

Financial Statements  
December 31, 2025 and 2024  
**Gateway Bank, F.S.B.**

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## Independent Auditor's Report

The Board of Directors and Shareholders  
Gateway Bank, F.S.B.  
Oakland, California

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Gateway Bank, F.S.B., which comprise the balance sheets as of December 31, 2025 and 2024, and the related statements of operations, comprehensive loss, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Gateway Bank, F.S.B. as of December 31, 2025 and 2024, and the results of its operations and its cash flows for years then ended, in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Gateway Bank, F.S.B., 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Gateway Bank, F.S.B.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Gateway Bank, F.S.B.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Eide Bailly LLP*

Laguna Hills, California  
March 31, 2026

Gateway Bank, F.S.B.  
Balance Sheets  
December 31, 2025 and 2024

	2025	2024
<b>Assets</b>		
Cash and due from banks	\$ 1,629,783	\$ 1,615,656
Interest bearing deposits in other banks	9,150,342	19,661,545
Federal funds sold	-	3,495,000
Total cash and cash equivalents	10,780,125	24,772,201
Debt securities available for sale, at fair value (amortized cost of \$30,498,344 and \$38,965,921, respectively)	27,839,839	35,000,646
Loans held for investment, less allowance for credit losses of \$2,540,064 and \$2,467,328, respectively	212,551,647	187,359,393
Restricted stock, at cost	1,781,200	1,452,500
Mortgage servicing rights, at fair value	298,496	383,039
Premises and equipment, net	695,171	209,643
Right-of-use asset	1,249,272	1,575,412
Cash surrender value of bank owned life insurance	2,967,123	2,902,484
Accrued interest receivable and other assets	2,303,211	2,475,909
Total assets	\$ 260,466,084	\$ 256,131,227
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits		
Noninterest bearing	\$ 9,758,910	\$ 6,269,019
Interest bearing	193,385,609	222,410,538
Total deposits	203,144,519	228,679,557
Lease Liability	1,279,451	1,587,735
FHLB Advances	33,000,000	-
Accrued Interest Payable and Other Liabilities	952,876	1,207,527
Total liabilities	238,376,846	231,474,819
<b>Commitments and Contingencies (Notes 6 and 11)</b>		
<b>Shareholders' Equity</b>		
Preferred stock Series C and D - no par value; 20,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock - \$0.10 par value; 720,000,000 shares authorized; 269,912,602 shares issued and outstanding in 2025 and 2024	26,991,260	26,991,260
Additional paid-in-capital	35,973,070	35,962,545
Accumulated deficit	(38,216,587)	(34,332,122)
Accumulated other comprehensive loss	(2,658,505)	(3,965,275)
Total shareholders' equity	22,089,238	24,656,408
	\$ 260,466,084	\$ 256,131,227

Gateway Bank, F.S.B.  
Statements of Operations  
December 31, 2025 and 2024

	2025	2024
Interest Income		
Interest and fees on loans	\$ 10,572,290	\$ 9,369,866
Interest on debt securities	1,347,359	1,496,005
Interest on federal funds sold and other	846,826	1,221,654
Dividends on restricted stock	150,630	126,370
	12,917,105	12,213,895
Interest Expense		
Interest on deposits	7,866,428	8,142,649
Interest on borrowings	144,463	16
	8,010,891	8,142,665
Net Interest Income Before Provision for Credit Losses	4,906,214	4,071,230
Provision for Credit Losses on loans	72,736	816,104
(Reversal of) Provision for Credit Losses on unfunded commitments	(27,367)	30,477
	45,369	846,581
Net Interest Income After Provision for Credit Losses	4,860,845	3,224,649
Noninterest Income		
Loan servicing loss	(102,100)	(5,535)
Other income	51,166	177,355
	(50,934)	171,820
Noninterest Expense		
Salaries and employee benefits	4,615,489	3,877,893
Occupancy and equipment	927,415	788,003
Data processing	953,553	864,014
Legal fees	519,935	487,300
Professional and consulting fees	616,946	468,541
Other expense	1,060,238	1,023,025
	8,693,576	7,508,776
Loss Before Income Tax Expense	(3,883,665)	(4,112,307)
Income Tax Expense	800	332
Net Loss	\$ (3,884,465)	\$ (4,112,639)
Loss per Common Share - Basic and Diluted	\$ (0.01)	\$ (0.02)
Weighted-average common shares	269,912,602	269,912,602

See Notes to Financial Statements

Gateway Bank, F.S.B.  
Statements of Comprehensive Loss  
December 31, 2025 and 2024

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	<u>2025</u>	<u>2024</u>
Net Loss	\$ (3,884,465)	\$ (4,112,639)
Other Comprehensive Income (Loss)		
Changes in net unrealized gains on debt securities classified as available-for-sale	<u>1,306,770</u>	<u>797,599</u>
Total other comprehensive income	<u>1,306,770</u>	<u>797,599</u>
Comprehensive Loss	<u><u>\$ (2,577,695)</u></u>	<u><u>\$ (3,315,040)</u></u>

