INFINITY
BANK

Annual Financial Report
December 31, 2018

CONTENTS

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE difference

Independent Auditor's Report

Board of Directors and Shareholders of
Infinity Bank
Santa Ana, California

Report on Financial Statements

We have audited the accompanying financial statements of Infinity Bank, which are comprised of the statement of financial condition as of December 31, 2018, and the related statements of operations, comprehensive loss, changes in shareholders' equity and cash flows for the period from February 1, 2018 (inception of business) through December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Infinity Bank as of December 31, 2018, and the results of its operations and its cash flows for the period from February 1, 2018 (inception of business) through December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day + Co., LLP

Laguna Hills, CA
March 28, 2019

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INFINITY BANK
STATEMENT OF FINANCIAL CONDITION
As of December 31, 2018

ASSETS		2018
Cash and due from banks	$	796,000
Interest bearing deposits at other banks		39,207,000
Total cash and cash equivalents		40,003,000
Time deposits in other banks		282,000
Investments:		
Securities available-for-sale, at fair value		15,715,000
Loans and leases:		13,919,000
Less allowance for loan and lease losses		(174,000)
Net loans		13,745,000
Premises and equipment, net		527,000
Accrued interest receivable and other assets		270,000
Total assets	$	70,542,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$	17,605,000
Interest bearing		25,283,000
Total deposits		42,888,000
Accrued interest payable and other liabilities		280,000
Total liabilities		43,168,000
Shareholders' equity		
Preferred stock, 10,000,000 shares authorized, none issued		-
Common stock, no par value, 20,000,000 shares authorized; 3,300,000 shares issued and outstanding as of December 31, 2018		32,210,000
Accumulated deficit		(4,934,000)
Additional paid-in capital		152,000
Accumulated other comprehensive loss		(54,000)
Total shareholders' equity		27,374,000
Total liabilities and shareholders' equity	$	70,542,000

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

INFINITY BANK
STATEMENT OF OPERATIONS
For the Period from February 1, 2018 (inception of business)
through December 31, 2018

		2018
Interest income:		
Interest and fees on loans and leases	$	176,000
Interest on investment securities, taxable		283,000
Interest on deposits with financial institutions		476,000
Total interest income		935,000
Interest expense:		
Deposits		38,000
Total interest expense		38,000
Net interest income before provision for loan and lease losses		897,000
Provision for loan and lease losses		174,000
Net interest income after provision for loan and lease losses		723,000
Non-interest income:		
Service charges on deposit accounts		21,000
Other income		23,000
Total non-interest income		44,000
Non-interest expense:		
Salaries and employee benefits		2,687,000
Furniture and equipment expense		159,000
Occupancy expense		319,000
Professional fees		160,000
Data processing expense		93,000
Legal expense		70,000
Advertising and marketing expense		68,000
Other expenses		314,000
Total non-interest expense		3,870,000
Loss before provision for income taxes		(3,103,000)
Provision for income taxes		2,000
Net loss	$	(3,105,000)
Basic loss per common share	$	0.94
Diluted loss per common share	$	0.94

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

INFINITY BANK
STATEMENT OF COMPREHENSIVE LOSS
For the Period from February 1, 2018 (inception of business) through December 31, 2018

		2018
Net loss	$	(3,105,000)
Other comprehensive loss		
Unrealized holding losses arising during the period		(54,000)
Other comprehensive loss		(54,000)
Comprehensive loss	$	(3,159,000)

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

INFINITY BANK
STATEMENT OF SHAREHOLDERS' EQUITY
For the Period from February 1, 2018 (inception of business)
through December 31, 2018

	Common Stock		Unearned Compensation Cost	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount				
Balance at February 1, 2018	-	$ -	$ -	$ -	$ -	$ -
Public offering of 3,300,000 shares, net of $790,000 in offering costs	3,300,000	32,210,000	-	-	-	32,210,000
Organizational expenses					(1,829,000)	(1,829,000)
Stock based compensation	-	-	152,000	-	-	152,000
Other comprehensive loss	-	-	-	(54,000)	-	(54,000)
Net loss	-	-	-	-	(3,105,000)	(3,105,000)
Balance at December 31, 2018	3,300,000	$ 32,210,000	$ 152,000	$ (54,000)	$ (4,934,000)	$ 27,374,000

