

GOLDEN STATE BANCORP

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Golden State Bancorp
Glendale, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Golden State Bancorp, which comprise the consolidated statements of financial condition as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Golden State Bancorp as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "Crowe LLP", written in a cursive style.

Crowe LLP

Costa Mesa, California
May 12, 2021

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and due from banks	\$ 7,259,821	\$ 12,143,717
Interest-bearing deposits in other banks	98,551,443	28,700,071
Federal Funds Sold	-	<u>45,761,578</u>
Total cash and cash equivalents	<u>105,811,264</u>	86,605,366
Loans		
Construction and land development	43,147,470	34,122,388
Real Estate	236,152,598	171,883,485
Commercial	46,886,099	48,257,780
Consumer	<u>199,236</u>	<u>221,021</u>
Total loans	<u>326,385,403</u>	254,484,674
Deferred loan fees, net of costs	(915,289)	(559,341)
Allowance for loan losses	<u>(4,291,813)</u>	<u>(3,377,813)</u>
Net loans	321,178,301	250,547,520
Federal Home Loan Bank stock, at cost	1,137,600	951,700
Premises and equipment	1,110,425	1,243,376
Other real estate owned	1,331,857	4,497,357
Operating lease right-of-use assets, net	1,421,486	1,807,102
Deferred tax asset	5,011,426	4,857,878
Accrued interest and other assets	<u>2,098,647</u>	<u>1,652,875</u>
Total assets	<u>\$ 439,101,006</u>	<u>\$ 352,163,174</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing demand	\$ 60,471,407	\$ 46,183,428
Savings, NOW and money market accounts	174,618,926	151,957,628
Time deposits under \$250,000	64,876,838	43,720,846
Time deposits \$250,000 and over	<u>69,698,706</u>	<u>53,891,998</u>
Total deposits	<u>369,665,877</u>	295,753,900
Federal Home Loan Bank (FHLB) borrowings	25,000,000	16,500,000
Secured notes, net of issuance costs	9,950,000	5,000,000
Operating lease liabilities	1,631,398	1,991,165
Accrued interest and other liabilities	<u>1,912,920</u>	<u>1,536,172</u>
Total liabilities	408,160,195	320,781,237
Shareholders' equity		
Preferred stock - 500,000,000 shares authorized; issued and outstanding - 0 in 2020 and 2019	-	-
Common stock - 500,000,000 shares authorized; issued and outstanding - 1,836,538 in 2020 and 2019	41,818,151	41,818,151
Additional paid-in capital	562,873	429,626
Retained earnings (accumulated deficit)	<u>(11,440,213)</u>	<u>(10,865,840)</u>
Total shareholders' equity	<u>30,940,811</u>	<u>31,381,937</u>
	<u>\$ 439,101,006</u>	<u>\$ 352,163,174</u>

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

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Interest income		
Interest and fees on loans	\$ 16,836,613	\$ 16,523,506
Interest on federal funds sold and other	<u>498,443</u>	<u>1,882,100</u>
Total interest income	17,335,056	18,405,606
Interest expense		
Interest on savings, NOW and money market accounts	2,398,000	2,559,460
Interest on time deposits	2,592,732	2,546,469
Interest on FHLB	349,851	380,302
Interest on secured notes	<u>390,338</u>	<u>385,338</u>
Total interest expense	<u>5,730,921</u>	<u>5,871,569</u>
Net interest income	11,604,135	12,534,037
Provision for loan losses	<u>914,000</u>	<u>453,500</u>
Net interest income after provision for loan losses	10,690,135	12,080,537
Non-interest income		
Service charges, fees and other	<u>75,475</u>	<u>335,335</u>
	75,475	335,335
Non-interest expense		
Salaries and employee benefits	6,184,438	4,775,633
Occupancy and equipment expenses	691,623	583,655
Other expenses	<u>4,628,278</u>	<u>5,050,137</u>
	<u>11,504,339</u>	<u>10,409,425</u>
Income (loss) before income taxes	(738,730)	2,006,447
Income tax expense (benefit)	<u>(164,357)</u>	<u>603,803</u>
Net income (loss) and comprehensive income (loss)	<u>\$ (574,373)</u>	<u>\$ 1,402,644</u>
Earnings per share:		
Basic	\$ (0.31)	\$ 0.81
Diluted	\$ (0.31)	\$ 0.75

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

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2020 and 2019

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
	Number of Shares	Amount	Number of Shares	Amount			
Balance at January 1, 2019	112,328	\$ 2,911,240	1,418,802	\$ 38,871,751	\$ 425,018	\$ (12,268,484)	\$ 29,939,525
Net income	-	-	-	-	-	1,402,644	1,402,644
Stock-based compensation	-	-	-	-	4,608	-	4,608
Stock option exercises	-	-	3,000	35,160	-	-	35,160
Preferred converted at 3.6922	<u>(112,328)</u>	<u>(2,911,240)</u>	<u>414,736</u>	<u>2,911,240</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2019	-	-	1,836,538	41,818,151	429,626	(10,865,840)	31,381,937
Net loss	-	-	-	-	-	(574,373)	(574,373)
Stock-based compensation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,247</u>	<u>-</u>	<u>133,247</u>
Balance at December 31, 2020	<u>-</u>	<u>\$ -</u>	<u>1,836,538</u>	<u>\$ 41,818,151</u>	<u>\$ 562,873</u>	<u>\$ (11,440,213)</u>	<u>\$ 30,940,811</u>

