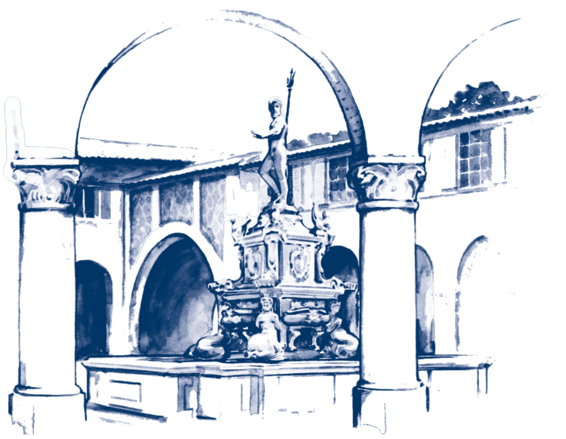
2022

MALAGA
FINANCIAL CORPORATION

ANNUAL REPORT

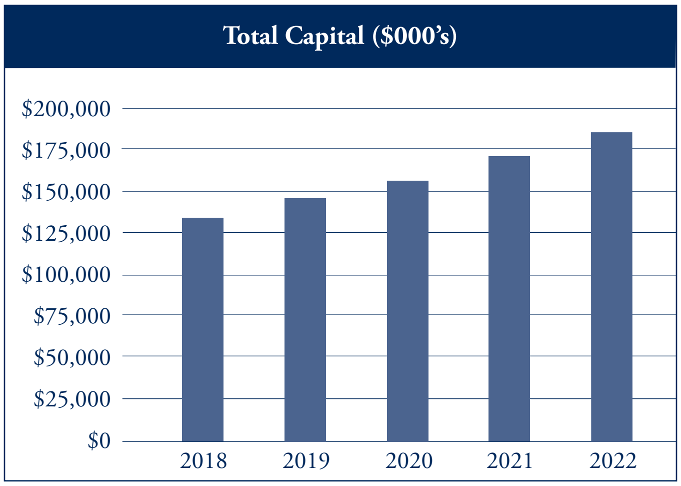
MALAGA BANK

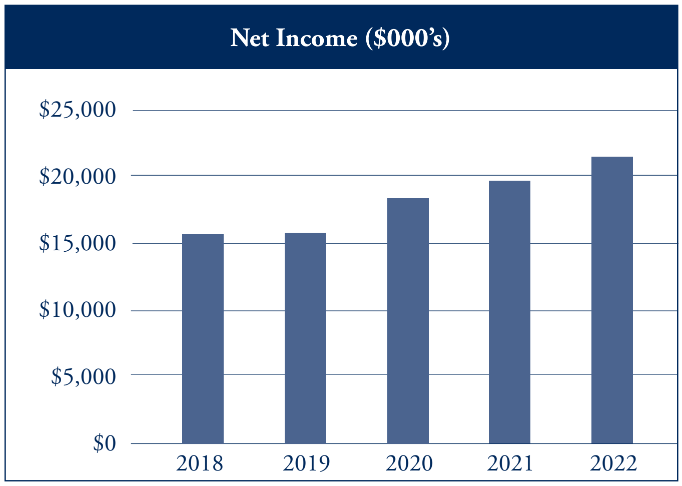
We wish to express our thanks for the opportunity to serve the residents and businesses of Palos Verdes and the surrounding communities for the last thirty-eight years. We look forward to continuing to be your local community bank of choice in the years to come.



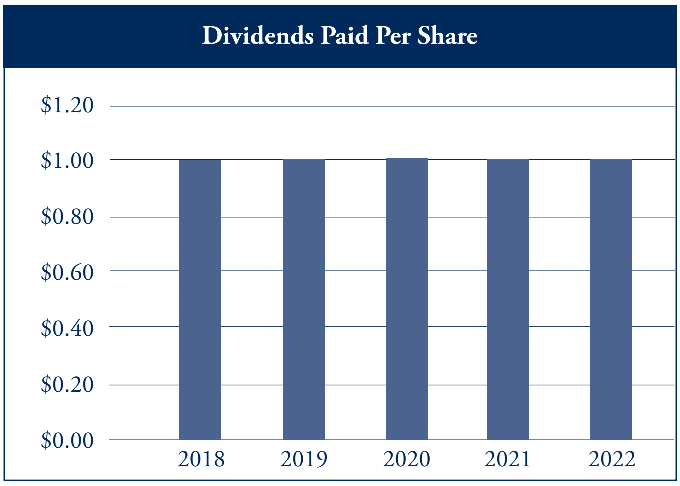
FINANCIAL STRENGTH

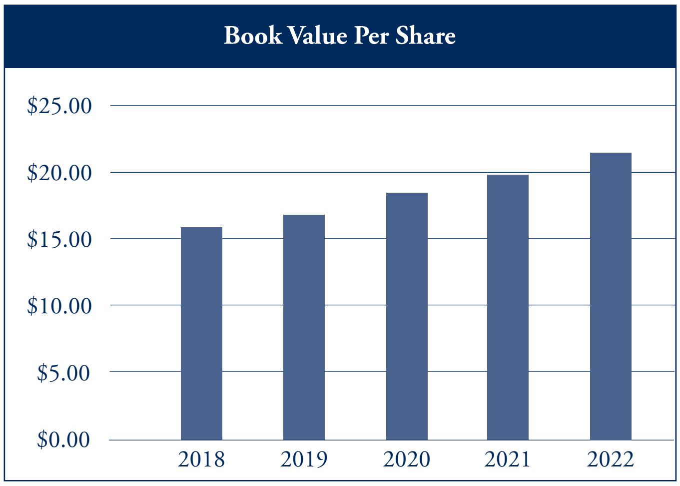
Strong and Increasing Capital and Income





Shareholder Value





2022 ACCOMPLISHMENTS

Increased earnings for the 9th consecutive year.

Excellent asset quality.

Strong capital levels.

Quarterly cash dividends for the 74th consecutive quarter and special 5% common stock dividend at year-end 2022.

For over 10 years Malaga Bank has been consistently awarded premier Top 5-Star rating by one of the nation's leading independent bank rating and reseach firms, Bauer Financial.

*Malaga Bank is a wholly owned subsidiary of Malaga Financial Corporation.

DEAR SHAREHOLDERS AND FRIENDS:

2022 presented a volatile operating environment as interest rates increased dramatically during the year. We are pleased to report record earnings for the full year and the 4th quarter in addition to maintaining excellent credit quality and expense control. Malaga Financial Corporation posted record earnings for the 7th consecutive year. This was the result of an increase in net interest income and continued expense control that together contributed to earnings increase of $1,750,000 or 9% from the prior year's record earnings.

Shareholders were rewarded with $1.00 per share cash dividends during the year in addition to the 6th consecutive year-end 5% common stock dividend. Total cash dividends paid in 2022 increased by $421,000 compared to the prior year, primarily as a result of the stock dividend issued at year-end 2021.

Competition for quality loans continued to be intense as potential borrowers reacted negatively to significantly higher rates. In response, we increased our focus and efforts and were able to achieve very modest growth in our loan portfolio by year end with an upwards trend in originations. To address potential weakness in the real estate market, we tightened our underwriting standards and continued to adhere to a conservative asset selection approach. Additionally, higher market interest rates allowed us to place excess liquidity in other safe, short-term investments offering attractive yields.

Highlights of 2022 are as follows:

- Book value per share increased from $19.82 to $21.37 after adjusting for the issuance of the 5% common stock dividend
- Earnings per share of $2.50 (basic and fully diluted) compared to $2.30 (basic and fully diluted) after adjusting for the issuance of the 5% common stock dividend
- Net income of $21.4 million
- Return on average equity (ROE) was 12.15%
- Return on average assets (ROA) was 1.43%
- Excellent credit quality with no non-performing assets/foreclosures at year-end
- Capital levels remained stable with a 12.94% core capital ratio and a 23.82% risk-based ratio at year-end 2022, substantially exceeding the minimum "well-capitalized" requirements of 5% and 10%, respectively
- Net loans at December 31, 2022, were $1.251 billion, up $5.0 million from prior year-end

Malaga Bank was awarded the Bauer Financial Inc. premier Top 5-Star rating for the 60th consecutive quarter as of September 2022. Bauer Financial Inc. is one of the nation's leading independent bank rating and research firms. In July 2022, Malaga Bank was once again awarded the Daily Breeze 32nd annual Reader's Choice Award as South Bay's Best Bank.