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

INFINITY BANK

STATEMENT OF CASH FLOWS

For the Period from February 1, 2018 (inception of business)

through December 31, 2018

		2018
Cash Flows from Operating Activities		
Net loss	$	(3,105,000)
Adjustment to reconcile net loss to net cash provided by used in operating activities:		
Provision for loan and lease losses		174,000
Amortization of net discounts/premiums on securities available for sale		40,000
Stock based compensation		152,000
Depreciation and amortization		113,000
Increase in other liabilities		280,000
Increase in other assets		(270,000)
Net cash used in operating activities		(2,616,000)
Cash Flows used in Investing Activities		
Net change in time deposits in other banks		(282,000)
Purchase of premises and equipment		(640,000)
Net increase in loans		(13,919,000)
Purchase of investment securities		(18,831,000)
Proceeds from maturity of investment securities		3,022,000
Net cash used in investing activities		(30,650,000)
Cash Flows from Financing Activities:		
Proceeds from public offering, net		32,210,000
Organizational expenses, net		(1,829,000)
Net increase in deposits		42,888,000
Net cash provided by financing activities		73,269,000
Increase in cash and cash equivalents		40,003,000
Cash and cash equivalents		
Beginning of year		-
End of year	$	40,003,000
Supplemental Schedule of Non-Cash Operating Activities		
Cash paid for:		
Interest	$	38,000
Taxes	$	2,000

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Infinity Bank (the "Bank") commenced business on February 1, 2018 after receiving the requisite approvals of regulatory authorities. The Bank has been incorporated in the State of California and organized as a single operating segment that operates one full-service branch in Santa Ana, California.

The Bank operates in the local market offering traditional products and services, serving the needs of small-to- medium sized businesses, business owners and professionals, and real estate owners and investors. The majority of deposits and loans are expected to be originated from within Orange County and its surrounding areas. The Bank is considered a public business entity.

Organizational Costs

As discussed in Note 10, costs incurred for the period of the Bank's organization through the inception of business have been charged directly to shareholders' equity.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through March 28, 2019, 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.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, and time deposits in other bank's with original maturities of three months or less.

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 Bank complied with the reserve requirements as of December 31, 2018.

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

Debt Securities

Debt securities are classified in three categories and accounted for as follows: debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and are measured at amortized cost; debt securities bought and held principally for the purpose of selling in the near term are classified as trading securities and are measured at fair value, with unrealized gains and losses included in earnings; debt securities not classified as either held-to-maturity or trading securities are deemed as available-for-sale and are measured at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Gains or losses on sales of debt securities are determined on the specific identification method. Premiums and discounts are amortized or accreted using the interest method over the expected lives of the related securities.

Debt Securities - Continued

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer.

Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows; OTTI related to credit loss, which must be recognized in the income statement and; OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

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 or specific valuation accounts and net of any 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, net of origination costs 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 portfolio segment.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Bank also maintains a separate allowance for off-balance sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance sheet commitments totaled $14,000 at December 31, 2018, and is included in other liabilities on the statement of financial condition.

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 seven years for furniture, equipment and computer equipment. Leasehold improvements are amortized using the straight-line method over an estimated useful life of seven years 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 the amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the financial statements.

Revenue Recognition – Noninterest Income

The Bank adopted the provisions of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), on February 1, 2018, upon the commencement of operations, and all subsequent ASUs that modified Topic 606. The Bank recognizes revenue as it is earned and noted no impact to its revenue recognition policies as a result of the adoption of ASU 2014-09. All of the Bank's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income.

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Bank expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Bank performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract; and (v) recognize revenue when (or as) the Bank satisfies a performance obligation. The Bank only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Bank assesses the goods or services that are promised within each contract and identifies those that contain performance obligation, and assesses whether each promised good or service is distinct. The Bank then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation issatisfied.

The following is a discussion of key revenues within the scope of the new revenue guidance.

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

Transfers of Financial Assets

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

Stock-Based Compensation

The Bank 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 The Bank has elected to account for forfeitures of stock-based awards as they occur. Excess tax benefits and tax deficiencies relating to stock-based compensation are recorded as income tax expense or benefit in the income statement when incurred.

See Note 12 for additional information on the Bank's equity incentive plan.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Income Taxes

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

The Bank 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.