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

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Net income (loss)	\$ (574,373)	\$ 1,402,644
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	236,368	173,574
Provision for loan losses	914,000	453,500
Stock-based compensation	133,247	4,608
Write down and loss on sale of other real estate owned	238,046	962,910
Loss on disposal of premises and equipment	6,271	-
Change in deferred tax asset	(153,548)	588,489
Change in ROU asset, accrued interest and other assets	(60,156)	(22,408)
Change in lease liabilities, accrued interest and other liabilities	<u>16,981</u>	<u>81,703</u>
Net cash from operating activities	756,836	3,645,020
Cash flows from investing activities		
Net increase in loans	(71,544,781)	(38,615,551)
Purchases of premises and equipment	(109,688)	(315,019)
Purchase of Federal Home Loan Bank (FHLB) stock	(185,900)	(8,100)
Purchase of other real estate owned	(44,580)	-
Proceeds from sale of other real estate owned	<u>2,972,034</u>	<u>-</u>
Net cash from investing activities	(68,912,915)	(38,938,670)
Cash flows from financing activities		
Net increase in demand deposits and savings accounts	36,949,277	37,855,122
Net increase in time deposits	36,962,700	6,269,403
Proceeds from FHLBSF advances	32,000,000	-
Repayment of FHLBSF advances	(23,500,000)	(3,500,000)
Proceeds from secured notes, net of issuance costs	9,950,000	-
Repayment of secured notes	(5,000,000)	-
Proceeds from exercise of stock options	<u>-</u>	<u>35,160</u>
Net cash from financing activities	87,361,977	40,659,685
Net change in cash	19,205,898	5,366,035
Cash and cash equivalents at beginning of year	<u>86,605,366</u>	<u>81,239,331</u>
Cash and cash equivalents at end of year	<u>\$ 105,811,264</u>	<u>\$ 86,605,366</u>
Supplemental cash flow information		
Cash paid during the year for:		
Income taxes	\$ 10,658	\$ 26,142
Interest	5,764,075	5,891,357
Non-cash operating activities:		
Lease liabilities arising from right-of-use assets	-	2,115,637
Non-cash financing activities:		
Conversion of preferred stock to common stock	-	2,991,240

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

GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: On October 30, 2015, Golden State Bank became the wholly owned subsidiary of Golden State Bancorp. The consolidated financial statements as of December 31, 2020 and 2019 include the accounts of Golden State Bancorp (Bancorp) and its wholly owned subsidiary, Golden State Bank (the “Bank”), collectively referred to herein as the “Company”. All significant intercompany transactions have been eliminated.

Golden State Bancorp has no significant business activity other than its investment in Golden State Bank. Accordingly, no separate financial information on the Bancorp is provided.

On December 22, 2020, Golden State Bank formed a wholly owned subsidiary, GSB Service Corporation. The financial results of the Bank include the accounts of the Bank and GSB Service Corporation (the “Subsidiary”).

Nature of Operations: The Company has been organized as a single reporting segment with headquarters and a branch in Glendale, California and a branch in Upland, California. The Company's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through May 12, 2021, 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 in conformity with accounting principles generally accepted in the United States of America 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.

The global pandemic resulting from the outbreak of the novel strain of coronavirus (“COVID-19”) has substantially and negatively impacted the United State economy, disrupted global supply chains, considerably lowered the valuation of the equity markets, created significant volatility and disruption in financial markets, and materially increased unemployment levels. In addition, the pandemic has resulted in temporary closures of countless businesses and the institution of social distancing and sheltering in place requirements in most states and communities. The Company has, and could continue to, experience a material and adverse effect on its business as a result of the impact of the COVID-19 pandemic, and the resulting government actions to curtail its spread. It is at least reasonably possible that information which was available to the Company at the date of the financial statements will change in the near term due to the COVID-19 pandemic and that the effect of the change could be material to the financial statements. The extent to which the COVID-19 pandemic will impact the Company’s estimates and assumptions is highly uncertain.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, deposits with other financial institutions with maturities under ninety days and federal funds sold. Generally, federal funds are sold for one-day periods.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Company was in compliance with its reserve requirements as of December 31, 2020 and 2019.

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

Loans: Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs and net of deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received, and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each segment.

The Company determines a separate allowance for each portfolio segment. The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value and the probability of collecting all amounts when due. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance, homogeneous loans are collectively evaluated for impairment.

The Company recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired with measurement of impairment as described above.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General reserves cover non-impaired loans and homogeneous loans collectively evaluated for impairment and are based on historical loss rates for each portfolio segment, adjusted 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 lending policies and procedures; changes in economic conditions; changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Portfolio segments identified by the Company include construction and land development, commercial real estate and other, commercial and industrial and consumer loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to-income, collateral type and loan-to-value ratios for consumer loans.