Gateway Bank, F.S.B.  
Statements of Shareholders' Equity  
December 31, 2025 and 2024

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance January 1, 2024	-	\$ -	269,912,602	\$ 26,991,260	\$ 35,962,545	\$ (30,219,483)	\$ (4,762,874)	\$ 27,971,448
Net Loss	-	-	-	-	-	(4,112,639)	-	(4,112,639)
Other Comprehensive Income	-	-	-	-	-	-	797,599	797,599
Balance December 31, 2024	-	-	269,912,602	26,991,260	35,962,545	(34,332,122)	(3,965,275)	24,656,408
Net Loss	-	-	-	-	-	(3,884,465)	-	(3,884,465)
Other Comprehensive Income	-	-	-	-	-	-	1,306,770	1,306,770
Stock Based Compensation	-	-	-	-	10,525	-	-	10,525
Balance December 31, 2025	-	\$ -	269,912,602	\$ 26,991,260	\$ 35,973,070	\$ (38,216,587)	\$ (2,658,505)	\$ 22,089,238

See Notes to Financial Statements

Gateway Bank, F.S.B.  
Statements of Cash Flows  
Years Ended December 31, 2025 and 2024

	2025	2024
Operating Activities		
Net loss	\$ (3,884,465)	\$ (4,112,639)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	79,034	71,309
Amortization on debt securities	24,545	28,125
Provision for credit losses	45,369	846,581
Stock based compensation	10,525	-
Decrease in fair value of mortgage servicing rights	84,543	31,842
Increase in cash surrender value of life insurance	(64,639)	(64,203)
Changes in other assets and liabilities		
Accrued interest receivable and other assets	185,832	(758,774)
Accrued interest payable and other liabilities	(227,284)	72,187
Net Cash Used in Operating Activities	(3,746,540)	(3,885,572)
Investing Activities		
Purchases in Federal Home Loan Bank stock Available-for-sale debt securities	(328,700)	(222,400)
Maturities, prepayments and calls	8,447,754	2,993,994
Purchases	-	(4,000,000)
Net increase in loans	(25,264,990)	(41,564,185)
Purchase of premises and equipment	(564,562)	(154,874)
Net Cash Used in Investing Activities	(17,710,498)	(42,947,465)
Financing Activities		
Net change in deposits	(25,535,038)	60,253,630
Advances in Federal Home Loan Bank borrowings	33,000,000	-
Net Cash from Financing Activities	7,464,962	60,253,630
Change in Cash and Cash Equivalents	(13,992,076)	13,420,593
Cash and Cash Equivalents, Beginning of Year	24,772,201	11,351,608
Cash and Cash Equivalents, End of Year	\$ 10,780,125	\$ 24,772,201
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for		
Interest paid	\$ 8,072,144	\$ 7,992,392
Income tax paid		
Federal	\$ -	\$ -
State	\$ 800	\$ 302
ROU assets obtained in exchange for new lease liabilities	\$ -	\$ 1,785,594

## **Note 1 - Summary of Significant Accounting Policies**

The accounting and reporting policies of Gateway Bank, F.S.B. ("Bank") are in accordance with accounting principles generally accepted in the United States of America and conform to practices within the banking industry.

A summary of the Bank's significant accounting policies follows:

### **Nature of Operations**

The Bank was incorporated in June 1990. The Bank occupies one location in the Chinatown district of Oakland, California and a branch in Walnut Creek, California. The Bank provides traditional banking products to the surrounding communities.

The Bank operates under a charter granted by the Office of the Comptroller of Currency ("OCC") and its deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC").

The Bank's stock began trading in the over-the-counter markets (ticker symbol GWBK) in 2019 and therefore is a public business entity for financial reporting purposes.

### **Subsequent Events**

The Bank has evaluated subsequent events for recognition and disclosure through March 31, 2026, 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 and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term is the determination of the allowance for credit losses.

### **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash, time deposits with other financial institutions with maturities of 90 days or less and federal funds sold. Generally, federal funds are sold for one day periods.

### **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 Federal Reserve's board of directors approved a final rule reducing the required reserve requirement ratio to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or in deposit with the Federal Reserve Bank.

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

### **Allowance for Credit Losses (ACL) – Available-for-Sale Securities**

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

Accrued interest receivable on available-for-sale debt securities totaling \$170,367 and \$235,596 at December 31, 2025 and 2024, respectively, is included in accrued interest receivable and other assets on the balance sheets and is excluded from the estimate of credit losses.

### **Loans Held for Investment**

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 deferred and recognized in interest income using the level-yield method without anticipating prepayments. Premiums and discounts on loans purchased are grouped by type and certain common risk characteristics and amortized or accreted as an adjustment of yield over the weighted-average remaining contractual lives of each group of loans, adjusted for prepayments when applicable, using methodologies which approximate the interest method.

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 or when, in the opinion of management, there is reasonable doubt as to collectability based on contractual terms of the loan. 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.

Accrued interest receivable on loans totaling \$986,253 and \$1,065,114 at December 31, 2025 and 2024, respectively, is included in accrued interest receivable and other assets on the balance sheets and is excluded from the estimate of credit losses.

