2023 ANNUAL REPORT

partners bank of california

Financial Report

December 2023 and 2022
Partners Bank of California

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors
Partners Bank of California
Mission Viejo, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Partners Bank of California, which comprise the statement of financial condition as of December 31, 2023 and 2022, and the related statements of income, comprehensive income, changes in stockholders' 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 Partners Bank of California as of December 31, 2023 and 2022, and the results of its operations and its cash flows for 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 Partners Bank of California, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Bank adopted the provisions of FASB Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as of January 1, 2023 using the modified retrospective approach with an adjustment at the beginning of the adoption period. 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 these 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 Partners Bank of California's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Partners Bank of California'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 Partners Bank of California'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.

Eide Bailly LLP

Laguna Hills, California
January 23, 2024

(In Thousands, Except Share Data)

	2023	2022
Assets		
Cash and cash equivalents	**$ 82,099**	$ 67,062
Debt securities available for sale, at fair value (amortized cost of $10,619, net of allowance for credit losses of $0, and $10,823)	**10,443**	10,573
Loans, net of allowance for credit losses of $7,795 in 2023, and $7,512 in 2022	**387,720**	387,327
Federal Home Loan Bank (FHLB) and other stock, at cost	**2,297**	1,995
Premises and equipment	**248**	221
Accrued interest receivable	**1,134**	1,056
Deferred tax asset, net	**2,304**	2,068
Other assets	**1,357**	2,142
Total assets	**$ 487,602**	$ 472,444
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing demand	**$ 148,265**	$ 221,385
Savings, negotiable order of withdrawal (NOW) and money market accounts	**217,110**	124,248
Time deposits of $250,000 or less	**30,999**	15,432
Time deposits of over $250,000	**7,914**	3,010
Total deposits	**404,288**	364,075
Borrowings	**30,000**	60,000
Accrued interest and other liabilities	**2,941**	3,192
Total liabilities	**437,229**	427,267
Commitments and contingencies (Note 10)		
Stockholders' equity		
Common stock, no par value; 10,000,000 shares authorized; 4,466,870 and 4,439,796 shares issued and outstanding for the years 2023 and 2022, respectively	**34,318**	34,008
Additional paid-in capital	**2,745**	2,439
Retained earnings	**13,430**	8,900
Accumulated other comprehensive loss	**(120)**	(170)
Total stockholders' equity	**50,373**	45,177
Total liabilities and stockholders' equity	**$ 487,602**	$ 472,444

(In Thousands, Except Per Share Data)

	2023	2022
Interest income		
Interest and fees on loans	$ 20,455	$ 15,855
Interest on debt securities	364	148
Interest on federal funds sold and other	2,736	590
Total interest income	23,555	16,593
Interest expense		
Interest on savings deposits, NOW and money market accounts	4,456	720
Interest on time deposits	1,263	177
Interest on borrowings	908	239
Total interest expense	6,627	1,136
Net interest income before provision for credit losses	16,928	15,457
Provision for credit losses	402	708
Net interest income after provision for credit losses	16,526	14,749
Noninterest income		
Service charges, fees and other	805	385
Noninterest expense		
Salaries and employee benefits	7,449	6,876
Occupancy and equipment expenses	724	726
Other expenses	2,648	2,476
Total noninterest expense	10,821	10,078
Income before income tax provision	6,510	5,056
Income tax provision	1,980	1,511
Net income available to common stockholders	$ 4,530	$ 3,545
Net income available to common stockholders, per share:		
Basic	$ 1.02	$ 0.80
Diluted	0.98	0.77

	2023	2022
Net income	$ 4,530	$ 3,545
Other comprehensive income (loss):		
Unrealized holding gain (loss) arising during period, net of tax	50	(203)
Comprehensive income	$ 4,580	$ 3,342

Statements of Changes in Stockholders' Equity
Years Ended December 31, 2023 and 2022
(In Thousands, Except Share Data)

	Common Stock		Additional		Accumulated Other	
	Number of Shares	Amount	Paid-In Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balance, December 31, 2021	4,335,977	$ 33,046	$ 2,350	$ 5,355	$ 33	$ 40,784
Stock-based compensation	-	-	348	-	-	348
Net income	-	-	-	3,545	-	3,545
Stock options exercised	103,819	962	(259)	-	-	703
Other comprehensive loss	-	-	-	-	(203)	(203)
Balance, December 31, 2022	4,439,796	34,008	2,439	8,900	(170)	45,177
Stock-based compensation	-	-	379	-	-	379
Net income	-	-	-	4,530	-	4,530
Stock options exercised	27,074	310	(73)	-	-	237
Other comprehensive income	-	-	-	-	50	50
Balance, December 31, 2023	**4,466,870**	**$ 34,318**	**$ 2,745**	**$ 13,430**	**$ (120)**	**$ 50,373**

(In Thousands)

