, Reference Rate Reform (Topic 848). This ASU provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting due to the cessation of the London Interbank Offered Rate (LIBOR). The amendments are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued. The amendment in ASU 2021-01 clarifies that all derivative instruments affected by changes to interest rates used for discounting, margining or contract price alignment are in the scope of Accounting Standards Codification ("ASC") 848. The Bank prospectively adopted this guidance effective January 1, 2022 with no impact to the Bank's financial statements. Upon adoption, all eligible loan contract modifications made prior to December 31, 2022 will be accounted for as continuations of the existing loan contracts.

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, 2021 and 2020.

The carrying amounts and estimated fair values of the Bank's financial instruments not carried at fair value, at December 31, 2021 and 2020 are as follows (in thousands):

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

Continued

2. Fair Value Measurements (Continued)

	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

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.

2. Fair Value Measurements (Continued)

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

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

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

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

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

3. Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank of San Francisco (FHLB), the Bank is required to own capital stock in an amount specified by regulation. At December 31, 2021 and 2020, the Bank owned 28,618 and 19,835 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, 2021 and 2020, were as follows:

	December 31,	
	2021	2020
Loans secured by real estate:		
Commercial	$ 157,992,775	$ 136,124,886
Residential	215,910,907	161,007,050
Construction and land	10,991,928	18,028,227
Total real estate	384,895,610	315,160,163
Commercial and industrial	77,970,157	78,824,097
Paycheck Protection Plan Loans	47,705,071	158,387,420
Other	2,545	1,560
Total outstanding loans	510,573,383	552,373,240
Deferred loan origination fees and discount, net	(3,876,187)	(4,898,533)
Allowance for loan losses	(7,160,000)	(7,060,000)
Net outstanding loans	$ 499,537,196	$ 540,414,707

Salaries and employee benefits totaling $1,014,635 and $989,520 were deferred as loan origination costs for the years ended December 31, 2021 and 2020, 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, 2021 and 2020:

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

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

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, 2021 and 2020:

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

Continued

5. Allowance for Loan Losses (Continued)

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

The Bank had $4,682,877 and 2,307,464 in impaired loans at December 30, 2021 and 2020, respectively.

Continued

5. Allowance for Loan Losses (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2021 and 2020 by class of loans:

December 31, 2021	30 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total Loans	Non-accrual loans
Loans secured by real estate:						
Commercial	$ -	$ -	$ -	$ 157,992,775	$ 157,992,775	$ -
Residential	-	-	-	215,910,907	215,910,907	-
Construction and land	-	-		10,991,928	10,991,928	-
Total real estate	-	-	-	384,895,610	384,895,610	-
Commercial and industrial	-	-	-	125,675,228	125,675,228	4,682,877
Consumer	-	-	-	-	-	-
Other	-	-	-	2,545	2,545	-
Totals	$ -	$ -	$ -	$ 510,573,383	$ 510,573,383	$ 4,682,877

5. Allowance for Loan Losses (Continued)

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

No loans past 90 days were accruing interest at December 31, 2021. There was one loan past due 90 days accruing interest at December 31, 2020 with a principal balance of $2,814,227.

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

Continued

5. Allowance for Loan Losses (Continued)

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

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, 2021 and 2020.

Continued

6. Premises and Equipment

Premises and equipment were as follows:

	December 31,	
	2021	2020
Leasehold improvements	$ 297,348	$ 297,348
Equipment, furniture and software	1,299,570	1,236,108
	1,596,918	1,533,456
Less: accumulated depreciation	(1,393,690)	(1,268,393)
	$ 203,228	$ 265,063

Depreciation and amortization included in "Information technology and equipment" expense totaled $127,850 and $127,631 for the years ended December 31, 2021 and 2020, 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 $656,968, and lease liability was $731,042 as of December 31, 2021. The ROU asset was $1,259,466, and the lease liability was $1,389,313 as of December 31, 2020.