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 lives, which ranges from three to ten years for furniture and 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.

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 the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If the fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Income Taxes: Deferred income taxes are computed using the asset and liability method, which recognizes an asset or liability 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, if necessary, 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 Company has adopted guidance issued by the Financial Accounting Standards Board (FASB) that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that 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. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases: The Company adopted Accounting Standard Update “ASU” No. 2016-02 “Leases Topic 842” beginning in 2019 which requires the Company to recognize most leases in the Statement of Financial Condition. The right-of-use “ROU” assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. The ROU assets and lease liabilities on the Statement of Financial Condition 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 Company uses its incremental borrowing rate at the lease adoption date or lease commencement date to calculate the present value of the lease payments when the rate implicit in a lease liability is unknown. Prior to 2019, operating leases were not recognized in the Statement of Financial Condition. The ROU asset is reflected in “Operating lease right-of-use asset, net” and the lease liability is reflected in “Operating lease liabilities” on the Company’s Statement of Financial Condition as of December 31, 2020 and 2019.

Revenue Recognition: The Company accounts for certain of its revenue streams in accordance with ASC 606 - Revenue from Contracts with Customers. Revenue streams within the scope of and accounted for under ASC 606 Include: deposit-related fees and transactions, debit card interchange fees, international service charges, and gains and losses from the sale of other real estate owned. ASC 606 requires revenue to be recognized when the Company satisfies related performance obligations by transferring to the customer a good or service. The recognition of revenue under ASC 606 requires the Company to first identify the contract with the customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and finally recognize revenue when the performance obligations have been satisfied and the good or service has been transferred. The majority of the Company’s contracts with customers associated with revenue streams that are within the scope of ASC 606 are considered short-term in nature and can be canceled at any time by the customer or the Company, such as a deposit account agreement. Other more significant revenue streams for the Company such as interest income on loans and investment securities are specifically excluded from the scope of ASC 606 and are accounted for under other applicable U.S. GAAP.

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

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.

Earnings Per Share (EPS): Basic EPS is computed by dividing net income or loss by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the dilutive effect of additional potential common shares issuable under stock options.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement: 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 standard describes three levels of inputs that may be used to measure fair value:

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 an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

See Note 12 for more information and disclosures relating to the Company's fair value measurements.

Stock-Based Compensation: The Company recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period. See Note 11 for additional information on the Company's stock option plan.

Reclassifications: Some items in prior year financial statements have been reclassified to conform to the current year presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

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GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 - LOANS

The Company's loan portfolio consists primarily of loans to borrowers within Los Angeles, Orange, Riverside and San Bernardino counties. Although the Company seeks to avoid concentrations of loans to a single class of collateral, loans secured by real estate collateral are among the principal loans in the Company's loan portfolio and, as a result, the Company's loan and collateral portfolios are to some degree, concentrated in real estate collateral.

The following table presents the activity in the allowance for loan losses for the year 2020, and the recorded investment in loans and impairment method as of December 31, 2020, by portfolio segment:

	<u>Construction and Land Development</u>	<u>Real Estate</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
Allowance for loan losses:					
Beginning of year	\$ 981,879	\$ 2,210,859	\$ 183,625	\$ 1,450	\$ 3,377,813
Provision	426,061	445,190	43,247	(498)	914,000
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
End of year	<u>\$ 1,407,940</u>	<u>\$ 2,656,049</u>	<u>\$ 226,872</u>	<u>\$ 952</u>	<u>\$ 4,291,813</u>
Reserves:					
Specific	\$ -	\$ -	\$ -	\$ -	\$ -
General	<u>1,407,940</u>	<u>2,656,049</u>	<u>226,872</u>	<u>952</u>	<u>4,291,813</u>
	<u>\$ 1,407,940</u>	<u>\$ 2,656,049</u>	<u>\$ 226,872</u>	<u>\$ 952</u>	<u>\$ 4,291,813</u>
Loans evaluated for impairment:					
Individually	\$ -	\$ 675,713	\$ 818,315	\$ -	\$ 1,494,028
Collectively	<u>43,147,470</u>	<u>235,476,885</u>	<u>46,067,784</u>	<u>199,236</u>	<u>324,891,375</u>
	<u>\$ 43,147,470</u>	<u>\$ 236,152,598</u>	<u>\$ 46,886,099</u>	<u>\$ 199,236</u>	<u>\$ 326,385,403</u>

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GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 - LOANS (Continued)

The following table presents the activity in the allowance for loan losses for the year 2019, and the recorded investment in loans and impairment method as of December 31, 2019, by portfolio segment:

	<u>Construction and Land Development</u>	<u>Real Estate</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
Allowance for loan losses:					
Beginning of year	\$ 274,538	\$ 2,506,750	\$ 78,108	\$ 3,122	\$ 2,862,518
Provision	707,341	(295,891)	43,722	(1,672)	453,500
Charge-offs	-	-	-	-	-
Recoveries	-	-	61,795	-	61,795
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
End of year	<u>\$ 981,879</u>	<u>\$ 2,210,859</u>	<u>\$ 183,625</u>	<u>\$ 1,450</u>	<u>\$ 3,377,813</u>
Reserves:					
Specific	\$ -	\$ -	\$ -	\$ -	\$ -
General	981,879	2,210,859	183,625	1,450	3,377,813
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>\$ 981,879</u>	<u>\$ 2,210,859</u>	<u>\$ 183,625</u>	<u>\$ 1,450</u>	<u>\$ 3,377,813</u>
Loans evaluated for impairment:					
Individually	\$ -	\$ -	\$ 580,393	\$ -	\$ 580,393
Collectively	34,122,388	171,883,485	47,677,387	221,021	253,904,281
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>\$ 34,122,388</u>	<u>\$ 171,883,485</u>	<u>\$ 48,257,780</u>	<u>\$ 221,021</u>	<u>\$ 254,484,674</u>

The Company 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 Company 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 Company uses the following definitions for risk ratings:

Pass - Loans classified as pass include loans not meeting the risk ratings defined below.

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.

(Continued)

GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 - LOANS (Continued)

Impaired - A loan is considered impaired, when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Additionally, all loans classified as troubled debt restructurings are considered impaired.

The risk category of loans by class of loans was as follows as of December 31, 2020 and 2019:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Impaired</u>	<u>Total</u>
<u>December 31, 2020</u>					
Construction and land development	\$ 43,147,470	\$ -	\$ -	\$ -	\$ 43,147,470
Real Estate	235,476,885	-	-	675,713	236,152,598
Commercial	46,067,784	-	-	818,315	46,886,099
Consumer	199,236	-	-	-	199,236
	<u>\$ 324,891,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,494,028</u>	<u>\$ 326,385,403</u>
<u>December 31, 2019</u>					
Construction and land development	\$ 34,122,388	\$ -	\$ -	\$ -	\$ 34,122,388
Real Estate	171,883,485	-	-	-	171,883,485
Commercial	47,677,387	-	-	580,393	48,257,780
Consumer	221,021	-	-	-	221,021
	<u>\$ 253,904,281</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 580,393</u>	<u>\$ 254,484,674</u>

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2020 and 2019:

	<u>30-89 Days Past Due</u>	<u>Over 90 Days Past Due</u>	<u>Nonaccrual</u>
<u>December 31, 2020</u>			
Construction and land development	\$ -	\$ -	\$ -
Real Estate	-	675,713	675,713
Commercial	-	144,748	818,315
Consumer	-	-	-
	<u>\$ -</u>	<u>\$ 820,461</u>	<u>\$ 1,494,028</u>
<u>December 31, 2019</u>			
Construction and land development	\$ -	\$ -	\$ -
Real Estate	-	2,549,504	-
Commercial	1,400,000	-	580,393
Consumer	-	-	-
	<u>\$ 1,400,000</u>	<u>\$ 2,549,504</u>	<u>\$ 580,393</u>

At December 31, 2020, all loans past due over 90 days were on nonaccrual.

(Continued)

GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 - LOANS (Continued)

Information relating to individually impaired loans presented by class of loans was as follows as of December 31:

	Unpaid Principal Balance	Recorded Investment	Impaired Loans		Related Allowance	Average Recorded Investment	Interest Income Recognized
			With Specific Allowance	Without Specific Allowance			
<u>2020</u>							
Real Estate	\$ 675,713	\$ 675,713	\$ -	\$ 675,713	\$ -	\$ 337,856	\$ -
Commercial and Industrial	<u>818,315</u>	<u>818,315</u>	<u>-</u>	<u>818,315</u>	<u>-</u>	<u>699,354</u>	<u>3,330</u>
	<u>\$ 1,494,028</u>	<u>\$ 1,494,028</u>	<u>\$ -</u>	<u>\$ 1,494,028</u>	<u>\$ -</u>	<u>\$ 1,037,210</u>	<u>\$ 3,330</u>
<u>2019</u>							
Commercial and Industrial	<u>\$ 580,393</u>	<u>\$ 580,393</u>	<u>\$ -</u>	<u>\$ 580,393</u>	<u>\$ -</u>	<u>\$ 140,031</u>	<u>\$ 27,251</u>
	<u>\$ 580,393</u>	<u>\$ 580,393</u>	<u>\$ -</u>	<u>\$ 580,393</u>	<u>\$ -</u>	<u>\$ 140,031</u>	<u>\$ 27,251</u>

Troubled Debt Restructurings:

As of December 31, 2020 and 2019, the Company had a recorded investment in troubled debt restructurings of \$673,567 and \$235,393, respectively. During 2020, the Company modified one commercial and industrial loan which had a balance of \$358,900 at December 31, 2020. The Company has not committed to lend any additional amounts to borrowers whose loans have been restructured in troubled debt restructurings as of December 31, 2020.

There were no defaults of any loans that were modified in a troubled debt restructuring within 12 months of the modification during 2020 or 2019.