	2023	2022
Operating Activities		
Net income	**$ 4,530**	$ 3,545
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**188**	188
Provision for credit losses	**402**	708
Deferred income taxes	**(260)**	(105)
Stock-based compensation	**379**	348
Change in accrued interest, other assets and liabilities	**393**	(139)
Net cash provided by operating activities	**5,632**	4,545
Investing Activities		
Purchases of investment securities	**-**	(10,007)
Proceeds from paydowns on investment securities	**199**	603
Net increase in loans	**(731)**	(80,347)
Purchase of FHLB stock	**(302)**	(81)
Purchases of premises and equipment	**(211)**	(112)
Net cash used in investing activities	**(1,045)**	(89,944)
Financing Activities		
Net increase in demand deposits and savings accounts	**19,742**	48,571
Net increase in time deposits	**20,471**	2,940
Net change in overnight FHLB borrowings	**(25,000)**	15,000
Proceeds from term FHLB borrowings	**-**	5,000
Repayment of term FHLB borrowings	**(5,000)**	(5,000)
Exercise of stock options	**237**	703
Net cash provided by financing activities	**10,450**	67,214
Increase (decrease) in cash and cash equivalents	**15,037**	(18,185)
Cash and Cash Equivalents		
Beginning of year	**67,062**	85,247
End of year	**$ 82,099**	$ 67,062
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest	**$ 6,358**	$ 1,045
Income taxes	**$ 2,437**	$ 1,585
Measurement of lease liabilities - operating cash flows	**$ 405**	$ 393

Note 1 - Nature of Business and Significant Accounting Policies

The accounting and reporting policies of Partners Bank of California ("the Bank") are in accordance with accounting principles generally accepted in the United States of America and conform to practices within the banking industry. A summary of the Bank's significant accounting policies follows:

Nature of banking activity: The Bank was incorporated in the state of California and organized as a single operating segment that operates one full-service office in Mission Viejo, California, and an additional remote branch in Beverly Hills, California. The Bank’s primary source of revenue is providing loans to customers who are predominantly small and middle-market businesses and individuals. The Bank’s business is concentrated in Orange County and Los Angeles County, California, and is subject to the general economic conditions of these areas.

The Bank grants commercial, real estate and consumer loans to its customers, substantially all of whom are small and middle-market businesses or residents in the Bank’s service area. Generally, those loans are collateralized by business assets and/or real estate. Concentration of credit risk is fully described in Note 3.

Subsequent Events: The Bank has evaluated subsequent events for recognition and disclosure through January 23, 2024, which is the date the financial statements were available to be issued.

Use of estimates in the preparation of financial statements: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent 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 those estimates. A material estimate that is particularly susceptible to significant change in the near term is the allowance for credit losses. Other estimates significant to the financial statements include the realization of deferred tax assets and the fair value of financial instruments.

Cash, cash equivalents and cash flows: For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks. Cash equivalents represent short-term, highly liquid investments and include any investment with an original maturity of three months or less at the date the Bank purchases the investment. Cash flows from loans and deposits are reported net.

Cash and due from banks: Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank (FRB). Effective March 12, 2021, the Federal Reserve’s board of directors approved the final rule reducing the required reserve requirement ratios to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. This reduction in the required reserves does not have a defined time frame and may be revised by the Federal Reserve’s board in the future.

The Bank maintains amounts due from banks that may exceed federally insured limits. The Bank has not experienced any losses in such accounts.

Debt securities: The Bank classifies its debt securities as available-for-sale or held-to-maturity. Securities classified as available-for-sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in comprehensive income. Securities, which the Bank has the positive intent and ability to hold to maturity, are classified as held-to-maturity and are carried at amortized cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For available-for-sale debt securities, the Bank evaluates, on an individual basis, whether a decline in fair value below the amortized cost basis has resulted from a credit loss or other factors. The portion of the decline attributable to credit losses is recognized through an allowance for credit losses (ACL), and changes in the ACL on available-for-sale debt securities are recorded as a provision for credit losses in the statements of income. Accrued interest is excluded from our expected credit loss estimates. The portion of decline in fair value below the amortized cost basis not attributable to credit is recognized through other comprehensive income, net of applicable taxes.

Loans: Loans are stated at the amount of unpaid principal, reduced by deferred loan fees and costs, discount on Small Business Administration (SBA) loans and an allowance for estimated credit losses. Interest on loans is calculated using the interest method on daily balances of the principal amount outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. Generally, loans are placed on non-accrual status when they become 90 days past due. All accrued interest receivable for loans that are placed on non-accrual is reversed against the current period interest income. Interest accruals are resumed when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. All loans are generally charged off at such time the loan is classified as a loss.

Nonrefundable fees associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The deferred net loan fees are generally recognized in interest income over the contractual loan term in a manner that approximates the level-yield method.

Allowance for credit losses (ACL) – Loans: The ACL for loans is a valuation account that is deducted from the loan’s amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged-off against the allowance when management believes the recorded loan balance is confirmed as uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

Management estimates the allowance balance using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The ACL for loans is measured on a collective (pool) basis when similar risk characteristics exist. Historical credit loss experience since 2009, for a group of peer institutions of similar size and geographic location, provides the basis for the estimation of expected credit losses.