We are cautiously optimistic with regards to 2023 and are evaluating our strategic plan to be prepared for the various scenarios that we may encounter going forward. We are committed to addressing any obstacles ahead and anticipate the continued success of Malaga Financial Corporation and its subsidiary, Malaga Bank.

On behalf of Malaga Financial Corporation and Malaga Bank, we thank our Board of Directors, management and staff for their commitment and contributions to our day-to-day success. And we thank you, our shareholders, for your loyalty, your business, and your investment.

Randy Bowers
Chairman of the Board,
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and financial information are presented to aid in understanding results of operations and financial condition of Malaga Financial Corporation ("MFC") and its consolidated subsidiary, Malaga Bank FSB ("Malaga Bank"). In this discussion, references to the "Company" or "we" or "us" refer to MFC, Malaga Bank and its subsidiary Palos Verdes Financial Corporation.

OVERVIEW

MFC is the holding company for Malaga Bank, and the stock of Malaga Bank is MFC's primary asset. Malaga Bank is a full-service community bank with headquarters located on the Palos Verdes Peninsula in Southern California. It is the largest independent bank headquartered in the South Bay area of Los Angeles.

We originate primarily adjustable rate multifamily (apartment) mortgage loans in Southern California and to a lesser extent 1-4 family residential loans, consumer loans, commercial mortgage loans and commercial loans. At December 31, 2022, multifamily mortgage loans represented 88% of our loan portfolio and loans represented 83% of our total assets.

In 2022, our market area for deposits continued to be concentrated in the areas immediately surrounding our five branch offices in Palos Verdes Estates, Rolling Hills Estates, Torrance and San Pedro, California.

RESULTS OF OPERATIONS

Our net income was $21.4 million in 2022 compared to net income of $19.6 million in the previous year, an increase of $1.8 million or 9%. Earnings per share for 2022 were $2.50 (basic and fully diluted), compared to $2.30 (basic and fully diluted) in 2021.

Our return on average assets (ROA) was 1.43% in 2022 compared to 1.41% in 2021. Our return on average equity (ROE) was 12.15% in 2022 compared to 12.04% in 2021.

The following table sets forth selected financial data for the past five years:

	2022	2021	2020	2019	2018
Total assets (000's)	$1,509,342	$1,473,601	$1,312,294	$1,248,210	$1,087,559
Stockholders' equity (000's)	$ 182,640	$ 168,954	$ 156,380	$ 145,188	$ 136,251
Net income (000's)	$ 21,352	$ 19,602	$ 18,335	$ 15,387	$ 15,305
Basic earnings per share*	$ 2.50	$ 2.30	$ 2.16	$ 1.82	$ 1.82
Diluted earnings per share*	$ 2.50	$ 2.30	$ 2.16	$ 1.81	$ 1.80
Cash dividends paid per share	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
ROA	1.43%	1.41%	1.43%	1.33%	1.44%
ROE	12.15%	12.04%	12.15%	10.94%	11.65%

*Adjusted for the 5% stock dividend on December 30, 2022, December 30, 2021, December 29, 2020, December 27, 2019, and December 28, 2018.

On December 30, 2022, MFC paid a 5% common stock dividend which increased the number of shares outstanding by 406,850. On December 30, 2021, MFC paid a 5% common stock dividend that increased the number of shares outstanding by 386,381.

NET INTEREST INCOME

Net interest income is the primary component of our income. The chief determinants of net interest income are the dollar amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on these assets and liabilities. The greater the excess of average interest-earning assets over average interest-bearing liabilities, the more beneficial the impact on net interest income.

For 2022, net interest income totaled $42,847,000, an increase of $3,295,000 or 8% from 2021. This increase reflected higher average interest-earning assets of $104.5 million and an increase of 0.01% in the interest rate spread to 2.85%. The increase in the interest rate spread was primarily attributable to the increase in the yield on average interest-earning assets of 0.06% offset by an increase in average cost of funds of 0.05%. The overall increase in yields is due to a continued increase in interest rates for most of 2022.

The following table sets forth the weighted-average balances, yields earned and rates paid with respect to the major components of our interest-earning assets and interest-bearing liabilities, and net interest rate spread, for the periods indicated:

WEIGHTED-AVERAGE BALANCES AND RATES

	2022		2021	
	(000's)		(000's)	
Loans receivable	$1,220,831	3.95%	$1,215,444	3.92%
Federal funds sold	229,839	1.75	131,160	0.14
Interest-bearing deposits in banks	718	2.42	688	1.65
FHLB stock	8,680	6.50	8,297	5.74
Total interest-earning assets	1,460,068	3.62	1,355,589	3.56
Deposits	1,037,289	0.42	930,452	0.34
FHLB borrowings	255,193	1.99	270,729	1.97
Junior subordinated debentures	13,404	4.11	13,404	2.48
Total interest-bearing liabilities	1,305,886	0.77	1,214,585	0.72
Excess of interest-earning assets over interest-bearing liabilities; interest rate spread	$ 154,182	2.85%	$ 141,004	2.84%

PROVISIONS FOR CREDIT LOSSES

We recorded a provision for credit losses of $27,000 in 2022 versus $110,000 in 2021. The decrease is primarily due to continued positive trends in multi-family vacancy factors and unemployment and excellent credit quality of our loan portfolio despite negative effects presented by the unprecedented pandemic and the possibility of a recession. There were no loan charge-offs in 2022 or 2021.

OTHER OPERATING INCOME

Other operating income, which consists primarily of deposit related fees, increased $37,000 from 2021 to 2022.

OTHER OPERATING EXPENSES

The main components of other operating expenses or "overhead" are compensation, office rent and utilities, data processing, and general and administrative expenses. Operating expenses increased $903,000 or 7% from $12.5 million in 2021 to $13.4 million in 2022. This increase was due primarily to increases in compensation of $408,000, office rent and utilities $121,000, data processing $69,000 general and administrative expenses of $207,000, and professional services $93,000.

At December 31, 2022 and 2021, we employed 75 and 74 full-time equivalent employees, respectively, with an average of 8.5 and 8.3 years of service, respectively. The tenure and experience of our employees continue to be a major part of our successful and efficient operations.

Banks measure their ability to manage overhead through an efficiency ratio expressed as total overhead expenses as a percentage of net interest income and other operating income. Malaga Bank's efficiency ratios of 29.57% in 2022 and 30.07% in 2021 continued to be very favorable compared to the efficiency ratios of our peers, insured savings banks having assets greater than $1 billion, which averaged 65.88% in 2022 and 65.81% in 2021. Another measure of overhead efficiency is the percentage of overhead expense to average assets. Malaga Bank's ratio was 0.89% in 2022 and 0.88% in 2021, which compared favorably with our peer group average of 2.38% and 2.37% in 2022 and 2021, respectively. Malaga Bank had $19.4 million in average assets per employee at December 31, 2022 as compared to $18.6 million in average assets per employee at December 31, 2021.

FINANCIAL CONDITION

Total assets increased to $1.509 billion at December 31, 2022, from $1.474 billion at December 31, 2021. This $35.0 million increase represents a 2% increase over the prior year and was centered primarily in growth in cash and cash equivalents of $27.2 million and $5.1 million in the loan portfolio.

LOAN PORTFOLIO

Total net loans at December 31, 2022 were $1.251 billion, up $5.0 million from the prior year-end. Our primary lending emphasis continued to be multifamily mortgage loans, which comprised 88% of our loan portfolio at December 31, 2022. The weighted-average yield on the loan portfolio was 3.95% for 2022 and 3.92% for 2021. The dramatic increase in market rates during 2022 resulted in a significant decrease in loan demand. Competition for quality loans was intense and while we increased our efforts we still fell short of our goals for growth in the loan portfolio. We did see a positive trend in the 4th quarter and are redoubling our efforts to increase loan portfolio growth in 2023.