Earnings (loss) Per Share ("EPS")

Basic EPS excludes dilution and is computed by dividing income available to common Shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. All of the outstanding stock options were not considered in computing diluted earnings per share for 2018 because they were antidilutive. Weighted-average shares used in the computation of basic EPS were 3,300,000 in 2018.

Comprehensive Loss

Comprehensive loss consists of the Bank's net loss and net unrealized gains (losses) on debt securities available-for-sale, net, and is presented in the financial statements.

Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit as described in Note 8. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Fair Value Measurement

As further explained in Note 14, fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in GAAP. The new standard was effective for the Bank on January 22, 2018, upon the commencement of operations. Adoption of ASU 2014-09 did not have a material impact on the Bank's financial statements and related disclosures as the Bank's primary sources of revenues are derived from interest and dividends earned on loans and other financial instruments that are not within the scope of ASU 2014-09. The Bank's revenue recognition pattern for revenue streams within the scope of ASU 2014-09, including but not limited to service charges on deposit accounts did not change significantly from current industry practice.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The new standard was effective for the Bank on January 22, 2018, upon the commencement of operations. Adoption of ASU 2016-01 did not have a material impact on the Bank's financial statements. Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value impact earnings instead of other comprehensive income. Equity securities without readily marketable fair values are to be carried at amortized cost, less impairment (if any) plus or minus changes resulting from observable price changes in orderly transactions for an identical investment or similar investment of the same issuer. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. Additionally, the Bank refined the calculation used to determine the disclosed fair value of loans held for investment as part of adopting this standard reflecting an exit price notion instead of an entrance price. The refined calculation did not have a significant impact on fair value disclosures.

Recent Accounting Guidance Not Yet Effective

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2018 for public business entities and one year later for all other entities. The Bank will adopt this ASU beginning January 1, 2019. The anticipated impact on the Bank's financial statements is expected to be an increase in both the assets and liabilities of approximately $1.9 million.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326).* This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019 for SEC filers, one year later for non-SEC filing public business entities and two years later for nonpublic business entities. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Bank is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its financial statements and disclosures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent Accounting Guidance Not Yet Effective - Continued

In August 2018, the FASB issued ASU No. 2018-13, *"Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement."* This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for all entities for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Bank's financial statements and disclosures.

NOTE 2 - DEBT SECURITIES

Debt securities have been classified in the statement of financial condition according to management's intent. The carrying amount of debt securities and their approximate fair values were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
December 31, 2018				
Residential mortgage backed securities issued by FNMA and FHLMC	15,769,000	16,000	(70,000)	15,715,000
	$ 15,769,000	$ 16,000	$ (70,000)	$ 15,715,000

The amortized cost and estimated fair value of all debt securities available for sale and held to maturity at December 31, 2018, by expected maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale Securities	
	Amortized Cost	Fair Value
Due one year through five years	$ 3,481,000	$ 3,471,000
Due after five years through ten years	11,435,000	11,398,000
Due after ten years	853,000	846,000
	$ 15,769,000	$ 15,715,000

As of December 31, 2018, the Bank had 29 debt securities where estimated fair value had decreased from the Bank's amortized cost. Unrealized losses on debt securities have not been recognized into income because the issuers' bonds are above investment grade, management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach maturity.

NOTE 3 - LOANS

The Bank's loan portfolio consists primarily of loans to borrowers within Orange County and its surrounding areas. Although the Bank seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Bank's market area and, as a result, the Bank's loan and collateral portfolios are, to some degree, concentrated in those industries.

NOTE 3 – LOANS – Continued

The composition of the Bank's loan portfolio as of the year ended, December 31 is as follows:

	2018
Construction and land development	$ 659,000
Real estate - commercial and residential	998,000
Commercial & industrial	12,303,000
Total loans	13,960,000
Deferred loan fees and costs	(41,000)
Allowance for loan and lease losses	(174,000)
Net loans	$ 13,745,000

A summary of the changes in the allowance for loan losses for the period ended December 31 is as follows:

	2018
Beginning Balance	$ -
Provision	174,000
Charge-offs	-
Recoveries	-
Ending Balance	$ 174,000

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

December 31, 2018	Construction & Land Development	Real Estate Commercial & Residential	Commercial & Industrial	Total
Allowance for Loan Losses:				
Beginning of Year	$ -	$ -	$ -	$ -
Provisions	8,000	12,000	154,000	174,000
Charge-offs	-	-	-	-
Recoveries	-	-	-	-
End of Year	$ 8,000	$ 12,000	$ 154,000	$ 174,000
Reserves:				
Specific	$ -	$ -	$ -	$ -
General	8,000	12,000	154,000	174,000
	$ 8,000	$ 12,000	$ 154,000	$ 174,000
Loans Evaluated for Impairment:				
Individually	$ -	$ -	$ -	$ -
Collectively	633,000	1,003,000	12,283,000	13,919,000
	$ 633,000	$ 1,003,000	$ 12,283,000	$ 13,919,000

NOTE 3 - LOANS - Continued

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

The Bank uses the following definitions for risk ratings:

Non-Classified – Loans with a credit risk rating of special mention or pass.

Classified – Loans with a credit risk rating of 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.

Impaired – A loan is considered impaired, when based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement.

The risk category of loans by class of loans as of December 31 was as follows:

December 31, 2018	Non-classified	Classified	Impaired	Total
Construction & Land Development	$ 633,000	$ -	$ -	$ 633,000
Real Estate - commercial & residential	1,003,000			1,003,000
Commercial & Industrial	12,283,000	-	-	12,283,000
	$ 13,919,000	$ -	$ -	$ 13,919,000

The Bank had no past due, nonaccrual or impaired loans as of December 31, 2018. The balance of unamortized loan fees, net of loan origination costs included in total loans was $41,000 as of December 31, 2018.

NOTE 4 - PREMISES AND EQUIPMENT

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

	2018
Leasehold improvements	$ 3,000
Furniture and equipment	637,000
	640,000
Less accumulated depreciation and amortization	113,000
	$ 527,000

NOTE 5 - DEPOSITS

As of December 31, 2018, the Bank had 12 deposit relationships that exceeded 2.0% of total deposits, collectively aggregating $39 million and representing 91.0% of the total deposits of the Bank. At December 31, 2018, the Bank did not have any time deposits.

NOTE 6 - BORROWINGS

The Bank had one unused unsecured line of credit with a correspondent bank with a total borrowing capacity of $3.0 million at December 31, 2018.

NOTE 7 - INCOME TAXES

The income tax expense for the period ended December 31 is comprised of the following:

		2018
Current income taxes:		
Federal	$	-
State		2,000
Total current income taxes		2,000
Deferred income taxes:		
Federal		(907,000)
State		(525,000)
Total deferred income taxes		(1,432,000)
Increase in valuation allowance		1,432,000
Total income tax expense	$	2,000

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:

		2018
Deferred tax assets:		
Start up costs	$	393,000
Organizational costs		115,000
Allowance for loan losses		42,000
Premises and equipment		60,000
Other		48,000
Net operating loss carryforward		834,000
		1,492,000
Deferred tax liabilities:		
Other		60,000
		60,000
Total net deferred tax assets		1,432,000
Valuation allowance		1,432,000
Net deferred tax assets	$	-

The valuation allowance was established because the Bank has not reported earnings sufficient to support the recognition of the deferred tax assets. The Bank has net operating loss carryforwards of approximately $2.8 million for both federal income and California franchise tax purposes. Federal net operating loss carryforwards, do not expire and California net operating loss carryforwards, to the extent not used will expire in 2038.

The Bank records interest and penalties related to uncertain tax positions as part of income tax expense. There was no penalty or interest expense recorded as of December 31, 2018. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

The Bank is subject to federal income tax and California franchise tax. Federal and California income tax returns for years ended on or after December 31, 2018 are open to audit by the federal and California authorities.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Commitments to extend credit

Commitments to extend credit are agreements to lend to a client 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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each client's creditworthiness on a case-by-case basis. If deemed necessary upon extension of credit, the amount of collateral obtained is based on management's credit evaluation of the counter-party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties. The Bank had approximately $14.1 million in commitments to extend credit at December 31, 2018.