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GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 - LOANS (Continued)

Loan Modifications Related to the COVID-19 Pandemic: As a part of the CARES Act, the temporary relief from accounting for troubled debt restructuring ("TDR") provided an option for financial institutions to suspend the GAAP requirements and regulatory determinations for loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR from March 1, 2020, through the earlier of 60 days after the date of the COVID-19 National Emergency comes to an end or December 31, 2020.

On April 7, 2020, the federal banking regulators also issued an interagency statement to encourage financial institutions to work prudently with borrowers and describe the banking regulators' interpretation of how accounting rules for TDRs apply to certain modifications related to the COVID-19 pandemic.

On December 27, 2020, the Economic Aid Act was signed into law, which extended the applicable period of the temporary relief from TDR accounting under the CARES Act to the earlier of 60 days after the date of the COVID-19 National Emergency comes to an end or January 1, 2022.

As of December 31, 2020, the Company's loans under modified terms related to the COVID-19 pandemic, including payment deferrals and interest only payments, totaled \$21,101,461. All of these loans under modified terms related to the COVID-19 pandemic were accounted for under section 4013 of the CARES Act and not considered TDRs. All loans under modified terms related to the COVID-19 pandemic were current and accrual status as of December 31, 2020; however, all such loans are monitored on an ongoing basis in accordance with each loan's covenants and conditions for potential downgrade or change in accrual status.

NOTE 3 - PREMISES AND EQUIPMENT

A summary of premises and equipment as of December 31 follows:

	<u>2020</u>	<u>2019</u>
Furniture, fixtures, and equipment	\$ 1,136,068	\$ 2,405,630
Leasehold improvements	<u>730,062</u>	<u>1,535,617</u>
	1,866,130	3,941,247
Less accumulated depreciation and amortization	<u>(755,705)</u>	<u>(2,697,871)</u>
	<u>\$ 1,110,425</u>	<u>\$ 1,243,376</u>

Leases: The Company has three operating lease agreements for its Glendale headquarters and branch, Upland branch and regional office, resulting in a ROU asset of \$1,421,486 and a lease liability of \$1,631,398 as of December 31, 2020 and ROU asset of \$1,807,102 and a lease liability of \$1,991,165 as of December 31, 2019. Refer to Note 1, "Summary of Significant Accounting Policies" for additional information.

The Company 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. Discount rates are as such 2.92%, 2.69%, and 2.79% for the following three locations - Glendale, Upland branch and Upland regional office.

(Continued)

GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 3 - PREMISES AND EQUIPMENTB (Continued)

The Company entered into a lease for its headquarters and a branch in Glendale that expires on January 1, 2025 and provides for one five-year option to renew. The Company has also entered into leases for an Upland branch and an Upland regional office that expires in June 2021 and October 2024, respectively. Both leases provide for two five-year options to renew. These leases include provisions for periodic rent increases as well as payment of certain operating expenses.

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 liabilities as of December 31, 2020 and 2019.

At December 31, 2020, the future cash payments under operating lease commitments are as follows:

2021	\$ 442,889
2022	421,891
2023	434,548
2024	<u>429,153</u>
Total undisbursed lease payments	1,728,481
Less: imputed interest	<u>(97,083)</u>
Net lease liability	<u>\$ 1,631,398</u>

Total Lease expenses were approximately \$439,000 and \$382,000 for the years ended December 31, 2020 and 2019, respectively.

NOTE 4 - DEPOSITS

At December 31, 2020, the scheduled maturities of time deposits are as follows:

2021	\$ 99,289,787
2022	15,031,668
2023	9,459,227
2024	6,866,862
2025	3,185,000
Thereafter	<u>743,000</u>
	<u>\$ 134,575,544</u>

NOTE 5 – SECURED NOTES

The Company may borrow up to \$5,000,000 overnight on an unsecured basis from one of its correspondent banks. At December 31, 2020 and 2019, the Company had no balance outstanding under this arrangement.

(Continued)

GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 5 – SECURED NOTES AND BORROWINGS (Continued)

At December 31, 2020, the Company had two secured notes outstanding in the amounts of \$9,000,000 and \$1,000,000, respectively from two members of its Board of Directors, who are considered related parties. Both notes carry a fixed interest rate of 6.50%, and mature on December 27, 2023. Principal is due at maturity, and interest payments are due monthly. In conjunction with the secured notes from the related parties, the note holders have a conditional right to purchase 61,539 shares of stock at \$16.25 per share and 56,497 shares of stock at \$17.70 per share. The purchase right would only be fully exercisable after such time, if ever, that the Company issues a significant number of additional shares of common stock. If excisable, and upon exercise of this conditional right to purchase, the note holders may convert a portion of the secured notes in lieu of payment. Expense associated with the conditional right to purchase stock was not material. At December 2019, the Company had two secured notes outstanding in the amount of \$4,500,000 and \$500,000, respectively from two members of its Board of Directors, who are considered related parties. Both notes carried a fixed interest rate of 7.25% and matured on December 27, 2020. Interest expense on the related party secured notes totaled \$390,338 and \$385,338 for the years ended December 31, 2020 and 2019.