The Bank's real estate loan portfolio consists primarily of long-term loans (15-30 years) collateralized by first and second deeds of trust on one-to-four-unit residential real estate properties. A substantial portion of the real estate loan portfolio is comprised of adjustable-rate mortgages. The interest rate and payment terms of these mortgages adjust on a periodic basis in accordance with various published indices. The majority of these adjustable-rate mortgages have terms which limit the amount of interest rate adjustment that can occur each year and over the life of the mortgage.

#### **Allowance for Credit Losses - Loans**

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

Management estimates the allowance balance using relevant information for each loan segment, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The ACL for loans is measured on a collective (pooled) basis when similar risk characteristics exist. Historical credit loss experience dating back to as early as 2001, for a group of peer institutions of similar size, provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience.

Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

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

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

### **Allowance for Credit Losses (ACL) – Off-Balance Sheet Credit Exposures**

The Bank also maintains a separate allowance for off-balance sheet credit exposures. Management estimates anticipated losses using expected loss factors consistent with those used for the ACL methodology for loans described above, and utilization assumptions based on historical experience. Provision for credit losses for off-balance sheet credit exposures is included in provision for credit losses in the statements of operations and added to the allowance for off-balance sheet credit exposures, which is included in accrued interest payable and other liabilities in the balance sheets.

### **Loan Modifications**

The Bank applies the general loan modification guidance provided in ASC 310-20 to all loan modifications, including modifications made for borrowers experiencing financial difficulty. The Bank considers some of the indicators that a borrower is experiencing financial difficulty to be: currently in payment default on any of their debt, declaring bankruptcy, going concern, insufficient cash flow to service all debt service requirements, inability to obtain funds from other sources at a market rate for similar debt to non-troubled borrowers, and currently classified as substandard loans that are categorized as having well-defined weaknesses. ASC 310-20 requires that certain types of modifications be reported, which consist of (1) principal forgiveness; (2) interest rate reduction; (3) other-than-insignificant payment delay; (4) term extension; and any combination of the above.

### **Mortgage Servicing Rights**

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The Bank services residential mortgage loans, which represents its single class of servicing rights, primarily for Government Sponsored Entities ("GSE") and other private investors. The Bank has elected to measure all mortgage servicing rights at fair value. Under the fair value measurement method, the Bank measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur and are included with loan servicing income (expense) in the statement of operations. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. See Note 4 for more information on the valuation of servicing rights.

Servicing fee income, which is reported on the statement of operations as loan servicing income (expense), is recorded for fees earned for servicing loans, net of fair value adjustments. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. Servicing fees totaled (\$17,557) and \$26,307 for the years ended December 31, 2025 and 2024, respectively.

### **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.

### **Restricted Stock and Equity Securities**

The Bank is a member of the Federal Home Loan Bank ("FHLB") system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. The Bank's investment in FHLB stock was \$1,781,200 and \$1,452,500 at December 31, 2025 and 2024, respectively.

The Bank measures equity securities without readily determinable fair values at cost less impairment, plus or minus observable price changes in orderly transactions. The carrying amount of equity securities without readily determinable fair values is \$280,000 as of December 31, 2025 and 2024 and includes investment in Pacific Coast Bankers' Bank ("PCBB") and other bankers bank stock, included in accrued interest receivable and other assets in the balance sheets. There were no adjustments to the carrying amount of bankers bank stocks in 2025 and 2024.

### **Premises and Equipment**

Premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets, which is three to five years for equipment and five to ten years for furniture. Leasehold improvements are amortized over the life of the asset or the term of the related lease, including lease extension options expected to be exercised, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in earnings for the period. The cost of maintenance and repairs is charged to expense as incurred.

## Leases

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

The Bank has elected to account for lease agreements with lease and non-lease components as a single lease component.

## Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

## Revenue Recognition - Noninterest Income

The majority of the Bank's revenues come from interest income and other sources, including loans and securities, that are outside the scope of Topic 606. The Bank's services that fall within the scope of Topic 606 are presented within non-Interest Income and are recognized as revenue as the Bank satisfies its obligation to the customer. Services within the scope of Topic 606 include service charges on deposits.

**Service Charges on Deposit Accounts:** The Bank earns fees from its deposit customers for transaction-based, account-maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees, which related primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance. These charges are recognized in other income with the statement of operations.

## Income Taxes

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

### **Repurchase and Recourse Liability**

A repurchase and recourse liability included in accrued interest payable and other liabilities is established through a provision for loan repurchases charged to earnings for loans the Bank has sold with recourse. The Bank provides industry standard representations and warranties to purchasers of the loans sold. In the event of a breach of these representations and warranties, the Bank may be required to repurchase a mortgage loan or indemnify the purchaser, and any subsequent loss on the mortgage loan may be borne by the Bank. If there is no breach of a representation and warranty provision, the Bank has no obligation to repurchase the loan or indemnify the investor against loss. For loans that are sold with recourse, the Bank is subject to risk of loss resulting from borrowers who default on their contractual obligation to repay their mortgage if the Bank does not receive sufficient proceeds upon ultimate foreclosure and liquidation of the property to cover the amount of the mortgage plus expenses the Bank incurs, regardless of whether there was any violation of representation and warranties.