CREDIT LOSS RESERVES AND NON-PERFORMING ASSETS

Our allowance for credit losses, including reserves for losses on commitments for lines of credit, totaled $3.8 million at December 31, 2022 and December 31, 2021. As of December 31, 2022 and 2021, there were no loans past due 30 days. Our allowance for credit losses to total loans outstanding was 0.31% and 0.30% at December 31, 2022 and December 31, 2021, respectively.

Management's determination of the adequacy of the allowance for credit losses requires the use of judgment and estimates that may change in the future. Some factors considered by management in determining the adequacy of the allowance include: detailed reviews of individual loans; gross and net charge-offs in the current year; historical loss levels; past due and non-accruing loans; collateral values of properties securing loans; types of loans and risk profiles; and management's analysis of current economic conditions and the resulting impact on the loan portfolio. Changes in the factors used by management to determine the adequacy of the allowance, or the availability of new information, could cause the allowance for credit losses to be increased or decreased. In addition, bank regulatory agencies, as a part of their examination process, may require that additions be made to the allowance for credit losses based on their judgment and estimates.

DEPOSITS

Our deposit strategy in 2022 continued to focus on attracting core customer relationships at our branches. Total deposits decreased by $7.4 million to $1.010 billion at December 31, 2022. During the year, non-interest bearing demand deposits and NOW accounts increased $18.8 million to $317.8 million, and all other accounts decreased $26.2 million to $692.0 million. At December 31, 2022, we had outstanding certificates of deposit from the State of California totaling $51 million bearing interest at a weighted-average rate of 3.57%. Our weighted-average cost of deposits was 0.71% at December 31, 2022, and 0.33% at December 31, 2021.

FHLB BORROWINGS

Another major source of funding for us is advances from the Federal Home Loan Bank of San Francisco ("FHLB"). As of December 31, 2022, we had FHLB borrowings totaling $290.0 million as compared to $265.0 million at December 31, 2021. Our FHLB borrowings at December 31, 2022 had a weighted average remaining maturity of 29 months and bore interest at a weighted-average rate of 2.23%. At that date, we had approximately $276 million of unused FHLB borrowing capacity.

JUNIOR SUBORDINATED DEBENTURES

From time to time MFC has issued junior subordinated debentures related to issuance of trust-preferred securities by business trusts MFC has formed in order to generate regulatory capital. This capital has a relatively low cost as interest payments on the debentures are deductible for income tax purposes. At December 31, 2022 and 2021, MFC had $13.4 million junior subordinated debentures outstanding bearing interest at a weighted-average rate of 7.03% and 2.49% per annum, respectively. These debentures mature commencing in 2033.

STOCKHOLDERS' EQUITY AND REGULATORY CAPITAL

Our stockholders' equity grew by $13.6 million or 8% to $182.6 million at December 31, 2022, from $169.0 million at December 31, 2021. The increase was due principally to net income of $21.4 million and cash proceeds from the exercise of stock options of $481,000, net of $8.1 million of dividends paid to our stockholders.

Malaga Bank continues to be "well capitalized" under applicable regulations. The following table compares Malaga Bank's actual capital ratios at December 31, 2022 to those required by regulatory agencies for capital adequacy and well capitalized classification purposes:

	Malaga Bank	Minimum Capital Requirements	Well Capitalized Requirements
Tier 1 Capital to Average Assets	12.94%	4.00%	5.00%
Total Capital to Risk-Weighted Assets	23.82%	8.00%	10.00%
Common Tier 1 Capital to Risk-Weighted Assets	23.35%	4.50%	6.50%
Tier 1 Capital to Risk-Weighted Assets	23.35%	6.00%	8.00%

STOCKHOLDERS AND STOCK INFORMATION

At December 31, 2022, MFC has approximately 144 stockholders of record. Many of our stockholders purchased stock in connection with the organization of Malaga Bank. MFC's common stock is traded in the OTC PINK market under the symbol MLGF.

On December 30, 2022 and December 30, 2021, MFC paid a 5% common stock dividend to its stockholders.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	AS OF DECEMBER 31 2022	2021
ASSETS		
Cash and due from banks	**$ 10,407**	$ 9,651
Federal funds sold	**216,982**	190,556
Cash and cash equivalents	**227,389**	200,207
Interest-bearing deposits in banks	**245**	245
Loans receivable — Net of allowance for credit losses of $3,829 (2022) and $3,798 (2021)	**1,250,732**	1,245,641
Accrued interest receivable	**3,969**	3,509
Building, office properties, and equipment — Net	**16,525**	13,951
Investment in FHLB stock — At cost	**8,800**	8,392
Other assets	**1,682**	1,656
TOTAL	**$ 1,509,342**	$ 1,473,601

LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	**$ 208,493**	$ 200,482
Interest-bearing	**801,278**	816,719
Total deposits	**1,009,771**	1,017,201
FHLB borrowings	**290,000**	265,000
Junior subordinated debentures	**13,404**	13,404
Accrued interest payable	**631**	41
Other liabilities	**11,176**	7,314
Deferred tax liability	**1,720**	1,687
Total liabilities	**1,326,702**	1,304,647
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value — authorized, 20,000,000 shares; outstanding 8,548,178 shares (2022) and 8,117,846 shares (2021)	**9**	8
Additional paid-in capital	**78,583**	68,339
Retained earnings	**104,048**	100,607
Total stockholders' equity	**182,640**	168,954
TOTAL	**$ 1,509,342**	$ 1,473,601

See notes to consolidated financial statements.

MALAGA FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME — **FOR THE YEARS ENDED DECEMBER 31**

(In thousands, except share amounts)	**2022**	**2021**
INTEREST INCOME:		
Loans	**$ 48,189**	$ 47,669
Other investments	**4,662**	668
Total interest income	**52,851**	48,337
INTEREST EXPENSE:		
Deposits	**4,376**	3,129
Borrowings	**5,077**	5,323
Junior subordinated debentures	**551**	333
Total interest expense	**10,004**	8,785
NET INTEREST INCOME	**42,847**	39,552
PROVISION FOR CREDIT LOSSES	**27**	110
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	**42,820**	39,442
OTHER OPERATING INCOME	**905**	868
OTHER OPERATING EXPENSE:		
Compensation	**7,876**	7,473
Office rent and utilities	**975**	854
Professional services	**287**	194
Data processing	**1,261**	1,193
Deposit insurance premiums	**393**	355
Depreciation and amortization	**318**	351
General and administrative	**2,271**	2,058
Total other operating expense	**13,381**	12,478
INCOME BEFORE PROVISION FOR INCOME TAXES	**30,344**	27,832
PROVISION FOR INCOME TAXES	**8,992**	8,230
NET INCOME	**$ 21,352**	$ 19,602
BASIC EARNINGS PER COMMON SHARE	**$ 2.50**	$ 2.30
DILUTED EARNINGS PER COMMON SHARE	**$ 2.50**	$ 2.30

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(In thousands, except share amounts)

	Common Stock				
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
BALANCE — January 1, 2021	7,695,651	$ 8	$ 57,135	$ 99,237	$ 156,380
Net income	-	-	-	19,602	19,602
Cash dividends declared	-	-	-	(7,726)	(7,726)
Stock options exercised	35,814	-	698	-	698
Stock dividend	386,381	-	10,506	(10,506)	-
BALANCE — December 31, 2021	8,117,846	8	68,339	100,607	168,954
Net income	-	-	-	21,352	21,352
Cash dividends declared	-	-	-	(8,147)	(8,147)
Stock options exercised	23,482	-	481	-	481
Stock dividend	406,850	1	9,763	(9,764)	-
BALANCE — December 31, 2022	8,548,178	$ 9	$ 78,583	$ 104,048	$ 182,640