The Company may also borrow up to approximately \$88.1 million as of December 31, 2020 from the Federal Home Loan Bank of San Francisco (FHLBSF), subject to providing adequate collateral and fulfilling other conditions of the credit facility, of which \$25 million has been advanced as of December 31, 2020. Borrowings from the FHLBSF at December 31, 2020 and 2019 are as follows:

<u>2020</u>	<u>2019</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
\$ 5,000,000	\$ 5,000,000	2.32%	November 29, 2022
2,500,000	-	0.94	March 3, 2022
2,500,000	-	0.99	March 3, 2023
5,000,000	-	1.08	March 3, 2025
2,500,000	-	1.02	March 4, 2025
2,500,000	-	0.90	March 6, 2023
2,500,000	-	0.85	March 6, 2023
2,500,000	-	0.96	March 6, 2025
-	5,000,000	1.89	February 20, 2020
-	5,000,000	1.57	October 2, 2020
-	<u>1,500,000</u>	1.66	January 2, 2020
<u>\$ 25,000,000</u>	<u>\$ 16,500,000</u>		

The above advances bear interest at a fixed rate. The advances are due at maturity, and interest is due monthly. The remaining borrowing capacity at the FHLB is approximately \$63.1 million as of December 31, 2020 which is secured by approximately \$133.8 million in loans.

(Continued)

GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 6 - INCOME TAXES

The provision for income taxes for the years ended December 31, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Current:		
Federal	\$ (10,026)	\$ (11,660)
State	<u>(783)</u>	<u>26,974</u>
Total current	(10,809)	15,314
Deferred:		
Federal	(91,809)	387,808
State	<u>(61,739)</u>	<u>200,681</u>
Total deferred	<u>(153,548)</u>	<u>588,489</u>
Total income tax (benefit) expense	<u>\$ (164,357)</u>	<u>\$ 603,803</u>

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles 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:

	<u>2020</u>	<u>2019</u>
Deferred tax assets		
Operating loss carryforward	\$ 3,805,519	\$ 3,566,743
Tax credit carryforwards	54,855	67,790
Lease liability	482,300	588,660
Allowance for loan losses	700,951	430,740
Depreciation differences	28,678	-
Other real estate owned reserve	173,669	764,839
Other assets	<u>395,567</u>	<u>319,213</u>
Total deferred tax assets	5,641,539	5,738,696
Deferred tax liabilities:		
Depreciation differences	-	(155,434)
Right of use asset	(420,242)	(534,244)
Prepaid expenses	(10,589)	(11,045)
Other liabilities	<u>(199,282)</u>	<u>(180,095)</u>
Total deferred tax liabilities	<u>(630,113)</u>	<u>(880,818)</u>
Net deferred tax assets	<u>\$ 5,011,426</u>	<u>\$ 4,857,878</u>

(Continued)

GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 6 - INCOME TAXES (Continued)

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. At December 31, 2020 and December 31, 2019, the Company's management evaluated whether the valuation allowance is required based on the assessment of all positive and negative evidence that existed at the time. Management concluded from its assessment that it was more likely than not that the deferred tax assets would be realizable as a result of sufficient projected future taxable income.

A comparison of the federal statutory income tax rates to the Company's effective income tax rates at December 31 follow:

	2020		2019	
	Amount	Rate	Amount	Rate
Statutory federal tax	\$ (155,133)	21.00%	\$ 421,354	21.00%
State franchise tax, net of federal benefit	(49,392)	6.69	179,174	8.93
Other Items, net	40,168	(5.44)	3,275	0.16
Actual tax (benefit) expense	\$ (164,357)	22.25%	\$ 603,803	30.09%

The Company has no significant unrecognized tax benefits as of December 31, 2020 or 2019, and the Company does not expect any significant increase or decrease in unrecognized tax benefits in the next twelve months.

As of December 31, 2020, the Company has federal net operating loss carryforwards of approximately \$12.0 million and California net operating loss carryforwards of approximately \$15.0 million. Federal net operating loss carryforwards expire at various dates from 2031 to 2037. California net operating loss carryforwards expire at various dates from 2029 to 2040.

As of December 31, 2020, the Company has approximately \$70,000 of California alternative minimum tax credits that may be carried forward indefinitely.

The Company is subject to federal income tax and income tax of California and Mississippi. The Company is no longer subject to examination by taxing authorities for tax years before 2017 for federal taxes and before 2016 for state jurisdictions.

NOTE 7 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company grants loans to certain directors and the companies with which they are associated. There were nine loans to related parties with a total balance of \$14,481,042 outstanding as of December 31, 2020. There were six loans to related parties with a total balance of \$6,679,678 outstanding as of December 31, 2019.

Deposits from certain officers and directors and their related interests with which they are associated held by the Company at December 31, 2020 and 2019, amounted to approximately \$13,833,466 and \$26,152,080, respectively.

(Continued)

GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Company adopted a 401(k) for its employees in 2007. Under the plan, eligible employees may defer a portion of their salaries. The plan also provides for discretionary Company profit sharing contributions. Company contributions to the plan on behalf of employees totaled \$48,338 in 2020. The Company did not make any contributions to the plan on behalf of employees in 2019.