Repurchase demands and claims for indemnification payments are reviewed on a loan-by-loan basis to validate if there has been a breach requiring repurchase or a make-whole payment. The Bank actively contests claims to the extent it does not consider them valid. In cases where the Bank repurchases loans, it bears the subsequent credit loss on the loans with such credit losses, if any, recorded in other expense, net in the statements of operations. The Bank seeks to manage the risk of repurchase and associated credit exposure through underwriting and quality assurance practices and by servicing mortgage loans to meet investor standards.

### **Dividends**

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The Office of Comptroller of the Currency ("OCC") restricts the total dividend payment of any bank in any calendar year to the net income for that year to date plus retained income for the preceding two years. No dividends were declared or paid in the years ended December 31, 2025 and 2024.

### **Comprehensive Income (Loss)**

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). The Bank's sources of other comprehensive income (loss) include the net unrealized gains and losses on available-for-sale debt securities.

### **Earnings (Loss) Per Share ("EPS")**

Basic EPS excludes dilution and is computed by dividing income available to common stockholders 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. There were no dilutive shares in 2025 and 2024. Weighted-average shares outstanding used in the computation of basic and diluted earnings per share was 269,912,602 as of December 31, 2025 and 2024.

### **Fair Value Measurements**

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

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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

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

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

### **Operating Segments**

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed, and financial performance is evaluated on a Bank-wide basis. Discrete operating results are not reviewed by senior management to make resource allocation or performance decisions. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

The Bank's reportable segments are determined by the Chief Executive Officer, who is the designated chief operating decision maker (CODM), based upon information provided about the Bank's products and services offered, primarily banking operations. The segment is also distinguished by the level of information provided to the CODM, who uses such information to review performance of various components of the business, which are then aggregated if operating performance, products/services, and customers are similar. The CODM will evaluate the financial performance of the Bank's business components such as by evaluating revenue streams, significant expenses, and budget to actual results in assessing the Bank's segment and in the determination of allocating resources. The CODM uses revenue streams to evaluate product pricing and significant expenses to assess performance and evaluate return on assets. The CODM uses net income to benchmark the Bank against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results are used in assessing performance and in establishing compensation. Loans, investments and deposits provide the revenues in the banking operation. Interest expense, provisions for credit losses and payroll provide the significant expenses in the banking operation. All operations are domestic.

Accounting policies for segments are the same as those described in Note 1. Segment performance is evaluated using net income. Information reported internally for performance assessment by the CODM is included within the statements of operations.

### Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or stockholders' equity.

### Adoption of Accounting Standards

Effective January 1, 2025, the Bank adopted Accounting Standards Update (ASU) 2023-09, Income taxes (Topic 740): Improvements to Income Tax Disclosures. The implementation of this standard establishes a requirement to disclose differences between the statutory tax rate and the effective tax rate by jurisdiction and disaggregated information about income taxes paid, income (loss) from continuing operations before income tax expense (or benefit) and income tax expense (or benefit) from continuing operations. Management has determined that this standard is preferable in that the reporting will provide users with more useful information and greater transparency about how the Bank's operations and related tax risks affect its tax rate and cash flows. The amendments related to the ASU were applied retrospectively to the beginning of the earliest year presented.

Effective January 1, 2024, the Bank adopted Accounting Standards Update (ASU) 2023-07 Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The ASU requires that public entities (including those with a single reportable segment) make all existing segment disclosures required by Topic 280 Segment Reporting on both an annual and interim basis. Significant segment expenses that are regularly provided to the CODM and included within each reported measure of segment profit or loss and other segment items must also be disclosed. The CODM's title and position is also required to be disclosed as well as how the CODM uses each reported measure to assess segment performance and in deciding how to allocate resources. The ASU does not change how a public entity determines its reportable segments.

The amendments related to the ASU were applied retrospectively to the segment information disclosed for all prior periods presented in the accompanying financial statements. Adoption of the amendments of the ASU did not impact any of the amounts presented in the basic financial statements.

### Note 2 - Debt Securities

The amortized cost and fair values of debt securities with gross unrealized gains and losses as of December 31, 2025, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
Mortgage-backed agency securities	\$ 15,803,344	\$ -	\$ (1,867,616)	\$ 13,935,728
Subordinated debt securities	14,695,000	-	(790,889)	13,904,111
	<u>\$ 30,498,344</u>	<u>\$ -</u>	<u>\$ (2,658,505)</u>	<u>\$ 27,839,839</u>

The amortized cost and fair values of debt securities with gross unrealized gains and losses as of December 31, 2024 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
Mortgage-backed agency securities	\$ 17,765,921	\$ -	\$ (2,488,705)	\$ 15,277,216
Subordinated debt securities	21,200,000	-	(1,476,570)	19,723,430
	<u>\$ 38,965,921</u>	<u>\$ -</u>	<u>\$ (3,965,275)</u>	<u>\$ 35,000,646</u>

The scheduled maturity of subordinated debt securities is as follows as of December 31, 2025 and 2024:

	December 31, 2025		December 31, 2024	
	Subordinated Debt Securities		Subordinated Debt Securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in One to Five Years	\$ 3,695,000	\$ 3,619,308	\$ -	\$ -
Due in Five to Ten Years	11,000,000	10,284,803	21,200,000	19,723,430
	<u>\$ 14,695,000</u>	<u>\$ 13,904,111</u>	<u>\$ 21,200,000</u>	<u>\$ 19,723,430</u>

A maturity schedule of mortgage-backed securities is not presented as they are not due at a single maturity date.