The Bank's leases, which are non-cancelable operating leases, have remaining terms ranging from 1 to 4 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, 2021 and 2020. Lease expense included in "Occupancy" expense totaled $630,891 and $630,984 for the years ended December 31, 2021 and 2020, 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 1.62 years and the weighted average discount rate of 1.57% as of December 31, 2021.

Continued

6. Premises and Equipment (Continued)

Leases (Continued)

Future lease payments due under existing operating leases as of December 31,2021 are as follows:

Year Ending December 31,	
2022	$ 513,336
2023	146,252
2024	87,413
2025	-
Total undiscounted lease payments	747,001
Less effects of discounting	(15,959)
Present value of lease payments	$ 731,042

7. Interest-Bearing Deposits

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

Interest-bearing deposits were as follows:

	December 31,	
	2021	2020
Savings	$ 409,466	$ 473,444
Money market	163,007,478	152,392,296
NOW accounts	35,407,556	22,776,003
Time – less than $100,000	242,454	341,769
Time – $100,000 or more	86,395,855	94,116,546
Time – IntraFi Network of Deposits	38,425,307	32,888,534
	$323,888,116	$ 302,988,592

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at year-end 2021 and 2020 were $84,065,250 and $92,086,845.

Continued

7. Interest-Bearing Deposits (Continued)

Scheduled maturities of time deposits are as follows:

Year Ending December 31,	
2022	$122,140,506
2023	2,487,736
2024	-
2025	-
2026	435,374
	$125,063,616

Interest expense on deposits was as follows:

	December 31,	
	2021	2020
Savings	$ 164	$ 281
Money market	561,931	780,329
NOW accounts	17,476	34,796
Time – less than $100,000	555	1,182
Time – $100,000 or more	186,467	571,313
Time – IntraFi Network of Deposits	115,434	229,734
	$ 882,027	$ 1,617,635

At December 31, 2021 and 2020, the four largest deposit relationships accounted for approximately $94,964,796, or 18%, and $100,949,033, 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 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 3% of the compensation was contributed for 2021, and a discretionary match equal to 100% of the first 2% of the compensation was contributed for 2020. Expenses, which include the matching contributions and cost of services related to maintaining the plan, for 2021 and 2020 totaled $172,424 and $113,493, respectively.

9. Income Taxes

Income tax expense (benefit) was as follows:

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

	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

Continued

9. Income Taxes (Continued)

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

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 2,116,754	$ 2,087,190
Interest on nonaccrual loans	71,473	15,249
State income tax	301,951	211,583
Depreciation, net	34,927	10,030
Lease liability	216,122	410,731
Accrued Expenses	353,829	252,643
Other, net	84,903	106,402
Total deferred tax assets	3,179,959	3,093,828
Deferred tax liabilities:		
Deferred loan origination cost	(406,666)	(403,871)
Right to Use Asset	(194,223)	(372,344)
Total deferred tax liabilities	(600,889)	(776,215)
Net deferred tax assets	$ 2,579,070	$ 2,317,613

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, 2021 and 2020.

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, 2021 and 2020.

The Bank files income tax returns in the United States and California jurisdictions. At December 31, 2021, 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, 2018 and by state and local taxing authorities for years ended before December 31, 2017.

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, 2021:

Beginning balance	$ 108,999
Disbursements	20,800
Amounts repaid	(101,246)
Ending balance	$ 28,553

Deposits

At December 31, 2021 and 2020, the Bank's deposits from related parties totaled approximately $4,191,690 and $10,165,946, 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, 2021 and 2020, 136,616 and 149,048 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, 2021	Shares	Weighted-average Grant-Date Fair Value
Nonvested beginning balance	27,752	$ 21.71
Granted	19,033	$ 25.70
Vested	12,868	$ 21.87
Nonvested ending balance	33,917	$ 23.88

Continued

11. Share-Based Compensation (Continued)

Compensation expense recorded for the years ended December 31, 2021 and 2020 was $296,326 and $286,484, respectively. For the years ended December 31, 2021 and 2020, the fair values of the restricted stock awards upon vesting were $281,440 and $259,409, respectively. Unamortized compensation expense for 2021 and 2020 was $682,274 and $520,717, respectively. The unamortized compensation expense for 2021 is expected to be recognized over a weighted average 2.00 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. Under Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer has been fully phased in and is 2.5%. The capital conservation buffer for 2021 and 2020 is 2.5%. Management believes that the Bank met all its capital adequacy requirements as of December 31, 2021 and 2020.