Adjustments to historical loss information are made for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in the nature and volume of financial assets; changes in the existence and effect of concentrations; changes in the volume and severity of past due financial assets, the volume of nonaccrual and other adversely graded loans; changes in the value of the underlying collateral for loans that are not collateral-dependent; changes in lending policies and procedures; changes in the credit review system; changes in the experience, ability and depth of lending management and other relevant staff; actual and expected changes in economic and business conditions; and changes in the effect of other external factors such as regulatory, legal, technology, and competition.

Historical credit loss experience is further adjusted by a forecast element for a period of up to 24 months for the effect of certain highly correlated economic indicators, which vary for each loan segment. After the forecast period ends, the loss rate reverts back to the historical rate.

A loan is considered to be collateral dependent when repayment is expected to be provided substantially through the operation or sale of the collateral. The ACL on collateral dependent loans is measured using the amortized cost basis of the financial asset less the fair value of the underlying collateral, adjusted for costs to sell, when applicable. If the value of the underlying collateral is determined to be less than the recorded amount of the loan, a specific reserve for that loan is recorded. If the Bank determines that the loss represented by the specific reserve is uncollectible, it records a charge-off for the uncollectible portion.

Portfolio segments identified by the Bank include real estate and commercial loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance.

Allowance for credit losses (ACL) – Unfunded Commitments: The Bank also maintains a separate allowance for unfunded loan commitments. Beginning January 1, 2023, management estimates anticipated losses using expected loss factors consistent with those used for the ACL methodology for loans described above, and utilization assumptions based on historical experience. The allowance for unfunded commitments is included in accrued interest and other liabilities in the statements of financial condition.

Loan Modifications: Prior to the adoption of ASU 2022-02 on January 1, 2023, a loan was classified as a troubled debt restructuring (TDR) when the Bank granted a concession to a borrower experiencing financial difficulties that it otherwise would not consider under its normal lending policies under ASC Subtopic 310-40, Troubled Debt Restructurings by Creditors. Upon the adoption of ASU 2022-02, the Bank applied the general loan modification guidance provided in ASC 310-20 to all loan modifications, including modifications made for borrowers experiencing financial difficulty.

GAAP requires that certain types of modifications be reported, which consist of (1) principal forgiveness; (2) interest rate reduction; (3) other-than-insignificant payment delay; (4) term extension; and any combination of the above. Since adoption of ASU 2022-02 on January 1, 2023, the Bank did not have any new loan modifications under ASU 2022-02. At December 31, 2022, the Bank had one loan that had been modified and classified as TDR under previous GAAP.

Off-Balance Sheet Credit Related Financial Instruments: In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) 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 (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Federal Home Loan Bank and other stock: The Bank is a member of the Federal Home Loan Bank (FHLB) of San Francisco and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of loans eligible to be pledged and advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 per share par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock and is carried at cost.

Premises and equipment: Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful life, which ranges from three to seven years for furniture, equipment and computer equipment. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized, and those for ordinary repairs and maintenance are charged to operations as incurred.

Leases: The Bank determines if an arrangement contains a lease at contract inception and recognize right-of-use ("ROU") assets and operating lease liabilities based on the present value of lease payments over the lease term. While operating leases may include options to extend the term, the Bank does not take into account the options in calculating the ROU asset and lease liability unless it is reasonably certain such options will be reasonably exercised. The present value of lease payments is determined based on the Bank's incremental borrowing rate and other information available at lease commencement. Leases with an initial term of 12 months or less are not recorded in the balance sheets. Lease expense is recognized on a straight-line basis over the lease term. The Bank has elected to account for lease agreements with lease and non-lease components as a single lease component.

Revenue Recognition - Noninterest Income: Revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Bank expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the Bank performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract; and (v) recognize revenue when (or as) the Bank satisfies a performance obligation.

The Bank only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Bank assesses the goods or services that are promised within each contract and identifies those that contain performance obligation, and assesses whether each promised good or service is distinct. The Bank then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. All of the Bank's revenue from contracts with customers within the scope of ASC 606 is recognized in noninterest income.

The following is a discussion of key revenues within the scope of ASC 606.

> **Service Charges and Fees on Deposit Accounts:** The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Advertising costs: The Bank expenses the costs of advertising in the period incurred.

Income taxes: Deferred income taxes are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is more likely than not that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods.

The Bank is subject to the guidance for accounting for uncertainty in tax positions taken or expected to be taken on a tax return. The tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of income tax provision.

Comprehensive income: Accounting standards require the disclosure of comprehensive income and its components. Changes in unrealized gain and loss on available-for-sale debt securities is the only component of accumulated other comprehensive income for the Bank.

Reclassifications: Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. This included reclassification of the 2022 provision for unfunded commitments of $8,000 from noninterest expense to provision for credit losses in the statements of income. This reclassification had no impact on net income or stockholders' equity.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Bank's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period, on a straight-line basis. The Bank has elected to account for forfeitures of stock-based awards as they occur. Excess tax benefits and tax deficiencies relating to stock-based compensation are recorded as income tax expense or benefit in the income statement when incurred.

See Note 12 for additional information on the Bank's stock option plan.

Fair Value Measurements: Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an 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. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at 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 an entity's own assumptions about the factors that market participants would use in pricing an asset or liability.

See Note 15 for more information and disclosures relating to the Bank's fair value measurements.