Securities with a carrying value of approximately \$14,377,883 were pledged at December 31, 2025 to secure the borrowing arrangements discussed in Note 8.

#### **Allowance for Credit Losses – Available-for-Sale Securities**

At December 31, 2025 and 2024, unrealized losses on available-for-sale securities is partially comprised of securities that are implicitly guaranteed by the U.S. government and are highly rated by major rating agencies with a history of no credit losses. Timely payments of principal and interest are expected. Subordinated debt obligations are either of investment grade or not rated. All issuers are making timely principal and interest payments and financial information is periodically reviewed as part of post-purchase analysis. The decline in value in these securities is deemed to be temporary and not attributable to credit losses. Furthermore, the Bank does not intend to sell, and it is likely that management will not be required to sell, these securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

As of December 31, 2025 and 2024 all debt securities have been in a continuous loss position for greater than 12 months, except for debt securities that were purchased in 2024.

**Note 3 - Loans and Allowance for Credit Losses**

Loans consist of the following at December 31:

	2025	2024
Loans Held for Investment		
Residential real estate	\$ 161,764,897	\$ 153,792,466
Multi-Family real estate	12,899,989	9,427,088
Commercial real estate	36,060,493	23,425,312
Commercial	4,366,332	3,181,855
Total loans held for investment	215,091,711	189,826,721
Allowance for Credit Losses	(2,540,064)	(2,467,328)
	\$ 212,551,647	\$ 187,359,393

The following table presents the activity in the allowance for credit losses on loans for the year ended December 31, 2025 by portfolio segment:

	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Commercial	Total
Allowance for Credit Losses - Loans					
Beginning balance	\$ 1,669,033	\$ 153,785	\$ 603,320	\$ 41,190	\$ 2,467,328
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision	586,988	(129,387)	(368,624)	(16,241)	72,736
Ending balance	\$ 2,256,021	\$ 24,398	\$ 234,696	\$ 24,949	\$ 2,540,064

The following table presents the activity in the allowance for credit losses on loans for the year ended December 31, 2024 by portfolio segment:

	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Commercial	Total
Allowance for Credit Losses - Loans					
Beginning balance	\$ 1,313,255	\$ 79,349	\$ 258,594	\$ 26	\$ 1,651,224
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision	355,778	74,436	344,726	41,164	816,104
Ending balance	\$ 1,669,033	\$ 153,785	\$ 603,320	\$ 41,190	\$ 2,467,328

The following table presents the activity in the allowance for credit losses on unfunded commitments for the years ended December 31, 2025 and 2024:

	2025	2024
Allowance for Credit Losses - Unfunded Commitments		
Beginning balance	\$ 31,477	\$ 1,000
Provision	(27,367)	30,477
Ending balance	\$ 4,110	\$ 31,477

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

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

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

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

**Doubtful** - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The risk category of loans by class of loans and year of origination as of December 31, 2025, follows:

	Term Loans Amortized Cost by Origination Year					Revolving Loans Amortized Cost Basis	Total
	2025	2024	2023	2022	2021		
<b>Residential Real Estate</b>							
Pass	\$ 34,645,685	\$ 18,940,664	\$ 22,853,858	\$ 41,556,676	\$ 1,671,493	\$ 32,520,864	\$ 152,879,673
Special mention	-	-	-	789,717	-	463,216	1,252,933
Substandard	-	3,315,258	1,515,317	1,458,604	452,116	890,996	7,632,291
	<u>34,645,685</u>	<u>22,255,922</u>	<u>24,369,175</u>	<u>43,804,997</u>	<u>2,123,609</u>	<u>33,875,076</u>	<u>161,764,897</u>
<b>Multifamily Real Estate</b>							
Pass	4,449,198	5,320,061	301	-	-	356,990	10,126,550
Special mention	-	-	-	-	-	806,364	806,364
Substandard	-	-	-	-	1,967,075	-	1,967,075
	<u>4,449,198</u>	<u>5,320,061</u>	<u>301</u>	<u>-</u>	<u>1,967,075</u>	<u>1,163,354</u>	<u>12,899,989</u>
<b>Commercial Real Estate</b>							
Pass	14,129,831	5,418,081	-	5,660,486	1,585,324	3,867,784	30,979,944
Special mention	-	-	-	1,751,373	-	680,651	2,432,024
Substandard	-	-	-	-	-	2,648,525	2,648,525
	<u>14,129,831</u>	<u>5,418,081</u>	<u>-</u>	<u>7,411,859</u>	<u>1,585,324</u>	<u>7,196,960</u>	<u>36,060,493</u>
<b>Commercial - Pass</b>	<u>724,854</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,366,332</u>
<b>Total Loans</b>							
Pass	53,949,568	29,678,806	22,854,159	47,217,162	3,256,817	36,745,638	198,352,499
Special mention	-	-	-	2,541,090	-	1,950,231	4,491,321
Substandard	-	3,315,258	1,515,317	1,458,604	2,419,191	3,539,521	12,247,891
	<u>\$ 53,949,568</u>	<u>\$ 32,994,064</u>	<u>\$ 24,369,476</u>	<u>\$ 51,216,856</u>	<u>\$ 5,676,008</u>	<u>\$ 42,235,390</u>	<u>\$ 215,091,711</u>