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS	FOR THE YEARS ENDED DECEMBER 31	
(In thousands)	**2022**	**2021**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 21,352**	$ 19,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of deferred loan costs — net of fees	**1,119**	805
Provision for credit losses	**27**	110
Depreciation and amortization	**759**	735
Deferred income tax (benefit)	**32**	(14)
Net increase in accrued interest receivable and other assets	**(486)**	(179)
Net increase in accrued interest payable and other liabilities	**4,453**	453
Net cash provided by operating activities	**27,256**	21,512
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease in interest-bearing deposits in banks	**-**	245
Net increase in loans receivable	**(6,237)**	(53,186)
Purchase of FHLB stock	**(408)**	(333)
Purchase of buildings, office properties, and equipment	**(3,333)**	(101)
Net cash used in investing activities	**(9,978)**	(53,375)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	**(7,430)**	163,294
Proceeds from FHLB borrowings	**40,000**	-
Repayment of FHLB borrowings	**(15,000)**	(15,000)
Dividends paid	**(8,147)**	(7,726)
Proceeds from exercise of stock options	**481**	698
Net cash provided by financing activities	**9,904**	141,266
NET CHANGE IN CASH AND CASH EQUIVALENTS	**27,182**	109,403
CASH AND CASH EQUIVALENTS — Beginning of year	**200,207**	90,804
CASH AND CASH EQUIVALENTS — End of year	**$ 227,389**	$ 200,207
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	**$ 9,415**	$ 8,780
Income taxes	**$ 8,545**	$ 8,150
SUPPLEMENTAL NONCASH DISCLOSURES		
Stock dividend	**$ 9,764**	$ 10,506
Lease liability arising from obtaining right-of-use asset	**$ 4,025**	$ -

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Presentation — The consolidated financial statements include the accounts of Malaga Financial Corporation ("MFC") and its wholly owned subsidiary, Malaga Bank FSB (the "Bank") (collectively, the "Company"). MFC was formed in 2002 to operate as a holding company for the Bank. In 2003, MFC and the Bank completed a holding company reorganization in which MFC acquired all of the outstanding capital stock of the Bank and the shareholders of the Bank became shareholders of MFC. The Company organized Palos Verdes Financial Corporation ("PVFC"), a service corporation, for the acquisition, ownership, development, improvement and management of real property. PVFC is a wholly owned subsidiary of the Bank. PVFC's primary assets are the land and building of the main branch in Palos Verdes Estates and the branch in Torrance. All intercompany balances and transactions have been eliminated in consolidation.

In June 2003, MFC issued $5,155,000 of junior subordinated debentures to PVP Statutory Trust I and in January 2005, MFC issued $2,578,000 of junior subordinated debentures to PVP Statutory Trust II and $5,671,000 of junior subordinated debentures to PVP Statutory Trust III (the "Trusts"). The Company follows generally accepted accounting principles in the United States of America ("U.S. GAAP") which determine when variable interest entities should be consolidated and determined that the Trusts should not be consolidated. As a result, the consolidated balance sheets include $13,404,000 as junior subordinated debentures. Also included in other assets in the consolidated balance sheet is $404,000 of investments in the Trusts, which is reported using the cost method.

Nature of Operations — The Company's primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money. The Company's customers consist of individuals and small-to-midsize businesses located primarily in the Palos Verdes Peninsula and adjoining areas of Los Angeles and Orange Counties, California. The Company operates through six locations: five branches and one loan center, including its headquarters located in the city of Palos Verdes Estates, California.

Use of Estimates in the Preparation of Consolidated Financial Statements — The preparation of consolidated financial statements in conformity with U.S. GAAP 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. Significant estimates include estimates of the allowance for loan losses and fair value determinations.

Cash and Cash Equivalents — Cash and cash equivalents include cash and due from banks and overnight federal funds sold, all of which have original maturities of less than 90 days at the time of purchase. As of December 31, 2022 and 2021, the Company had cash deposits at other financial institutions in excess of the FDIC insured limits. However, the Company places these deposits with major financial institutions and monitors the financial condition of these institutions, and management believes the risk of loss to be minimal.

Interest-Bearing Deposits in Banks — Interest-bearing deposits in banks mature within one year and are carried at cost.

Loans Receivable — Loans receivable are stated at unpaid principal balances, plus premiums on purchased loans, less the allowance for loan losses and unamortized deferred loan origination fees and costs. Premiums on loans are amortized to interest income using the interest method over the remaining period to contractual maturity. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. Loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan. Impaired loans are measured based on the present value of expected future cash flows discounted at the loans' effective interest rates, the loans' estimated market value, or the fair value of the collateral if the loans are collateral dependent. If the fair value of an impaired loan is less than the carrying value, a specific allowance is included in the allowance for credit losses. Impairment is measured on a loan-by-loan basis for single family, multi-family, and commercial loans. Large groups of smaller balance homogenous loans are collectively evaluated for impairment.

Loans are reported as troubled debt restructurings when the Company grants a concession to a borrower experiencing financial difficulties that it would not otherwise consider. As a result of these concessions, restructured loans are impaired as the Company will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. These impairment reserves are recognized as a specific component to be provided for in the allowance for credit losses.

Loan origination fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans. Other loan fees and charges, representing service costs for prepayment of loans, for delinquent payments, or for miscellaneous loan services, are recorded as income when collected.

The Company's lending is concentrated in surrounding areas of Los Angeles and Orange Counties, and substantially all of the Company's loans have adjustable interest rates.

Allowance for Credit Losses — Management's periodic evaluation of the adequacy of the allowance for credit losses is based on the Company's past loan loss experience, known and inherent risks in the loan portfolio, adverse situations that may affect borrowers' ability to repay, estimated values of underlying collateral, and current economic conditions. The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Although management believes that the level of the allowance as of December 31, 2022 is adequate to absorb known and inherent risks in the loan portfolio, no assurances can be given that adverse future economic conditions will not lead to higher amounts of problem loans, provisions for loan losses, or charge-offs.

Buildings, Office Properties, and Equipment — Buildings, leasehold improvements, office properties, and equipment are carried at cost, less accumulated depreciation and amortization. The cost of the building is depreciated using the straight-line method over 39 years. Office properties and equipment are depreciated using the straight-line method over the estimated useful lives of the assets (three to seven years). The cost of leasehold improvements is being amortized using the straight-line method over the terms of the related leases or the estimated lives of the improvements, whichever is shorter.

Impairment of Long-Lived Assets — Long-lived assets are reviewed at least annually for impairment. When impairment is indicated, the amount of impairment is the excess of the asset's net book value over its fair value. Furthermore, long-lived assets to be disposed of are reported at the lower of historical cost or fair value, less cost to sell.

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 both cash and stock dividends are reported as income when earned. An impairment analysis of FHLB stock is performed annually or when events or circumstances indicate possibility of impairment.

Income Taxes — The Company utilizes the liability method in accounting for income taxes. Deferred tax assets or liabilities shown on the balance sheets reflect the tax effects of differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates for deferred tax assets and liabilities is recognized in income in the period that includes the enacted date.

The Company recognizes the tax benefit from uncertain tax positions only if it is more-likely-than-not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition. Based on this review, the Company has determined that no reserves for uncertain tax positions were required to have been recorded as a result of the adoption of such guidance for any of the Company's open tax years. The Company files income tax returns in the U.S. federal jurisdiction and in California. The Company is no longer subject to income tax examinations by taxing authorities for years before 2019 for its federal filings and 2018 for its California filings. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state taxes.

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

Capital Stock — The Company's authorized capital stock consists of 20 million shares of common stock and 2,000,000 shares of preferred stock. As of December 31, 2022 and 2021, only common stock was issued and outstanding. All per share amounts have been adjusted to reflect a 5% common stock dividend on each of December 30, 2022 and December 30, 2021. Each common share entitles the holder to one vote on each matter voted on by the shareholders. There are no dividend or liquidation preferences, participation rights, call prices or dates, conversion prices or rates, sinking fund requirements, or unusual voting rights associated with the common shares.

Earnings Per Common Share ("EPS") — Basic EPS is determined by dividing net income by the weighted average number of shares of common stock outstanding, while diluted EPS is determined by dividing net income by the weighted average number of shares of common stock outstanding, adjusted for the dilutive effect of common stock equivalents. All per share amounts have been adjusted to reflect a 5% common stock dividend on each of December 30, 2022 and December 30, 2021.