Financial Instruments: In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note 10. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Earnings per share (EPS): Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common stock outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock that would then share in the earnings of the Bank.

Adoption of Accounting Standards Codification Topic 326:

On January 1, 2023, the Bank adopted Accounting Standard Update ("ASU") 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326), which replaces the incurred loss impairment methodology with a methodology that reflects current expected credit losses ("CECL") and requires consideration of historical experience, current conditions and reasonable and supportable forecasts to estimate expected credit losses for financial assets held at the reporting date. The measurement of expected credit losses under the CECL is applicable to financial assets measured at amortized cost, including loans, held-to-maturity debt securities and unfunded commitments. The Bank elected to account for accrued interest receivable separately from the amortized cost of loans and investment securities.

ASU 2016-13 also requires credit losses on available-for-sale debt securities be measured through an allowance for credit losses when the fair value is less than the amortized cost basis. In addition, ASU 2016-13 modifies the other-than-temporary impairment ("OTTI") model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.

The Bank adopted ASU 2016-13 using the modified retrospective transition approach, and recorded a decrease of $60,000 to the beginning balance of the Allowance for Credit Losses for Loans and a $60,000 increase to the Allowance for Credit Losses for Unfunded Loan Commitments. These entries, commonly referred to as the "Day 1" adjustment, had no effect on the Bank's Equity. This Day 1 adjustment reflects the development of the CECL models to estimate lifetime expected credit losses on the loans held for investment and unfunded commitments primarily using a lifetime loss methodology and management's current expectation of future economic conditions. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with the probable incurred loss accounting standards.

At adoption of CECL and continuing through December 31, 2023, the Bank did not record an ACL on available-for-sale debt securities as they are comprised entirely of debt securities explicitly or implicitly backed by the U.S. government and which historically have had no credit loss experience. Refer to Note 2, Debt Securities, for more information.

Concurrent with the adoption of ASU 2016-13, the Bank adopted ASU 2023-02, Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings ("TDR") and Vintage Disclosures, which eliminated TDR accounting prospectively for all loan modifications occurring on or after January 1, 2023 and added additional disclosure requirements for current period gross charge-offs by year of origination. It also prescribes guidance for reporting modifications for certain loan refinancings and restructurings made to borrowers experiencing financial difficulty. Loans that were considered a TDR prior to the adoption of ASU 2023-02 will continue to be accounted for under the superseded TDR accounting guidance until the loan is paid off, liquidated, or subsequently modified.

Note 2 - Debt Securities

The amortized cost of available-for-sale debt securities and their approximate fair values at December 31 were as follows (dollars in thousands):

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 10,002	$ -	$ (145)	$ 9,857
U.S. government agency residential mortgage-backed securities	617	-	(31)	586
	$ 10,619	$ -	$ (176)	$ 10,443

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 10,006	$ -	$ (204)	$ 9,802
U.S. government agency residential mortgage-backed securities	816	-	(45)	771
	$ 10,822	$ -	$ (249)	$ 10,573

There were no debt securities pledged as collateral for the Bank's FHLB of San Francisco borrowing line and FRB borrowing line for both of the years ended December 31, 2023 and 2022. The Bank did not sell any debt securities during the years ended December 31, 2023 and 2022.

The Bank's mortgage-backed securities at December 31, 2023 are not due at a single maturity date and can be prepaid, called or refunded without penalty. The Bank's U.S. Treasury securities are due in less than two years, with approximately half maturing in 2024 and half in 2025.

Allowance for Credit Losses – Available-for-Sale Securities

At December 31, 2023, 4 available-for-sale debt securities with fair values totaling $10.4 million had net unrealized losses totaling $176,000, which have been in a continuous loss position for greater than 12 months. For available-for-sale debt securities with unrealized losses, management considered the financial condition of the issuer and the Bank's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. Our available-for-sale debt securities consisted of U.S. Treasury and U.S. government agency and government sponsored enterprise securities, which are either explicitly or implicitly guaranteed by the U.S. government and historically have had no credit loss experience.

Management determined that the unrealized losses for December 31, 2023 and each investment were primarily attributable to factors other than credit related, including changes in interest rates driven by the Federal Reserve's policy to fight against inflation and general volatility in credit market conditions. As such, the Bank applied a zero-credit loss assumption for these securities and no provision for credit losses was recorded for available-for-sale debt securities during the year ended December 31, 2023.

At December 31, 2022, the Bank had 14 debt securities with an unrealized loss of $249,000, which have depreciated approximately 2.3 percent from the amortized cost basis and have been in a continuous loss position for less than 12 months. These securities are guaranteed either explicitly or implicitly by the U.S. Government and therefore no credit loss is expected. As the Bank does not intend to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, no declines are deemed to be other-than-temporary.