The Bank recorded no charge-offs during the year ended December 31, 2025.

The risk category of loans by class of loans and year of origination as of December 31, 2024, follows:

	Term Loans Amortized Cost by Origination Year					Total
	2024	2023	2022	2021	Prior	
Residential Real Estate						
Pass	\$ 29,319,014	\$ 30,901,172	\$ 51,310,259	\$ 2,260,648	\$ 38,032,109	\$ 151,823,202
Special Mention	-	-	808,527	-	-	808,527
Substandard	-	-	246,138	-	914,599	1,160,737
	<u>29,319,014</u>	<u>30,901,172</u>	<u>52,364,924</u>	<u>2,260,648</u>	<u>38,946,708</u>	<u>153,792,466</u>
Multifamily Real Estate - Pass						
Pass	5,415,471	5,685	-	1,154,370	1,196,552	7,772,078
Special Mention	-	-	-	871,041	783,969	1,655,010
	<u>5,415,471</u>	<u>5,685</u>	<u>-</u>	<u>2,025,411</u>	<u>1,980,521</u>	<u>9,427,088</u>
Commercial Real Estate						
Pass	5,807,241	-	7,627,413	1,637,414	3,953,579	19,025,647
Special mention	-	-	-	-	2,072,284	2,072,284
Substandard	-	-	-	-	2,327,381	2,327,381
	<u>5,807,241</u>	<u>-</u>	<u>7,627,413</u>	<u>1,637,414</u>	<u>8,353,244</u>	<u>23,425,312</u>
Commercial - Pass	<u>3,181,175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>680</u>	<u>3,181,855</u>
Total Loans						
Pass	43,722,901	30,906,857	58,937,672	5,052,432	43,182,920	181,802,782
Special mention	-	-	808,527	871,041	2,856,253	4,535,821
Substandard	-	-	246,138	-	3,241,980	3,488,118
	<u>\$ 43,722,901</u>	<u>\$ 30,906,857</u>	<u>\$ 59,992,337</u>	<u>\$ 5,923,473</u>	<u>\$ 49,281,153</u>	<u>\$ 189,826,721</u>

The Bank recorded no charge-offs during the year ended December 31, 2024.

Past due and nonaccrual loans were as follows as of December 31, 2025:

	Still Accruing		Nonaccrual
	30-89 Days Past Due	Over 90 Days Past Due	
Residential Real Estate	<u>\$ 1,958,315</u>	<u>\$ 1,480,345</u>	<u>\$ 4,755,196</u>

There was no interest income recognized on nonaccrual loans during the year then ended.

The following table presents the amortized cost basis of collateral dependent loans, by the primary collateral type, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans as of December 31, 2025.

	December 31, 2025				ACL
	Collateral Type			Total	
	Real Estate	Equipment	Other		
Commercial Real Estate	\$ 952,432	\$ -	\$ -	\$ 952,432	\$ 202,432
Residential Real Estate	4,948,734	-	-	4,948,734	-
Total	<u>\$ 5,901,166</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,901,166</u>	<u>\$ 202,432</u>

The ACL reserve was related to one commercial real estate loan in the amount of \$952,432.

Past due and nonaccrual loans were as follows as of December 31, 2024:

	Still Accruing		Nonaccrual
	30-89 Days Past Due	Over 90 Days Past Due	
Commercial Real Estate	\$ -	\$ -	\$ 1,000,000
Residential Real Estate	2,775,684	-	1,162,477
	\$ 2,775,684	\$ -	\$ 2,162,477

There was no interest income recognized on nonaccrual loans during the year then ended.

The nonaccrual commercial real estate amount represents one loan, primarily collateralized by commercial real estate, that was collateral dependent as of December 31, 2024 and carried an ACL reserve of \$259,000. The nonaccrual residential real estate loans were not collateral dependent as of December 31, 2024.

There were no modifications made on loans to borrowers experiencing financial difficulty in 2025 and 2024.

In 2025, the Bank purchased \$31.3 million of residential real estate loans and \$3.0 million of commercial real estate loans. The Bank did not sell any loans in 2025.

In 2024, the Bank purchased \$29.2 million of residential real estate loans. The Bank did not sell any loans in 2024.