Dividends — Dividends are recorded when declared. The Company declared cash dividends of $1.00 per share of common stock in 2022 and 2021. On November 14, 2022, the Company declared a 5% common stock dividend to shareholders of record at the close of business on December 16, 2022 that was paid on December 30, 2022. On October 25, 2021, the Company declared a 5% common stock dividend to shareholders of record at the close of business on December 17, 2021 that was paid on December 30, 2021.

Stock-Based Compensation — Compensation costs relating to stock-based compensation transactions are recognized in the statements of income based upon the grant-date fair value of the stock-based compensation granted by the Company. The effect of stock-based accounting rules is to require entities to measure the cost of director and employee services received in exchange for stock-based compensation and to recognize the cost over the period the director or employee is required to provide services for the award. The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options. Forfeitures are accounted for when they occur.

Comprehensive Income — Accounting principles require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in stockholders' equity from non-owner sources, such as unrealized gains and losses on available-for-sale securities or defined benefit pension liability adjustments, among other items, are reported within comprehensive income and shown as a separate component of the equity section in the consolidated balance sheets. The Company does not have any other comprehensive income items for the years ended December

31, 2022 and 2021; therefore, total comprehensive income equals net income.

Revenue Recognition — Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans and letters of credit, as these activities are subject to other U.S. GAAP discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our income statements as components of other operating income are as follows:

- Service charges on deposit accounts - these represent general service fees for monthly account maintenance and activity- or transaction- based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

2. LOANS RECEIVABLE

Loans receivable as of December 31, 2022 and 2021 are summarized as follows:

Description *(In thousands)*	**2022**	**2021**
Residential mortgage loans–multi-family	**$ 1,099,749**	$ 1,088,684
Residential mortgage loans–single family	**97,255**	104,554
Commercial real estate loans	**48,226**	43,610
Business banking loans	**812**	4,082
Consumer loans	**159**	174
	1,246,201	1,241,104
Less:		
Allowance for credit losses	**(3,829)**	(3,798)
Deferred loan costs–net of fees	**8,360**	8,335
	4,531	4,537
Total	**$ 1,250,732**	$ 1,245,641

As of December 31, 2022 and 2021, loans with adjustable rates of interest (including loans with an initial fixed rate for 1 to 10 years that subsequently convert to adjustable rate) totaled $1.241 billion and $1.230 billion, respectively, and loans with fixed rates of interest totaled $5.2 million and $10.6 million, respectively. Adjustable-rate loans are generally indexed to the 2-Year Constant Maturity Treasury, the 12-Month Constant Maturity Treasury, the London InterBank Offered Rate (LIBOR), or the prime rate and are subject to limitations on the timing and extent of adjustment. Most adjustable-rate loans adjust within six months of changes in the index rate.

At December 31, 2022 and 2021, real estate loans aggregating $1.127 billion and $1.092 billion, respectively, were pledged as collateral against FHLB borrowings and real estate loans totaling $65.2 million and $86.0 million, respectively, were pledged to secure deposits held by the State of California. In addition, home equity lines of credit totaling $3.0 million were pledged as collateral to the Federal Reserve Bank discount window at December 31, 2022 and 2021.

The Coronavirus Aid, Relief, and Economic Security ("CARES") Act, as amended, included an allocation of $659 billion for loans to be issued by financial institutions through the Small Business Administration ("SBA") Paycheck Protection Program ("PPP"). PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1% and a term of two years (loans made before June 5, 2020) or five years (loans made on or after June 5, 2020), if not forgiven, in whole or in part. Payments are deferred until either the date on which the SBA remits the amount of forgiveness proceeds to the lender or the date that is 10 months after the last day of the covered period if the borrower does not apply for forgiveness within the 10-month period. Prior to the first round of the PPP program expiring on August 8, 2020, 186 PPP loans were originated totaling $12.8 million. Fees totaling $571,000 were collected for these PPP loans. These fees are deferred and amortized into interest income over the contractual period of 24 months or 60 months, as applicable. On December 27, 2020, the Federal government approved the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues ("Economic Aid") Act which authorized another round of PPP loans beginning in January 2021 and expiring on May 31, 2021. Prior to the second round of the PPP program expiring on May 31, 2021, 133 PPP loans were originated totaling $8.8 million. Fees totaling $513,000 were collected for the second round of PPP loans. At December 31, 2022 and 2021, outstanding PPP loan balances totaled $83,000 and $3.9 million, respectively and deferred fees remaining were $3,000 and $143,000, respectively.

Activity in the allowance for credit losses and unfunded loan commitments for the years ended December 31, 2022 and 2021 is summarized as follows:

(In thousands)	**2022**	**2021**
Allowance for credit losses:		
Balance — beginning of year	**$ 3,798**	$ 3,686
Provision for credit losses	**29**	110
Recovery (charge-offs), net	**2**	2
Balance — end of year	**$ 3,829**	$ 3,798
Reserve for unfunded loan commitments:		
Balance — beginning of year	**$ 34**	$ 35
Provision for (recovery of) losses on unfunded loan commitments	**(2)**	(1)
Balance — end of year	**$ 32**	$ 34

A breakdown of the allowance for credit losses as of December 31, 2022 and 2021, by loan type, is as follows:

(In thousands)	Multi-Family	Single Family	Commercial	Land	Business Banking	Consumer	Total
Balance - December 31, 2020	$ 3,371	$ 264	$ 48	$ 1	$ 1	$ 1	**$ 3,686**
Charge-offs	-	-	-	-	-	-	**-**
Recoveries	-	-	-	-	-	2	**2**
Provision for (recovery of) credit losses	139	(16)	(10)	(1)	-	(2)	**110**
Balance - December 31, 2021	$ 3,510	$ 248	$ 38	$ -	$ 1	$ 1	**$ 3,798**
Charge-offs	-	-	-	-	-	-	**-**
Recoveries	-	-	-	-	-	2	**2**
Provision for (recovery of) credit losses	36	(19)	(14)	-	-	(2)	**29**
Balance - December 31, 2022	$ 3,546	$ 229	$ 52	$ -	$ 1	$ 1	**$ 3,829**

The reserve for unfunded loan commitments is primarily related to undisbursed funds on lines of credit. The Company evaluates credit risk associated with the loan portfolio at the same time it evaluates credit risk associated with the unfunded loan commitments. However, the reserves necessary for the commitments are reported separately in other liabilities in the accompanying consolidated balance sheets and not as part of the allowance for credit losses as presented above.

There were no loans considered to be impaired for the years ended December 31, 2022 and 2021.

The Company manages asset quality and controls credit risk through diversification of the loan portfolio and the application of policies designed to promote sound underwriting and loan monitoring practices. The Company's senior management team is charged with monitoring asset quality, establishing credit policies and procedures, and enforcing the consistent application of these policies and procedures across the Company. Reviews of non-performing loans, past due loans, and larger credits are intended to identify potential charges to the allowance for credit losses and to determine the adequacy of the allowance, and are conducted on an ongoing basis. These reviews consider risk factors such as the financial strength of the borrowers, value of the applicable collateral, loan loss experience, estimated loan losses, growth in the loan portfolio, prevailing economic conditions, and other factors, which are collectively evaluated in order to determine if adjustments are necessary to the historical losses of each portfolio segment, the baseline for determining the allowance for credit losses.

The Company uses several credit quality indicators to manage credit risk. The Company's primary credit quality indicators are derived from an internal credit risk rating system that categorizes loans into pass, special mention, or classified categories. A credit risk rating is applied individually to each loan that has significant or unique credit characteristics that benefit from a case-by-case evaluation. The following are the definitions of the categories of the Company's internal credit risk rating:

- Pass: Loans in all classes that comprise the commercial and consumer portfolio segments that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.
- 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 Company'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 repayment of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
- Doubtful/Loss: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the asset, classification as a loss (and immediate charge off) is deferred until more exact status may be determined. In certain circumstances, a doubtful rating will be temporary, while the Company is awaiting an updated collateral valuation. In these cases, once the collateral is valued and appropriate margin applied, the remaining un-collateralized portion will be charged off. The remaining balance, properly margined, may then be upgraded to substandard but must remain on non-accrual. A loss rating is assigned to loans considered un-collectible and of such little value that the continuance as an active Company asset is not warranted. This rating does not mean that the loan has no recovery or salvage value but rather that the loan should be charged off now, even though partial or full recovery may be possible in the future.