Note 3 - Loans and Allowance for Credit Losses

The composition of the loan portfolio at December 31 is as follows (dollars in thousands):

	2023	2022
Real Estate		
Construction and land	$ 25,544	$ 24,676
Owner occupied	112,848	105,461
Investor CRE	116,773	127,925
Residential 1-4	53,298	56,604
Multifamily	48,323	45,207
Commercial		
Commercial & industrial	39,098	35,457
Total gross loans	395,884	395,330
Allowance for credit losses	(7,795)	(7,512)
Net deferred loan origination fees	(352)	(446)
Discount on retained portion of sold SBA Loans	(17)	(45)
Loans held for investment, net	$ 387,720	$ 387,327

The Bank's loan portfolio consists primarily of loans to borrowers within Orange and Los Angeles Counties. Although the Bank seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate-secured loans make up approximately 90% and 91% of the Bank's loan and collateral portfolios as of December 31, 2023 and 2022, respectively.

The following table presents the allowance for credit losses for the year ended December 31, 2023, by portfolio segment (dollars in thousands):

	Real Estate	Commercial	Total
Allowance for credit losses			
Beginning balance	$ 6,944	$ 568	$ 7,512
Adopton of ASU No. 2016-13	(60)	-	(60)
Charge offs	-	-	-
Recoveries	-	5	5
Provision	244	94	338
Ending balance	$ 7,128	$ 667	$ 7,795
Reserve for unfunded loan commitments			
Beginning balance	$ 62	$ 67	$ 129
Adopton of ASU No. 2016-13	-	60	60
Provision	40	24	64
Ending balance	$ 102	$ 151	$ 253

The following table presents the recorded investment in loans and impairment method as of December 31, 2022, and the activity in the allowance for loan losses for the year then ended, by portfolio segment (dollars in thousands):

	Real Estate	Commercial	Total
Allowance for loan losses			
Beginning balance	$ 6,161	$ 631	$ 6,792
Charge offs	-	-	-
Recoveries	-	20	20
Provision	783	(83)	700
Ending balance	$ 6,944	$ 568	$ 7,512
Allowance allocated to			
Individually evaluated for impairment	$ -	$ -	$ -
Collectively evaluated for impairment	6,944	568	7,512
Ending balance	$ 6,944	$ 568	$ 7,512
Loans			
Individually evaluated for impairment	$ -	$ 187	$ 187
Collectively evaluated for impairment	359,873	35,270	395,143
Ending balance	$ 359,873	$ 35,457	$ 395,330

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Bank uses the following definitions for risk ratings:

Pass - Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions above and smaller, homogeneous loans not assessed on an individual basis.

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Based on the most recent analysis performed, the risk category of loans by class of loans and origination year is as follows as of December 31, 2023 (dollars in thousands):

	Term Loans Amortized Cost by Origination Year				Revolving Loans Amortized	
	2023	2022	2021	Prior Years	Cost Basis	Total
Real Estate:						
Construction and land						
Pass	$ 4,500	$ 14,093	$ 3,575	$ -	$ -	$ 22,168
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	3,376	-	3,376
Total	4,500	14,093	3,575	3,376	-	25,544
Owner occupied						
Pass	2,234	22,418	25,129	32,833	29,982	112,596
Special Mention	-	-	-	-	252	252
Substandard	-	-	-	-	-	-
Total	2,234	22,418	25,129	32,833	30,234	112,848
Investor CRE						
Pass	3,097	36,716	26,562	33,493	13,879	113,747
Special Mention	-	-	-	2,356	670	3,026
Substandard	-	-	-	-	-	-
Total	3,097	36,716	26,562	35,849	14,549	116,773
Residential 1-4						
Pass	2,681	14,401	2,383	15,388	17,300	52,153
Special Mention	-	-	-	-	-	-
Substandard	-	1,145	-	-	-	1,145
Total	2,681	15,546	2,383	15,388	17,300	53,298
Multifamily						
Pass	3,779	15,399	16,507	5,400	7,238	48,323
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total	3,779	15,399	16,507	5,400	7,238	48,323
Commercial						
Pass	4,392	5,511	5,384	10,301	10,379	35,967
Special Mention	-	292	-	-	2,350	2,642
Substandard	-	-	-	489	-	489
Total	4,392	5,803	5,384	10,790	12,729	39,098
Gross loans	$ 20,683	$ 109,975	$ 79,540	$ 103,636	$ 82,050	$ 395,884
Gross Loans						
Pass	$ 20,683	$ 108,538	$ 79,540	$ 97,415	$ 78,778	$ 384,954
Special Mention	-	292	-	2,356	3,272	5,920
Substandard	-	1,145	-	3,865	-	5,010
Total	$ 20,683	$ 109,975	$ 79,540	$ 103,636	$ 82,050	$ 395,884

The Bank did not have any charge-offs in the year ended December 31, 2023.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows as of December 31, 2022 (dollars in thousands):

	Pass	Special Mention	Substandard	Total
Real estate				
Construction and land	$ 21,292	$ -	$ 3,384	$ 24,676
Owner occupied	104,174	1,287	-	105,461
Investor CRE	119,415	8,510	-	127,925
Residential 1-4	52,381	3,019	1,204	56,604
Multifamily	43,848	1,359	-	45,207
Commercial				
Commercial & industrial	32,197	2,344	916	35,457
SBA PPP	-	-	-	-
Total	$ 373,307	$ 16,519	$ 5,504	$ 395,330

As of December 31, 2023 and 2022, the Bank had no loans past due over 30 days.