Standby letters of credit/Bank Guarantees

Standby letters of credit and Bank Guarantees (collectively, "guarantees") are conditional commitments issued by the Bank to guarantee the performance of a client to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters is essentially the same as that involved in extending loan facilities to clients. Collateral held varies as specified above and is required in instances that the Bank deems necessary. The Bank had financial standby letters of credit of $136 thousand at December 31, 2018. Letters of credit secured by cash or real estate collateral totaled $136 thousand at December 31, 2018.

Lease commitment

The Bank entered into a seven-year lease agreement for a main office in February, 2018 with a beginning monthly rent of $25,000 which has a 100% abatement for an initial period of 5 months. The Bank is also responsible for the pro rata share of any operating expense increase in excess of the actual expenses incurred by the landlord during the fiscal year. Total rental expense under the operating lease was approximately $293,000 for the period ended December 31, 2018. The future annual minimum lease payments under the non-cancelable operating lease are as follows:

Years Ending December, 31		
2019	$	313,000
2020		324,000
2021		336,000
2022		347,000
2023		360,000
2024		372,000
2025		31,000
	$	2,083,000

Data processing commitment

The Bank processes its data and check items under a non-cancelable agreement expiring in January, 2025. The monthly payment will increase as the Bank's volume of transactions increases. The agreement contains a termination clause whereby the Bank would be liable to the service bureau for an immediate lump sum payment based on the average monthly billings over the number of months remaining on the contract unless certain contractual obligations are not met by the processor.

NOTE 9 – OTHER EXPENSES

Other expenses as for the period ended December 31 are comprised of the following:

		2018
Software license & amortization	$	63,000
FDIC & Other Insurances		52,000
Printing, postage & office supplies		20,000
Telephone expense		27,000
Correspondent bank fees		16,000
Other		136,000
	$	314,000

NOTE 10 - ORGANIZATIONAL PERIOD

The Bank incorporated on January 25, 2017, shortly after receiving conditional approval from the State of California to organize as a state-chartered bank. Prior to that date and up to the inception of business on February 1, 2018, organizers of the Bank incurred costs in connection with the organizational process and raising of the initial capitalization of the Bank. These organization expenses were comprised of the following:

		2018
Consultant expense	$	912,000
Legal & professional		525,000
Occupancy		305,000
Other		87,000
	$	1,829,000

Costs incurred during the organizational period have been charged directly to shareholders' equity and are reflected in the statement of changes in shareholders' equity.

NOTE 11 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, certain executive officers, directors and companies with which they are associated may have loans and deposits with the Bank. At December 31, 2018, related party deposits were approximately $3,695,000, and there were two related party loans with an outstanding balance of $247,000.

NOTE 12 – STOCK – BASED COMPENSATION PLAN

The board of directors of the Bank approved the 2018 Stock Incentive Plan ("2018 Plan"). The 2018 plan was approved in May, 2018 by the shareholders. Under the terms of the 2018 Plan, officers and key employees may be granted both nonqualified and incentive stock options, and directors and other consultants, who are not also an officer or employee, may only be granted nonqualified stock options. The 2018 Plan also permits the granting of restricted stock, restricted stock units, performance awards, stock awards and other stock-based awards. The 2018 Plan provides for the total number of awards of common stock that may be issued over the term of the plan not to exceed 990,000 shares, of which a maximum of 891,000 shares may be granted as incentive stock options. Stock options are granted at a price not less than 100% of the fair market value of the stock on the date of grant. The 2018 plan provides for accelerated vesting if there is a change of control as defined in the 2018 Plan. Equity awards generally vest over five to seven years. Stock options expire no later than ten years from the date of grant.

NOTE 12 – STOCK – BASED COMPENSATION PLAN - Continued

The Bank recognized stock-based compensation costs of $32,000 and $120,000 related to restricted stock units and stock options, respectively, for the period ended December 31, 2018. Stock options, with a weighted-average grant date fair value of $2.85 issued in 2018 were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2018
Expected Volatility	20.62%
Expected Term	6.5 years
Expected Dividends	None
Risk Free Rate	2.82%
Grant Date Fair Value	$ 2.85

Since the Bank has a limited amount of historical stock activity, the expected volatility is based on the historical volatility of similar banks that have a longer trading history. The expected term represents the estimated average period of time that the options remain outstanding. Since the Bank does not have sufficient historical data on the exercise of stock options, the expected term is based on the "simplified" method that measures the expected term as the average of the vesting period and the contractual term, adjusted for management's estimate on the period of time that options granted are expected to be outstanding. The risk-free rate of the return reflects the grant date interest rate offered for zero coupon U.S. Treasury bonds over the expected term of the options.