Loans with classification of pass, special mention, substandard, and doubtful as of December 31, 2022 and 2021 are summarized as follows:

	December 31, 2022				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage loans — multi-family	$ 1,099,749	$ -	$ -	$ -	**$ 1,099,749**
Residential mortgage loans — single family	97,255	-	-	-	**97,255**
Commercial loans	48,226	-	-	-	**48,226**
Business banking loans	812	-	-	-	**812**
Consumer loans	159	-	-	-	**159**
Total	$ 1,246,201	$ -	$ -	$ -	**$ 1,246,201**

	December 31, 2021				
(In thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage loans — multi-family	$ 1,088,684	$ -	$ -	$ -	**$ 1,088,684**
Residential mortgage loans — single family	104,554	-	-	-	**104,554**
Commercial loans	43,610	-	-	-	**43,610**
Business banking loans	4,082	-	-	-	**4,082**
Consumer loans	174	-	-	-	**174**
Total	$ 1,241,104	$ -	$ -	$ -	**$ 1,241,104**

There were no loans past due 30 days or more as of December 31, 2022 and 2021. There were no nonaccrual loans at December 31, 2022 and 2021.

In the ordinary course of business, the Company has granted loans to certain executive officers and directors and the companies with which they are associated. In management's opinion, such loans and commitments to lend were made under terms and prevailing interest rates that are consistent with the Company's normal lending policies. Interest income from loans to executive officers and directors was $448,000 and $472,000 during the years ended December 31, 2022 and 2021, respectively.

A summary of related-party loan activity for the years ended December 31, 2022 and 2021 is as follows:

(In thousands)	2022	2021
Beginning balance	**$ 10,931**	$ 12,927
Credit granted — including renewals	**250**	-
Repayments	**(260)**	(1,996)
Ending balance	**$ 10,921**	$ 10,931

3. BUILDINGS, OFFICE PROPERTIES, AND EQUIPMENT

Buildings, office properties, and equipment as of December 31, 2022 and 2021, are summarized as follows:

(In thousands)	2022	2021
Land	**$ 5,930**	$ 5,930
Building	**6,050**	6,050
Leasehold improvements	**1,362**	1,362
Equipment	**1,523**	1,394
Furniture and fixtures	**579**	578
Operating lease Right-of-Use Asset	**5,752**	3,006
Other	**125**	117
	21,321	18,437
Accumulated depreciation and amortization	**(4,796)**	(4,486)
Total	**$ 16,525**	$ 13,951

Depreciation and amortization expense for the years ended December 31, 2022 and 2021, was $318,000 and $351,000, respectively.

4. LEASES

The Bank has an operating lease for its Rolling Hills Estates office, San Pedro office, and Torrance Skypark office. The right-of-use ("ROU") asset and operating lease liability are recorded in fixed assets and other liabilities, respectively, in the consolidated statements of financial condition.

The ROU asset represents our right to use an underlying asset during the lease term. Operating lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized based on the present value of the remaining lease payments using a discount rate that represents our incremental borrowing rate at the date of implementation of the new accounting standard.

The Rolling Hills Estates and Torrance Skypark office operating leases each have one 5-year extension option at the then-fair market rate. In August 2022, the Bank signed a lease amendment for the San Pedro office. This amendment extended the original lease by ten years, through March 31, 2033, with two 5-year extension options. As these extension options are reasonably certain of exercise, they are included in the lease term.
The Bank has no finance leases.

As of December 31, 2022, operating lease ROU assets and liabilities were $5.75 million and $5.78 million, respectively. As of December 31, 2021, operating lease ROU assets and liabilities were $3.01 million. The Bank recorded operating lease expense costs of $595,000 and $513,000 for the years ended December 31, 2022 and 2021, respectively.

Additional Information regarding our operating leases is summarized below for the years ended December 31, 2022 and 2021:

(Dollars in thousands)	**2022**	2021
Cash paid for amounts included in the measurement of lease liabilites for operating leases	**$ 567**	$ 513
ROU assets obtained in exchange for lease liabilities	**$ 5,752**	$ 3,006
Weighted average remaining lease term in months	**193**	84
Weighted average discount rate	**3.99 %**	3.36 %

Future undiscounted lease payments for operating leases with terms of one year or more as of December 31, 2022 are as follows:

Years Ending December 31	***(In thousands)***
2023	527
2024	533
2025	540
2026	548
2027	555
Thereafter	5,536
Total undiscounted lease payments	8,239
Less: imputed interest	(2,459)
Net lease liabilities	$ 5,780

5. COMMITMENTS AND CONTINGENCIES

Off-Balance-Sheet Financial Instruments **—** The Company is a party to financial instruments with off balance-sheet risk, in the normal course of business, to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. The Company's maximum exposure to credit loss under standby letters of credit, financial guarantees, and commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Company requires collateral to support financial instruments when it is deemed necessary. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but generally includes real estate or deposits held in the Company.

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Some of the commitments are expected to expire without being drawn upon; the total commitment amounts do not necessarily represent future cash requirements. The Company had commitments to originate loans of $16.9 million and $7.1 million and undrawn lines of credit previously granted of approximately $19.2 million and $20.5 million at December 31, 2022 and 2021, respectively.

From time to time, the Company enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims and other obligations customarily indemnified in the ordinary course of the Company's business. The terms of such obligations vary, and generally a maximum obligation is not explicitly stated. Therefore, the overall maximum amount of the obligations cannot be reasonably estimated. The most significant of these contracts relate to certain agreements with the Company's officers and directors under which the Company may be required to indemnify such persons for liabilities arising out of their performance of services for the Company. Historically, the Company has not been subject to indemnification claims and no liabilities have been recorded for these obligations on the balance sheet as of December 31, 2022 and 2021.

Collateralized standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Management does not anticipate any material losses as a result of these transactions. There were no loan commitments collateralized by standby letters of credit and financial guarantees written at December 31, 2022 and 2021.

Leases — The Company leases office premises under operating leases that expire at various dates through March 31, 2033. Rental expenses were $595,000 and $513,000 for the years ended December 31, 2022 and 2021, respectively. The projected minimum rental payments under the terms of the leases as of December 31, 2022 are as follows:

Years Ending December 31	***(In thousands)***
2023	$ 552
2024	384
2025	318
2026	251
2027	258
Thereafter	1,490
Total	$ 3,253

6. DEPOSITS

Deposit balances and the weighted-average interest rates for each category of deposits as of December 31, 2022 and 2021 are summarized as follows:

	2022		**2021**	
(Dollars in thousands)	**Interest Rate**	**Amount**	**Interest Rate**	**Amount**
Demand deposits	**- %**	**$ 208,493**	- %	$ 200,482
NOW accounts	**0.07**	**109,312**	0.07	98,549
Passbooks	**0.09**	**107,953**	0.09	99,448
Money market accounts	**0.67**	**271,911**	0.21	294,961
Certificates of deposit - less than $250,000	**1.18**	**198,493**	0.96	206,941
Certificates of deposit - $250,000 and over	**2.54**	**113,609**	0.47	116,820
Total	**0.71**	**$ 1,009,771**	0.33	$ 1,017,201

Certificates of deposit maturities as of December 31, 2022 are summarized as follows:

Years Ending December 31	***(In thousands)***
2023	$ 178,498
2024	30,947
2025	30,278
2026	38,562
2027	10,774
Thereafter	23,043
Total	$ 312,102

As of December 31, 2022 and 2021, the Company had certificates of deposit from the State of California Treasurer's Office of $51 million and $60 million, respectively.

In the ordinary course of business and as part of its normal banking activities, the Company has received deposits from certain directors, major shareholders and officers as well as entities with which these individuals are associated. These related parties had deposits at the Company of $6.1 million and $8.6 million at December 31, 2022 and 2021, respectively. Management believes these transactions were made on substantially the same terms, conditions, and prevailing interest rates as comparable transactions with other customers.