The recorded investment in nonaccrual loans was $0 and $187,000 as of December 31, 2023 and 2022, respectively, and there was no interest income recognized on nonaccrual loans during the years then ended.

The following table summarizes individually impaired loans by class of loans as of December 31, 2022 (dollars in thousands):

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Commercial and industrial	$ 235	$ 187	$ -	$ 217	$ -

There were no modifications that were deemed new TDRs during the year ended December 31, 2022. There was no principal forgiven on TDRs in 2022. There were no commitments to lend additional funds to borrowers whose terms have been modified in TDRs as of December 31, 2022. TDR loans at December 31, 2022, totaled $187,000.

Note 4 - Premises, Equipment and Leases

A summary of premises and equipment as of December 31 is as follows (dollars in thousands):

	2023	2022
Leasehold improvements	$ 66	$ 71
Furniture, fixtures and equipment	807	1,234
	873	1,305
Less accumulated depreciation and amortization	(625)	(1,084)
	$ 248	$ 221

The Bank leases its headquarters and a branch office under one lease that expires in April 2026. The Bank also has a lease agreement for an additional office location that expires in March 2025. Both leases include provisions for periodic rent increases, as well as payment by the lessee of certain operating expenses that exceed the base year amount. The leases also include provisions for options to extend the lease, with renewal terms that can extend the lease term by up to five years.

For the years ended December 31, 2023 and 2022, the lease liability totaled $884,000 and $1.3 million, respectively, with a right-of-use asset of $765,000 and $1.1 million, respectively. For the years ended December 31, 2023 and 2022, the weighted average remaining lease term was 2.2 years and 3.2 years, respectively, with a weighted average discount rate of 2.91% and 2.90%, respectively. For the years ended December 31, 2023 and 2022, lease liabilities are included in accrued interest and other liabilities while the right-of-use assets are included in other assets in the statements of financial condition.

At December 31, 2023, the future minimum lease payments under operating leases are as follows (dollars in thousands):

Years ending December 31:	
2024	$ 427
2025	367
2026	118
Total future minimum lease payments	912
Less imputed interest	(28)
Total	$ 884

The minimum rental payments shown above are given for the existing lease obligations and are not a forecast of future rental expense. Total rental expense, recognized on a straight-line basis, at December 31, 2023 and 2022, was approximately $384,000 in both years.

Note 5 - Deposits

The Bank offers the Insured Cash Sweep (ICS) product, providing customers with FDIC insurance coverage at ICS network institutions. ICS deposits totaled $243.5 million as of December 31, 2023. The Bank maintained $2.8 million in reciprocal deposit balances and sold $240.7 million of deposit balances to other ICS network institutions in a one-way transfer as of December 31, 2023. The spread between what the Bank receives from ICS network institutions and the cost of the deposits that were sold totaled $303,000 in 2023 and was recorded as noninterest income in the Statements of Income. The Bank had no ICS deposits as of December 31, 2022.

At December 31, 2023, the scheduled maturities of time deposits are as follows (dollars in thousands):

Years ending December 31:		
2024	$	20,031
2025		14,121
2026		1,488
2027		609
2028		2,664
	$	38,913

As of December 31, 2023 and 2022, the Bank's brokered deposits totaled $29.7 million and $13.9 million, respectively.

Note 6 - Employee Benefit Plan

The Bank adopted a 401(k) plan for its employees in 2008. Under the plan, eligible employees may defer a portion of their salaries. The plan also provides for discretionary Bank profit sharing contributions. The Bank made $210,000 and $171,000 in contributions to the plan for the years ended December 31, 2023 and 2022, respectively.

Note 7 - Borrowings

The Bank has a borrowing arrangement with the Federal Home Loan Bank of San Francisco ("FHLB") and has pledged loans as collateral with a carrying value of approximately $218.9 million as of December 31, 2023 with remaining borrowing capacity of $127.6 million as of December 31, 2023.

Overnight and term advances outstanding at December 31, 2023 were as follows (dollars in thousands):

Maturity Date	Interest Rate	Amount
January 2, 2024	5.70%	$ 15,000
March 29, 2024	0.76%	5,000
March 6, 2025	0.95%	5,000
December 15, 2025	4.18%	2,000
December 15, 2027	3.88%	3,000
		$ 30,000

The Bank has a separate secured borrowing arrangement with the Federal Reserve Bank and has pledged loans with a carrying value of $108.9 million as collateral as of December 31, 2023, with a borrowing capacity of $78.7 million. There was no outstanding balance on this line as of December 31, 2023. The Bank also has unused, unsecured federal fund lines of credit with correspondent banks in the amount of $17.0 million.