#### **Note 4 - Mortgage Servicing Rights**

Activity in the Bank's loan servicing portfolio associated with its capitalized mortgage servicing assets consisted of the following for the years ended December 31, 2025 and 2024:

	2025	2024
Beginning Balance	\$ 43,855,104	\$ 49,777,031
Principal Paydowns, Prepayments, and Settlements	(3,970,422)	(5,921,927)
Ending Balance	\$ 39,884,682	\$ 43,855,104

Changes in mortgage servicing rights for the years ended December 31, 2025 and 2024, are as follows:

	2025	2024
Beginning Balance, at Fair Value	\$ 383,039	\$ 414,881
Decrease in Fair Value	(84,543)	(31,842)
Ending Balance, at Fair Value	\$ 298,496	\$ 383,039

The significant assumptions used in estimating the fair value of servicing rights were as follows as of December 31:

	2025	2024
Weighted Average Prepayment Rate	8.00%	6.46%
Weighted Average Discount Rate	9.00%	10.00%

#### **Note 5 - Premises and Equipment**

Premises and equipment consist of leasehold improvements and furniture, and equipment and are stated at cost, less accumulated depreciation and amortization, which are calculated on a straight-line basis over the estimated useful life of the property or the term of the lease (if less). Premises and equipment are as follows at December 31:

	2025	2024
Furniture and Equipment	\$ 361,072	\$ 392,324
Leasehold Improvements	399,284	843,986
	760,356	1,236,310
Less Accumulated Depreciation and Amortization	(65,185)	(1,026,667)
	\$ 695,171	\$ 209,643

Total depreciation and amortization expense relating to premises and equipment for the years ended December 31, 2025 and 2024, was \$79,034 and \$71,309, respectively.

#### **Note 6 - Leases**

The Bank currently leases one location in Oakland, California and one location in Walnut Creek, California. The Oakland lease expires on September 1, 2039. The Walnut Creek lease expired on February 28, 2026 and was replaced with a new location lease executed in 2026. Renewal options available are not included in the measurement of ROU assets and lease liabilities as they were not considered reasonably certain of exercise at inception of the leases.

Balance sheet and supplemental information at December 31, 2025 and 2024, are shown below.

	<u>2025</u>	<u>2024</u>
Operating Lease Right-of-Use Asset	\$ 1,249,272	\$ 1,575,412
Operating Lease Liability	\$ 1,279,451	\$ 1,587,735
Weighted Average Remaining Lease Term, in Years	13.38	12.64
Weighted Average Discount Rate	4.26%	4.33%

The following table represents lease costs and other lease information for the years ended December 31, 2025 and 2024:

Lease Cost:	<u>2025</u>	<u>2024</u>
Operating Lease Cost	\$ 633,528	\$ 525,170
Variable Lease Cost	-	-
Total lease costs	<u>\$ 633,528</u>	<u>\$ 525,170</u>

Other Information:	<u>2025</u>	<u>2024</u>
Cash Paid for Amounts Included in the Measurement of Lease Liabilities	\$ 365,953	\$ 525,170
Right-of-Use Assets Obtained in Exchange for Lease Obligations	\$ -	\$ 1,785,594

Maturities of lease liabilities for the periods indicated:

	<u>Year Ending</u>
2026	\$ 140,592
2027	97,650
2028	104,795
2029	104,795
2030	107,415
Thereafter	<u>1,115,854</u>
Total Lease Payments	1,671,101
Less Imputed Interest	<u>(391,650)</u>
Present Value of Net Future Minimum Lease Payments	<u>\$ 1,279,451</u>

The Bank executed a lease agreement on a new location in Walnut Creek, California for 2026 as described above. The new lease term is 5 years from the commencement date, with monthly payments starting at \$11,472 with scheduled increases thereafter.

**Note 7 - Deposits**

Interest-bearing deposits consist of the following at December 31:

	2025	2024
NOW Accounts	\$ 6,790,114	\$ 7,574,601
Savings	6,170,951	7,921,005
Money Market Accounts	21,299,272	10,643,234
Certificates of Deposit, Under \$250,000	105,877,533	124,442,887
Certificates of Deposit, \$250,000 or More	53,247,739	71,828,811
	\$ 193,385,609	\$ 222,410,538

The scheduled maturities of time certificate of deposit accounts as of December 31, 2025, were as follows:

Year Ending December 31	
2026	\$ 122,127,578
2027	28,073,976
2028	7,715,990
2029	515,791
2030	691,937
	\$ 159,125,272

**Note 8 - FHLB and Other Borrowings**

Total borrowing capacity with the FHLB at December 31, 2025, was approximately \$44.8 million based on loan and securities collateral pledged with a carrying value of approximately \$47.3 million.

The Bank also has a secured federal funds line of credit with a correspondent bank as of December 31, 2025, in the amount of \$6 million.

The FHLB advances outstanding as of December 31, 2025 were \$33 million. A summary of future minimum payments required to amortize the outstanding FHLB advances is as follows:

Maturity	Interest Rate	
10/29/2027	3.66%	\$ 10,000,000
11/18/2027	3.70%	12,000,000
12/8/2027	3.70%	11,000,000
		\$ 33,000,000

There were no FHLB advances outstanding as of December 31, 2024.