7. FHLB BORROWINGS

A primary additional funding source for the Company is a credit line with FHLB of up to 40% of the Company's total assets. Interest is payable monthly at a weighted-average rate of 2.23% as of December 31, 2022. Average FHLB borrowings were $255.2 million and $270.7 million at a weighted-average interest rate of 1.99% and 1.97% in 2022 and 2021, respectively. The FHLB borrowings are collateralized by real estate loans (see Note 2) and the capital stock of the FHLB owned by the Company.

Maturities of FHLB borrowings as of December 31, 2022 are summarized as follows:

Years Ending December 31	*(In thousands)*
2023	$ 40,000
2024	95,000
2025	65,000
2026	35,000
2027	55,000
Total	$ 290,000

The Company had two letters of credit with FHLB at December 31, 2022 and 2021. There was a letter of credit with FHLB of $20.0 million and $10.0 million at December 31, 2022 and 2021, respectively, as part of the collateral to secure large deposits with the State Treasurer of California. In addition, there was a letter of credit with FHLB of $4.3 million at December 31, 2022 and 2021, respectively, as collateral to secure a large local agency deposit.

8. JUNIOR SUBORDINATED DEBENTURES

MFC has from time to time issued junior subordinated debentures related to concurrent issuances of trust-preferred securities by business trusts formed by MFC in order to generate regulatory capital for the Bank. This capital has a relatively low cost as interest payments on the debentures are deductible for income tax purposes. PVP Statutory Trust I, II, and III were formed by the Company for the sole purpose of issuing trust-preferred securities. For financial reporting purposes, the Trusts are not consolidated and the junior subordinated debentures held by the Trusts, issued and guaranteed by the Company, are reflected within the Company's consolidated balance sheets. MFC's investment in the common trust securities of the trusts is included in other assets on its balance sheets. MFC has unconditionally guaranteed distributions on, and payments on liquidation and redemption of, all of these trust-preferred securities.

In June 2003, MFC issued $5,155,000 of junior subordinated debentures to PVP Statutory Trust I. This trust purchased the debentures with the proceeds of the sale of its common trust securities to MFC for $155,000 and trust-preferred securities in a private placement for $5,000,000. The debentures and trust-preferred securities have generally identical terms, including that they mature in June 2033, are redeemable at par at MFC's option, and require quarterly distributions/interest payments at a variable rate that adjusts quarterly at the three-month LIBOR rate plus 3.10%. The interest rate on the debentures was 7.82% and 3.32% per annum at December 31, 2022 and 2021, respectively.

In January 2005, MFC issued $2,578,000 of junior subordinated debentures to PVP Statutory Trust II. This trust purchased the debentures with the proceeds of the sale of its common trust securities to MFC for $78,000 and trust-preferred securities in a private placement for $2,500,000. The debentures and trust-preferred securities have generally identical terms, including that they mature in March 2035, are redeemable at par at MFC's option and require quarterly distributions/interest payments at a rate that adjusts quarterly at the three-month LIBOR rate plus 1.77%. The interest rate on the debentures was 6.54% and 1.97% per annum at December 31, 2022 and 2021, respectively.

In January 2005, MFC issued $5,671,000 of junior subordinated debentures to PVP Statutory Trust III. This trust purchased the debentures with the proceeds of the sale of its common trust securities to MFC for $171,000 and trust-preferred securities in a private placement for $5,500,000. The debentures and trust-preferred securities have generally identical terms, including that they mature in March 2035, are redeemable at par at MFC's option and require quarterly distributions/interest payments at a variable rate that adjusts quarterly at the three-month LIBOR rate plus 1.77%. The interest rate on the debentures was 6.54% and 1.97% per annum at December 31, 2022 and 2021, respectively.

9. INCOME TAXES

A summary of income tax provision for the years ended December 31, 2022 and 2021 is as follows:

(In thousands)	2022	2021
Current:		
State	**$ 3,258**	$ 3,026
Federal	**5,701**	5,218
Total current	**8,959**	8,244
Deferred:		
State	**9**	(29)
Federal	**24**	15
Total deferred	**33**	(14)
Total	**$ 8,992**	$ 8,230

The components of the net deferred liability as of December 31, 2022 and 2021 are as follows:

(In thousands)	2022	2021
FEDERAL		
Deferred tax liabilities:		
Loan fees/costs	**$ (2,159)**	$ (2,100)
FHLB dividends	**(319)**	(319)
Depreciation	**1**	(17)
Other	**(25)**	(42)
Gross deferred tax liability	**(2,502)**	(2,478)
Deferred tax assets:		
California franchise tax	**859**	808
Depreciation	-	-
Bad debt and loan loss deduction	**812**	807
Other	**(56)**	-
Gross deferred tax asset	**1,615**	1,615
Net deferred tax liability	**$ (887)**	$ (863)

(In thousands)	2022	2021
STATE		
Deferred tax liabilities:		
Loan fees/costs	**$ (1,115)**	$ (1,084)
FHLB dividends	**(165)**	(165)
Depreciation	-	-
Other	**(13)**	(21)
Gross deferred tax liability	**(1,293)**	(1,270)
Deferred tax assets:		
California franchise tax	-	-
Depreciation	**37**	28
Bad debt and loan loss deduction	**420**	416
Other	**3**	2
Gross deferred tax asset	**460**	446
Net deferred tax liability	**$ (833)**	$ (824)

A reconciliation of total income tax expense for 2022 and 2021 to the expected tax expense computed by applying the statutory corporate income tax rate to pretax income for the years ended December 31, 2022 and 2021 is as follows:

(Dollars in thousands)	2022		2021	
	Amount	Percent	Amount	Percent
Tax expense at statutory rates	**$ 6,372**	**21 %**	$ 5,845	21 %
State franchise tax — net of federal benefit	**2,580**	**9**	2,367	9
Other	**40**	**-**	18	-
Total	**$ 8,992**	**30 %**	$ 8,230	30 %

10. REGULATORY CAPITAL

MFC and the Bank are 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 MFC's and the Bank's financial statements. Under capital adequacy guidelines, MFC and the Bank must meet specific capital adequacy guidelines that involve quantitative measures of MFC's and the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. MFC's and the Bank's capital classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require MFC and the Bank to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1, common equity Tier 1 and total capital (as defined) to risk-weighted assets (as defined). Management believes, as of December 31, 2022 and 2021, that MFC and the Bank met all regulatory capital requirements to which they were subject.

The Bank has been notified by the Office of the Comptroller of the Currency that, as of its most recent regulatory examination, the Bank is regarded as "well capitalized" under the regulatory framework for prompt corrective action. Such determination has been made based on the Bank's Tier 1, common equity Tier 1, total capital and leverage ratios. There have been no conditions or events since this notification that management believes would change the Bank's categorization as well capitalized under the ratios listed below.

MFC's and the Bank's capital amounts and ratios are substantially the same. The Bank's actual and required capital amounts and ratios are as follows:

	Actual		For Capital Adequacy Purposes		Applicable Federal Regulatory Requirements to be Categorized as Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022:						
Tier 1 capital to average assets	$ 192,720	12.94 %	$ 66,031	4.00 %	$ 82,539	5.00 %
Total capital to risk-weighted assets	196,581	23.82	59,568	8.00	74,460	10.00
Common Tier 1 capital to risk-weighted assets	192,720	23.35	37,142	4.50	53,650	6.50
Tier 1 capital to risk-weighted assets	192,720	23.35	49,523	6.00	66,031	8.00
As of December 31, 2021:						
Tier 1 capital to average assets	$ 178,832	12.30 %	$ 58,135	4.00 %	$ 72,668	5.00 %
Total capital to risk-weighted assets	182,664	22.02	66,361	8.00	82,952	10.00
Common Tier 1 capital to risk-weighted assets	178,832	21.56	37,328	4.50	53,919	6.50
Tier 1 capital to risk-weighted assets	178,832	21.56	49,771	6.00	66,361	8.00

FDIC insured financial institutions are required to maintain a "capital conservation buffer" of 2.50% with respect to each of Tier 1 and total capital to risk weighted assets, which provides for capital levels that exceed the minimum risk-based capital adequacy requirements. If a financial institution's capital conservation buffer is less than the specified amount of the institution's risk weighted assets at the end of any quarter, the institution will be subject to restrictions on certain activities including payment of cash dividends, stock repurchases, and discretionary bonuses to executive officers. During 2022 and 2021, the Bank's capital conservation buffer exceeded the specified percentage of risk weighted assets.