NOTE 9 - EARNINGS PER SHARE (EPS)

The factors used in the earnings per share calculation are as follows:

	<u>2020</u>	<u>2019</u>
Basic EPS:		
Net income available to common shareholders	\$ <u>(574,373)</u>	\$ <u>1,402,644</u>
Weighted average common shares outstanding	<u>1,836,538</u>	<u>1,737,019</u>
Basic earnings per common share	\$ <u>(0.31)</u>	\$ <u>0.81</u>
Diluted EPS:		
Net income available to common shareholders	<u>(574,373)</u>	\$ <u>1,402,644</u>
Weighted average common shares outstanding	1,836,538	1,737,019
Add: Dilutive effects of assumed exercises of stock options	<u>-</u>	<u>123,773</u>
Average shares and dilutive potential common shares	<u>1,836,538</u>	<u>1,860,792</u>
Diluted earnings per common share	\$ <u>(0.31)</u>	\$ <u>0.75</u>

Common stock options totaling 459,121 shares were not considered in computing diluted earnings per share in 2020 as the Company was in a net loss position causing the options to be antidilutive. Common stock options totaling 348,371 shares were considered in computing diluted earnings per share in 2019. This resulted in a dilutive effect of assumed exercises of stock options totaling 123,773 shares. No common stock options were antidilutive for 2019.

NOTE 10 - COMMITMENTS

In the ordinary course of business, the Company enters into financial commitments to meet the financing needs of its customers. These financial commitments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk not recognized in the Company's financial statements.

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

(Continued)

GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 10 – COMMITMENTS (Continued)

As of December 31, 2020 and 2019, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	<u>2020</u>	<u>2019</u>
Commitments to extend credit	\$ 58,790,200	\$ 42,109,961
Commercial letters of credit	<u>45,000</u>	<u>215,000</u>
	<u>\$ 58,835,200</u>	<u>\$ 42,324,961</u>

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. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Company evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company is based on management's credit evaluation of the customer. The majority of the Company's commitments to extend credit and standby letters of credit are secured by real estate.

The allowance for losses on commitments to extend credit is primarily related to commercial lines of credit and commercial real estate lending. The inherent risk associated with the loan is evaluated at the same time the credit is extended. However, the allowance held for commitments is reported in other liabilities within the accompanying consolidated statements of financial condition and not as part of the allowance for loan losses. The allowance for losses on commitments to extend credit was \$379,000 at December 31, 2020 and 2019, respectively.

NOTE 11 - STOCK COMPENSATION PLAN

The Company's 2007 Omnibus Stock Incentive Plan (the "2007 Plan") was approved by its shareholders on July 5, 2007. Under the terms of the 2007 Plan, directors, officers, employees and consultants may be granted options, stock appreciation rights, restricted stock awards, deferred stock awards and performance units and also allows for performance objectives upon which awards may be conditioned. The reserved share amount is subject to adjustments for stock splits, stock dividends, recapitalization or similar transactions. The 2007 Plan also provides for accelerated vesting if there is a change in control, as defined in the 2007 Plan. The 2007 Plan allows awards to be in the form of common shares and preferred shares that are convertible into 15% of issued and outstanding shares of common shares. On July 25, 2017, the 2007 Plan expired pursuant to its terms. Upon adoption of the 2019 Omnibus Stock Incentive Plan, all stock options granted under the 2007 Plan were included in the 2019 Omnibus Stock Incentive Plan.

The Company's 2019 Omnibus Stock Incentive Plan (the "2019 Plan") was approved by its shareholders on June 25, 2019. Under the terms of the 2019 Plan, directors, officers, employees and consultants may be granted options, stock appreciation rights, restricted stock awards, deferred stock awards and performance units and also allows for performance objectives upon which awards may be conditioned. The reserved share amount is subject to adjustments for stock splits, stock dividends, recapitalization or similar transactions. The 2019 Plan also provides for accelerated vesting if there is a change in control, as defined in the 2019 Plan. The 2019 Plan allows awards to be in the form of common shares, which is equal to 30% of the outstanding shares of Common Stock and Common Stock Equivalents of the Company. The maximum number of common shares as to which awards may be granted under the 2019 Plan are 550,961 as of December 31, 2020. Options granted generally vest over 3 to 5 years.

(Continued)

GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 11 - STOCK COMPENSATION PLAN (Continued)

In 2020, the Company recognized \$133,247 in expense associated with options issued to various directors, officers, and employees of the Company. In 2019, the Company recognized \$4,608 in expense associated with options issued to various directors, officers, and employees of the Company.

The fair value of options granted was determined using the following weighted-average assumptions as of grant date.

	<u>2020</u>
Risk-free interest rate	0.94%
Expected term	6.25 years
Expected stock price volatility	42.50%
Dividend yield	0.00%
Weighted average fair value	\$ 5.30

The fair value of each option granted in 2020 is estimated on the date of grant using a Black-Scholes valuation model that uses the assumptions noted in the table above. The Company used peer historical data for determining the volatility assumption in the model. The expected term of options granted was estimated using the average of vesting and expiration dates. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury notes in effect at the time of grant.