Note 8 - Income Taxes

Income tax provision consists of the following for the years ended December 31 (dollars in thousands):

	2023	2022
Current provision		
Federal	$ 1,431	$ 1,020
State	809	596
Total current provision	2,240	1,616
Deferred provision		
Federal	(176)	(63)
State	(84)	(42)
Total deferred provision	(260)	(105)
Total current and deferred provision	$ 1,980	$ 1,511

Deferred taxes are a result of differences between income tax accounting and U.S. GAAP with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying statements of financial condition at December 31 (dollars in thousands):

	2023	2022
Deferred tax assets		
Allowance for loan losses	$ 2,082	$ 1,995
Unrealized loss on investment	56	80
Lease liability	261	372
Stock-based compensation	271	215
State franchise tax	164	126
Other	217	173
	3,051	2,961
Deferred tax liabilities		
Capitalized loan costs	(418)	(469)
Right of use asset	(226)	(329)
Depreciation	(32)	(36)
Other	(71)	(59)
	(747)	(893)
Net deferred tax assets	$ 2,304	$ 2,068

The Bank is subject to federal income tax and franchise tax of the state of California. Income tax returns for the years ending after December 31, 2019 are open to audit by the federal authorities and for the years ending after December 31, 2018 are open to audit by California state authorities.

Note 9 - Other Expenses

Other expenses as of December 31 consist of the following (dollars in thousands):

	2023	2022
Legal and professional	$ 704	$ 714
Data processing	567	639
Marketing and business promotion	232	237
Regulatory assessments	301	152
Office expenses	131	134
Nonemployee stock compensation	189	163
Training and seminars	21	17
Other	503	420
	$ 2,648	$ 2,476

Note 10 - Commitments and Contingencies

Financial instruments with off-balance-sheet risk: In the ordinary course of business, the Bank enters into financial commitments to meet the financing needs of its customers, primarily through commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk not recognized in the Bank's financial statements.

The Bank's exposure to loan loss in the event of nonperformance on commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for loans reflected in the financial statements.

As of December 31, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk (dollars in thousands):

	2023	2022
Commitments to extend credit	$ 47,728	$ 48,905
Commitments on standby letters of credit	4,547	2,782
	$ 52,275	$ 51,687

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Standby letters of credit are conditional commitments to guarantee the performance of a Bank customer to a third party. Since many of the commitments and standby letters of credit are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Bank evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank is based on management's credit evaluation of the customer. A reserve for commitments to extend credit has been established and totals $253,000 and $129,000 as of December 31, 2023 and 2022, respectively, and is included in accrued interest and other liabilities in the statements of financial condition.

Contingencies: Because of the nature of its activities, the Bank may be subject to various pending and threatened legal actions, which may arise in the ordinary course of business. The Bank's management is not aware of any such matters that would result in a material exposure to the Bank as of December 31, 2023 or 2022.

Financial instruments with concentrations of credit risk: The Bank focuses on commercial and commercial real estate lending to customers primarily in Orange County and Los Angeles County. The Bank's loan portfolio includes credit exposure to the real estate market of these areas and upon the economic viability of these areas. The majority of real estate loans are secured by first liens with an initial loan-to-value ratio of generally not more than 70%.

Note 11 - Related-Party Transactions

In the ordinary course of business, the Bank has granted loans to certain officers and directors and the companies with which they are associated. The outstanding balance of these loans was $7.6 million and $8.4 million as of December 31, 2023 and 2022.

Note 12 - Stock Option Plan

The Bank's 2007 Equity-Based Compensation Plan (the 2007 Plan) was approved by its stockholders in November 2007. During the year ended December 31, 2018, the 2007 Plan expired and the Bank issued a new 2018 Equity-Based Compensation Plan (the 2018 Plan) that was approved by its stockholders in May 2018. These plans will be collectively referred to as the Plans. The disclosures and tables below include awards issued and outstanding under both plans. Under the terms of the Plans, officers and key employees may be granted nonqualified stock options, incentive stock options and restricted stock awards, and directors and organizers, who are not also an officer or employee, may only be granted nonqualified stock options. Prior to its expiration, the 2007 Plan provided for options and restricted stock awards of 569,000 shares of common stock. The 2018 Plan and subsequent amendments have provided for an additional 931,000 shares for a total of 1,500,000 shares of common stock. The Plans require stock options to have a price no less than 100% of the fair market value of the stock on the date of grant.

As of December 31, 2023 and 2022, the Bank had 280,549 and 217,500 shares of common stock available to be issued under the 2018 Plan combined for both stock options and restricted stock, respectively. Stock options for the Plans expire no later than 10 years from the date of grant and vest over three or four years. The Bank determines that recognizing compensation costs ratably over a three or four-year vesting period is appropriate with one-third or one-fourth of the value of the award recognized each year. The Plans provide for accelerated vesting if there is a change of control, as defined in the Plans. The Bank recognized stock-based compensation cost of $379,000 and $348,000 in 2023 and 2022, respectively, related to the Plans.

Since the Bank has a limited amount of historical stock activity, the expected volatility is based on the historical volatility of similar banks that have a longer trading history. The expected term represents the estimated average period of time that the options remain outstanding. Since the Bank does not have sufficient historical data on the exercise of stock options, the expected term is based on the "simplified" method that measures the expected term as the approximate average of the vesting period and the contractual term. The risk-free rate of return reflects the grant-date interest rate offered for zero coupon U.S. Treasury bonds over the expected term of the options. The intrinsic value for the outstanding stock options that have been granted for the years ended December 31, 2023 and 2022 was approximately $2.1 million in both years.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions presented below:

	2023	2022
Expected volatility	23.6%	24.6%
Expected term	7 years	7 years
Expected dividends	None	None
Risk-free rate	3.58% - 4.39%	1.53% - 3.14%
Weighted-average grant-date fair value	$ 3.36	$ 3.28