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 2021 and 2020, 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.

	2021		2020	
	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital Ratio				
Bank of San Francisco	$59,565	16.45%	$49,647	15.67%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	36,216	10.00%	31,675	10.00%
Minimum regulatory requirement	28,972	8.00%	25,340	8.00%

	2021		2020	
	Amount	Ratio	Amount	Ratio
Tier 1 Risk-Based Capital Ratio				
Bank of San Francisco	$55,004	15.19%	$45,648	14.41%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	28,972	8.00%	25,340	8.00%
Minimum regulatory requirement	21,729	6.00%	19,005	6.00%

	2021		2020	
	Amount	Ratio	Amount	Ratio
Common Tier 1 Risk-Based Capital Ratio				
Bank of San Francisco	$55,004	15.19%	$45,648	14.41%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	23,540	6.50%	20,589	6.50%
Minimum regulatory requirement	16,297	4.50%	14,254	4.50%

	2021		2020	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Bank of San Francisco	$55,004	9.13%	$45,648	8.25%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	30,116	5.00%	27,672	5.00%
Minimum regulatory requirement	24,093	4.00%	22,138	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,	
	2021	2020
Commitments to extend credit	86,027	74,374
Standby letters of credit	492	2,638

14. Earnings Per Share

The following table presents the factors used in the earnings per share computation. There were no anti-dilutive shares as of December, 31, 2021 and 2020.

	Net Income Available to Common Shareholders	Weighted Average Number of Shares Outstanding	Per Share Amount
For the Year Ended December 31, 2021			
Basic earnings per share	$ 8,987,218	2,032,757	4.42
Diluted earnings per share	$ 8,987,218	2,039,763	4.41
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

15. Borrowing Arrangements

Correspondent Banks

The Bank could borrow up to $24,500,000 and $9,500,000 at December 31, 2021 and 2020, respectively, under unsecured Federal funds lines of credit with its correspondent banks. There were no amounts outstanding under these borrowing arrangements at December 31, 2021 and 2020.

Federal Home Loan Bank

At December 31, 2021 and 2020 the Bank's remaining borrowing capacity totaled approximately $ 63,838,000 and $31,591,000, respectively. The Bank has a blanket lien pledge arrangement with the FHLB, and various loans totaling approximately $185,060,956 and $147,974,862 were specifically identified to secure FHLB borrowings as of December 31, 2021 and 2020, respectively. There were no advances outstanding as of December 31, 2021. There were $15,000,000 in advances outstanding as of December 31, 2020. There were six letters of credit totaling $48,250,000 and seven letters of credit totaling $48,250,000 outstanding as of December 31, 2021 and 2020, 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, 2021, mature in 2022.

Continued

15. Borrowing Arrangements (Continued)

Federal Reserve Bank

During 2020, the Bank was approved to pledge residential loans through the Federal Reserve's discount window. At December 31, 2021 and 2020 the Bank's borrowing capacity totaled approximately $118,710,000 and $77,889,000, 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 $185,798,000 and $117,559,000 as of December 31, 2021 and 2020, respectively. There were no amounts outstanding under this borrowing arrangement at December 31, 2020 and 2021.

During 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 Bank did not have any outstanding balance under the facility as of December 31, 2021.

Continued

With You When It Matters

Our Mission

To be an essential partner in the success of our rich and diverse communities by providing exceptional financial services and expertise to support the goals and aspirations of individuals, businesses and nonprofits.

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 finan cial 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).

BANK OF SAN FRANCISCO

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