A summary of the status of the Bank's stock option plan as of December 31, 2018 and changes during the period ended thereon is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Average Intrinsic Value
Outstanding at beginning of period	-	$ -	-	$ -
Granted	426,250	$ 10.00		
Exercised	-	$ -		
Forfeited or expired	-	$ -		
Outstanding at end of year	426,250	$ 10.00	9.08 Years	$ -

As of December 31, 2018, there were no exercisable options. As of December 31, 2018, there was $1,095,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 3.02 years.

It is the Bank's intention to grant nonqualified stock options to organizers of the Bank once the Bank is no longer considered a *de novo* institution by the appropriate regulatory authorities, which the Bank believes will be three years after the bank opens for business. The options will be granted at an exercise price equal to the fair market value of the common stock at the time of grant. All options granted to organizers will be issued in accordance with the Bank's 2018 Plan.

Restricted Stock Units

Restricted stock units ("RSU") amortization totaled $32,000 for the year ended December 31, 2018. Such amounts are included in compensation expense on the accompanying statements of operations. The amount of unrecognized compensation expense related to all unvested RSUs as of December 31, 2018 totaled $418,000. Such expense is expected to be recognized over a weighted average period of 6.5 years.

NOTE 12 – STOCK – BASED COMPENSATION PLAN - Continued

The following table presents a summary of restricted stock transactions during the year ended December 31, 2018:

Year Ended December 31, 2018	Number of Units	Weighted Average Grant Date Fair Value (per share)	
Unvested restricted stock units, beginning of period	-	$	-
Granted	45,000	$	10.00
Vested	-	$	-
Forfeited	-	$	-
Unvested restricted stock units, end of year	45,000	$	10.00

NOTE 13 - EMPLOYEE 401K PLAN

The Bank has adopted a 401(k) for its employees. Under the plan, eligible employees may defer a portion of their salaries. The plan provides for a discretionary matching contribution. The Bank made contributions of $54,000 for the period ended December 31, 2018.

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31 are summarized as follows:

	Carrying Amount	Fair Value Measurements at December 31, 2018: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and due from banks	$ 40,003,000	$ 40,003,000	$ -	$ -	$ 40,003,000
Time deposits at other banks	282,000	282,000			282,000
Debt securities	15,715,000	-	15,715,000		15,715,000
Loans and leases, net	13,745,000	-	13,745,000	-	13,745,000
Financial Liabilities:					
Savings and demand deposits	$ 42,888,000	$ 42,888,000	$ -	$ -	$ 42,888,000

Securities

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

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2018:

	Fair Value Measurements Using			
December 31, 2018	Level 1	Level 2	Level 3	Total
Assets Measured at Fair Value on a Recurring Basis				
Debt securities available for sale	$ -	$ 15,715,000	$ -	$ 15,715,000

NOTE 15 - 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 (Basel III rules). The new rules became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2018 is 1.875%. The net unrealized gain or loss on available for sale securities, if any, is not included in computing regulatory capital.

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). Management believes, as of December 31, 2018, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2018, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well capitalized, the Bank must maintain minimum ratios as set forth in the table below. In addition to the capital requirements below, the FDIC requires the Bank to maintain its Tier 1 Capital to average assets at 8% during the first three years of operations. The following table also sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

			Amount of Capital Required			
	Actual		For Capital Adequacy Purpose		To Be Well-Capitalized Under FDIC Guidelines	
As of December 31, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk-weighted assets)	$ 27,602	125.53%	$ 1,759	8.00%	$ 2,199	10.00%
Tier I Capital (to risk-weighted assets)	27,428	124.74%	1,319	6.00%	1,759	8.00%
Tier I Leverage Capital (to average assets)	27,428	48.35%	2,269	4.00%	2,837	5.00%
CET1 Capital (to risk-weighted assets)	27,428	124.74%	989	4.50%	1,429	6.50%

NOTE 15 - REGULATORY MATTERS - Continued

The California Financial Code also provides that a bank may not make a cash distribution to its shareholders 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 by the bank's shareholders during the same period.