A summary of the status of the Bank's stock option grants as of December 31 and changes during the years ended thereon is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding, December 31, 2021	701,719	$ 7.40	5.9
Granted	199,250	10.76	-
Exercised	(103,819)	6.77	-
Forfeited or expired	(8,865)	10.21	-
Outstanding, December 31, 2022	788,285	8.30	6.4
Granted	164,200	11.00	-
Exercised	(27,074)	8.75	-
Forfeited or expired	(27,249)	10.64	-
Outstanding, December 31, 2023	898,162	$ 8.71	5.9
Options exercisable at December 31, 2023	609,862	$ 7.68	4.7

As of December 31, 2023, there was $774,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 2.7 years.

The Plans also allow for the granting of restricted stock awards. Under the Plans, grants may include vesting periods up to 10 years. There were no grants of restricted stock during the years ended December 31, 2023 or 2022, and there were no nonvested restricted stock as of December 31, 2023 or 2022.

Note 13 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2023 and 2022, that the Bank met all capital adequacy requirements to which it was subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and capital restoration plans are required. As of December 31, 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 Bank’s category.

The Bank's actual and required capital amounts and ratios are presented below as of December 31, 2023 (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023						
Total capital (to risk-weighted assets)	$ 55,371	14.29%	$ 30,991	8.0%	$ 38,739	10.0%
Tier 1 capital (to risk-weighted assets)	50,489	13.03%	23,244	6.0%	30,991	8.0%
Common equity Tier 1 capital ratio	50,489	13.03%	17,433	4.5%	25,180	6.5%
Tier 1 capital (to average assets)	50,489	10.77%	18,750	4.0%	23,437	5.0%

The Bank's actual and required capital amounts and ratios are presented below as of December 31, 2022 (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022						
Total capital (to risk-weighted assets)	$ 50,252	12.88%	$ 31,205	8.0%	$ 39,006	10.0%
Tier 1 capital (to risk-weighted assets)	45,342	11.62%	23,404	6.0%	31,205	8.0%
Common equity Tier 1 capital ratio	45,342	11.62%	17,553	4.5%	25,354	6.5%
Tier 1 capital (to average assets)	45,342	10.98%	16,513	4.0%	20,642	5.0%

The California Financial Code provides that a bank may not make a cash distribution to its stockholders in excess of the lesser of the Bank’s undivided profits or the bank’s net income for its last three fiscal years, less the amount of any distribution made to the bank’s stockholders during the same period.

Note 14 - Fair Value Measurements

The Bank used the following methods and significant assumptions to estimate fair value measurements:

Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

The following table provides a summary of the financial instruments the Bank measures at fair value on a recurring basis as of December 31, 2023 (dollars in thousands):

		Fair Value Measured Using		
	Total	Level 1	Level 2	Level 3
U.S. Treasury securities	$ 9,857	$ 9,857	$ -	$ -
U.S. government agency residential mortgage-backed securities	586	-	586	-
	$ 10,443	$ 9,857	$ 586	$ -

The following table provides a summary of the financial instruments the Bank measures at fair value on a recurring basis as of December 31, 2022 (dollars in thousands):

		Fair Value Measured Using		
	Total	Level 1	Level 2	Level 3
U.S. Treasury securities	$ 9,802	$ 9,802	$ -	$ -
U.S. government agency residential mortgage-backed securities	771	-	771	-
	$ 10,573	$ 9,802	$ 771	$ -

Note 15 - Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

The carrying amounts and estimated fair value of significant financial instruments at December 31, 2023 and 2022 are summarized as follows (dollars in thousands):

	2023		2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 82,099	$ 82,099	$ 67,062	$ 67,062
Debt securities available for sale	10,443	10,443	10,573	10,573
Loans, net	387,720	377,951	387,327	375,143
FHLB and other stock	2,297	2,297	1,995	1,995
Accrued interest receivable	1,134	1,134	1,056	1,056
Financial liabilities				
Noninterest-bearing DDA accounts	148,265	148,265	221,385	221,385
Savings, NOW and MMDA accounts	217,110	217,110	124,248	124,248
Time deposit accounts	38,913	40,099	18,442	18,532
Borrowings	30,000	29,666	60,000	59,249
Accrued interest payable	381	381	112	112

Note 16 - Earnings Per Share

The following table shows how the Bank computed basic and diluted EPS for the years ended December 31 (dollars in thousands, except per share data):

	2023	2022
Numerator		
Net income	$ 4,530	$ 3,545
Dividends on preferred stock	-	-
Net income available to common stockholders	$ 4,530	$ 3,545
Denominator		
Basic weighted-average outstanding common stock	4,457	4,419
Dilutive effect of stock options	181	171
Diluted weighted-average common stock and equivalents	4,638	4,590
Basic net income per common share	$ 1.02	$ 0.80
Diluted net income per common share	$ 0.98	$ 0.77

For the years ended December 31, 2023 and 2022, option shares totaling 331,000 and 320,000, respectively, had an antidilutive effect in the calculation of diluted net income per share and have been excluded from the computations above.

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