A summary of the status of the Company's stock option plan as of December 31, 2020 and changes in the common stock options during the year ending thereon is presented below:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of year	348,371	\$ 10.75		
Granted	134,500	16.92		
Forfeited or expired	<u>(23,750)</u>	<u>16.07</u>		
Outstanding at end of year and expected to vest	<u>459,121</u>	<u>\$ 12.28</u>	<u>4.8 years</u>	<u>\$ 1,031,338</u>
Options exercisable	<u>344,620</u>	<u>\$ 10.74</u>	<u>3.3 years</u>	<u>\$ 1,031,338</u>

Options granted in 2020 vest ratably over a 4-year period. As of December 31, 2020, unrecognized compensation expense was \$490,549. Annual compensation expense expected to be recognized in years 2021 through 2023 is \$148,269. Compensation expense expected to be recognized in 2024 is \$45,742. No options were exercised during 2020. There were no common stock options granted during the year ended December 31, 2019. Cash proceeds from options exercised during 2019 totaled \$35,160. The intrinsic value and tax benefit associated with the options exercises were not material.

(Continued)

GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 12 - 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 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 the estimates. There were no material financial instruments carried at fair value on a recurring or non-recurring basis at December 31, 2020 or 2019.

The estimated fair value of financial instruments at December 31, 2020 and 2019 summarized is as follows (dollar amounts in thousands):

	Fair Value Hierarchy	2020		2019	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets					
Cash and due from banks	Level 1	\$ 7,260	\$ 7,260	\$ 12,144	\$ 12,144
Interest bearing deposits in other banks	Level 1	98,551	98,551	28,700	28,700
Federal funds sold	Level 1	-	-	45,762	45,762
Loans, net	Level 3	321,178	296,598	250,548	241,658
Federal Home Loan Bank stock	N/A	1,138	N/A	952	N/A
Accrued interest receivable	Level 2	1,331	1,331	851	851
Financial liabilities					
Deposits	Level 2	\$ 369,666	\$ 370,530	\$ 295,754	\$ 296,025
Federal Home Loan Bank	Level 2	25,000	25,631	16,500	16,661
Secured notes	Level 2	9,950	9,950	5,000	5,000
Accrued interest payable	Level 2	136	136	169	169

(Continued)

NOTE 13 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In July 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. The new rules became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule. Under the rules, minimum requirements increased for both the quantity and quality of capital held by the Bank. The rules include a new common equity Tier 1 (CET1) capital to risk-weighted assets ratio with minimums for capital adequacy and prompt corrective action purposes of 4.5% and 6.5%, respectively. The minimum Tier 1 capital to risk-weighted assets ratio was raised from 4.0% to 6.0% under the capital adequacy framework and from 6.0% to 8.0% to be well-capitalized under the prompt corrective action framework.

In addition, the rules introduced the concept of a "conservation buffer" of 2.5%, which was fully phased-in as of January 1, 2019, applicable to the three capital adequacy risk-weighted asset ratios (CET1, Tier 1 and Total). If the capital adequacy minimum ratios plus the phased-in conservation buffer amount exceed actual risk-weighted capital ratios, then dividends, share buybacks and discretionary bonuses to executives could be limited in amount.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and CET1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

The most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum ratios as set forth in the table below.

(Continued)

GOLDEN STATE BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 13 - REGULATORY MATTERS (Continued)

The following table sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands). The conservation buffer is excluded from the adequately capitalized risk-based capital ratios.

	<u>Actual</u>		<u>Amount of Capital Required</u>			
			<u>To Be Adequately Capitalized</u>		<u>To Be Well-Capitalized Under Prompt Corrective Action Framework</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>As of December 31, 2020:</u>						
Total Capital (to Risk-Weighted Assets)	\$ 40,929	11.59%	\$ 28,246	8.00%	\$ 35,307	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	36,512	10.34	21,184	6.00	28,246	8.00
CET1 Capital (to Risk-Weighted Assets)	36,512	10.34	15,888	4.50	22,950	6.50
Tier 1 Capital (to Average Assets)	36,512	8.29	17,620	4.00	22,025	5.00
<u>As of December 31, 2019:</u>						
Total Capital (to Risk-Weighted Assets)	\$ 36,287	12.22%	\$ 23,750	8.00%	\$ 29,687	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	32,575	10.97	17,812	6.00	23,750	8.00
CET1 Capital (to Risk-Weighted Assets)	32,575	10.97	13,359	4.50	19,297	6.50
Tier 1 Capital (to Average Assets)	32,575	9.32	13,978	4.00	17,472	5.00

The Bank is restricted as to the amount of dividends that can be paid to the Holding Company. Dividends declared 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 shareholders during the same period must be approved by the Department of Business Oversight. With certain exceptions, the Company may not pay a dividend to its shareholders unless its retained earnings equal at least the amount of the proposed dividend.