Regulations of the FDIC do not permit the Bank to pay cash dividends on its common stock if the Bank is, or would be following the payment of the cash dividend, not in compliance with its regulatory capital requirements.

11. STOCK OPTION PLANS

MFC has one stock option plan, the 2017 Stock Option Plan ("2017 Plan"). The 2017 Plan authorizes MFC to issue to officers, directors, employees, and consultants of the Company up to 415,430 shares of common stock upon exercise of options. The exercise price of each option granted under the 2017 Plan may not be less than the fair market value of the common stock on the date of grant and the term of any option may not exceed 10 years. The 2017 Plan expires on December 31, 2026.

Stock-based compensation expense was $0 for 2022 and 2021.

The status of shares subject to options and exercise prices during the year ended December 31, 2022 is as follows:

(Intrinsic value in thousands)	Number of Options	Weighted–Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding — beginning of year	35,223	$ 20.48	-	$ 89
Granted	-	-		-
Exercised	(23,482)	20.48	-	(59)
Expired	(11,741)	20.48	-	(30)
Outstanding — end of year	-	$ -	-	$ -
Vested and exercisable — year-end	-	$ -	-	$ -
Shares available	415,430			

At December 31, 2022, there were no options outstanding.

Certain information regarding options for the years ended December 31, 2022 and 2021 is as follows:

(In thousands)	2022	2021
Weighted-average fair value of stock options granted during the year	$ -	$ -
Total intrinsic value of options exercised	59	279
Tax benefit from options exercised	36	51
Total fair value of shares vested	-	-

There were no stock options granted for the years ended December 31, 2022 and 2021.

12. EARNINGS PER COMMON SHARE (EPS)

A reconciliation of the numerator and denominator of the basic and diluted EPS computation for the years ended December 31, 2022 and 2021 is as follows. For the year ended December 31, 2022, there were no options outstanding and thus no dilutive effect. For the year ended December 31, 2021, the dilutive effect of all options outstanding is included in the determination of diluted EPS since there were no options outstanding with an exercise price which exceeded the average market price of the Company's common stock.

On December 30, 2022, the Company paid a 5% common stock dividend that increased the number of shares outstanding by 406,850. On December 30, 2021, the Company paid a 5% common stock dividend that increased the number of shares outstanding by 386,381. All per share amounts have been adjusted to reflect a 5% common stock dividend on each of December 30, 2022 and December 30, 2021.

	2022			2021		
(Income in thousands)	Income (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount	Income (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
Basic EPS						
Income available to common stockholders	$ 21,352	8,548,178	$ 2.50	$ 19,602	8,510,540	$ 2.30
Effect of dilutive securities						
Options — common stock equivalents	-	-	-	-	9,695	-
Diluted EPS						
Income available to common stockholders, plus assumed conversion	$ 21,352	8,548,178	$ 2.50	$ 19,602	8,520,235	$ 2.30

13. ESTIMATED FAIR VALUE INFORMATION

ASC Topic 820 provides a framework for measuring fair value under U.S. GAAP. This standard applies to all financial assets and liabilities that are being measured and reported at fair value on a recurring and nonrecurring basis.

As defined in ASC Topic 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company may use various methods, including market and income approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The hierarchy ranks the quality and reliability of the information used to determine fair values. The hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to data lacking transparency. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

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 in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be derived from or corroborated by observable market data by correlation or other means.

Level 3 — Significant unobservable inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

There were no impaired loans at December 31, 2022 and December 31, 2021.

Financial assets and liabilities recorded at carrying value have estimated fair value amounts determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. In some cases, book value is a reasonable estimate of fair value due to the relative short period of time between origination of the instrument and its expected realization. The valuation of loans receivable held for investment was impacted by the adoption of ASU 2016-01. In accordance with ASU 2016-01, the fair value of loans held for investment is estimated using discounted cash flow analysis. The discount rates used to determine fair value use interest rate spreads that reflect factors such as liquidity, credit and nonperformance risk of the loans. Loans are considered a Level 3 classification. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts as of December 31, 2022 and 2021:

2022

(In thousands)	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 227,389	$ 227,389	$ 227,389	$ -	$ -
Interest-bearing deposits in banks	245	245	-	245	-
Loans receivable	1,250,732	1,146,823	-	-	1,146,823
Accrued interest receivable	3,969	3,969	3,969	-	-
Liabilities:					
Deposits	1,009,771	993,516	-	993,516	-
FHLB borrowings	290,000	276,107	-	276,107	-
Junior subordinated debentures	13,404	15,751	-	-	15,751
Accrued interest payable	631	631	631	-	-

2021

(In thousands)	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 200,207	$ 200,207	$ 200,207	$ -	$ -
Interest-bearing deposits in banks	245	245	-	245	-
Loans receivable	1,245,641	1,289,082	-	-	1,289,082
Accrued interest receivable	3,509	3,509	3,509	-	-
Liabilities:					
Deposits	1,017,201	1,014,307	-	1,014,307	-
FHLB borrowings	265,000	268,504	-	268,504	-
Junior subordinated debentures	13,404	13,638	-	-	13,638
Accrued interest payable	41	41	41	-	-

14. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through February 22, 2023, which is the date the consolidated financial statements were available to be issued. There were no subsequent events that required disclosure in the consolidated financial statements.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Malaga Financial Corporation and Subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Malaga Financial Corporation and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Malaga Financial Corporation and Subsidiary as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Malaga Financial Corporation and Subsidiary's internal control over financial reporting as of December 31, 2022, based on criteria established in the Internal Control-Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated February 22, 2023, expressed an unmodified opinion.

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 Malaga Financial Corporation and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 Malaga Financial Corporation and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Malaga Financial Corporation and Subsidiary'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.

Moss Adams LLP

Los Angeles, California
February 22, 2023

BOARD OF DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

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Jerry A. Donahue*
Corporate Secretary

Christopher M. Adishian*

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Herbert Lee*

Richard A. Oas, M.D.*

Jasna Penich*

Andrew C. T. Sheng, D.M.D.*

Doug Wible*

EXECUTIVE OFFICERS

Randy C. Bowers*
President / Chief Executive Officer

Jasna Penich*
Executive Vice President
Chief Financial Officer

CORPORATE ADMINISTRATION

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President / Chief Executive Officer

Jasna Penich*
Executive Vice President
Chief Financial Officer

Donald Lee
Senior Vice President
Risk Officer / BSA Officer

David Iwasaka
Vice President
Controller

Rafael Vargas
Vice President
IT Manager

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Assistant Vice President
Creative Marketing Director

Carmela Carroll
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Retail Operations Specialist

Sheree Carroll
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Security Officer

Gayle CdeBaca
Assistant Vice President
Facilities Manager

Bryan Grageda
Assistant Vice President
Training Manager

RETAIL BANKING OPERATIONS

Sacha Ohara
Senior Vice President
Retail Banking Manager

Kristina Keys
First Vice President
Group Retail Banking Manager

Julia Parton
First Vice President
Business Development Manager

Sebastian Bologna
Vice President
Senior Retail Banking Manager

Naher Elramly
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Helen Stoddart
Vice President
Retail Banking Manager

Andrea Lastimosa
Assistant Vice President
Retail Banking Manager

Ana Straser
Assistant Vice President
Retail Banking Manager

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Senior Vice President
Income Property Loan Officer

Mario Navarrete
Vice President
Income Property Lending

Susan Pengelly
Assistant Vice President
Income Property Lending

Brian Beckenhaupt
Loan Production Specialist

LENDING OPERATIONS

Cathy Jaramillo
Vice President
Loan Processing Manager

Nina Brister
Vice President
Loan Service / Funding Manager

John Erikson
Vice President
Senior CRE Underwriter

*Directors or Officers of MFC and Malaga Bank.

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