**Note 9 - Other Expense**

Other expense for the years ended December 31, 2025 and 2024, consists of the following:

	<u>2025</u>	<u>2024</u>
Marketing	\$ 15,605	\$ 139,466
Regulatory Assessments	238,300	361,544
Insurance	180,416	184,703
Moving Expense	163,228	46,963
Other Operating Expenses	462,689	290,349
	<u>\$ 1,060,238</u>	<u>\$ 1,023,025</u>

**Note 10 - Income Taxes**

Income tax expense (benefit) for the years ended December 31, 2025 and 2024, consists of the following:

	<u>2025</u>	<u>2024</u>
Current Expense		
Federal	\$ -	\$ -
State	800	332
	800	332
Change in Valuation Allowance	1,147,000	1,200,000
Deferred Expense (Benefit)		
Federal	(810,000)	(843,000)
State	(337,000)	(357,000)
	<u>\$ 800</u>	<u>\$ 332</u>
Income tax expense	<u>\$ 800</u>	<u>\$ 332</u>

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

	2025		2024	
	Amount	Percent	Amount	Percent
Statutory Federal Tax Rate	\$ (815,570)	21.0 %	\$ (863,584)	21.0 %
Increase (Decrease) Resulting From California taxes, net of Federal tax benefit	(336,407)	8.7 %	(356,042)	8.7 %
Other, net	6,212	(0.1) %	19,394	(0.5) %
Valuation allowance	1,146,565	(29.6) %	1,200,564	(29.2) %
Effective tax rate	<u>\$ 800</u>	<u>- %</u>	<u>\$ 332</u>	<u>- %</u>

The following is a summary of the components of the deferred tax accounts recognized in the accompanying balance sheets at December 31:

	2025	2024
Deferred Tax Assets		
Depreciation differences	\$ -	\$ 114,000
Net operating loss carryforwards	14,804,000	13,546,000
Accrued expenses	162,000	178,000
Other items	58,000	60,000
	<u>15,024,000</u>	<u>13,898,000</u>
Valuation Allowance	<u>(14,689,000)</u>	<u>(13,541,000)</u>
Deferred Tax Liabilities		
Allowance for credit losses	(152,000)	(174,000)
Depreciation differences	(24,000)	-
Federal Home Loan Bank dividends	(46,000)	(46,000)
Mortgage servicing rights	(88,000)	(113,000)
Other items	(25,000)	(24,000)
	<u>(335,000)</u>	<u>(357,000)</u>
Net deferred tax assets (liabilities)	<u>\$ -</u>	<u>\$ -</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Due to the uncertainty of future realizability, management has offset all net deferred tax assets with a valuation allowance. The Bank has net operating loss ("NOL") carry forwards of approximately \$42.5 million and \$68.6 million at December 31, 2025 for federal and California tax purposes, respectively. The NOLs begin to expire in 2030 for federal tax purposes and 2036 for California tax purposes.

## **Note 11 - Commitments and Contingencies**

### **Commitments to Extend Credit**

The Bank 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. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying balance sheet.

The Bank's exposure to credit losses in the event of nonperformance by the other parties for commitments to extend credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Bank had commitments to extend credit of \$2,704,000 and \$1,875,000 as of December 31, 2025 and 2024, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates of not more than 12 months and may require payment of a fee. Since many of the commitments are not expected to be drawn upon, the total commitment amounts may not represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include marketable investment securities, accounts receivable, inventory, property, plant and equipment, and real properties.

The Bank grants real estate mortgage, commercial, and consumer loans to customers principally in California. In management's judgment, a concentration exists in residential real estate loans which represented approximately 75% and 81% of total loans at December 31, 2025 and December 31, 2024, respectively.

Although management believes the loans within these concentrations have no more than the normal risk of collectability, a substantial decline in the performance of the economy in general or a decline in real estate values in the Bank's primary service areas in particular could have an adverse impact on the collectability of these loans.

### **Litigation**

In the normal course of business, the Bank is involved in various other legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the financial statements.

### **Note 12 - Related-Party Transactions**

During the normal course of business, the Bank may enter into loans with related parties, including executive officers and directors. Related party loans as of December 31, 2025 and 2024 amounted to \$3,912,413 and \$2,982,610, respectively. Related party deposits amounted to approximately \$2.0 million as of December 31, 2025 and 2024.

### **Note 13 - Employee Benefit Plans**

In October 1995, the Bank adopted the Gateway 401(k) Employee Savings Plan. The plan is available to all employees of the Bank who are at least 21 years of age and have completed three months of service. Under provisions of the plan, participants may contribute up to 100% of their pretax income each year up to a dollar limit which is established by law. The Bank matches safe harbor contributions made by employees, up to 4.0% of compensation. Non safe harbor contributions made by the Bank vest at a rate of 25% for each year of service beginning after the first completed year of service. The Bank made contributions to the plan during the years ended December 31, 2025 and 2024 of \$83,427 and \$81,745, respectively.

In 2020, the Bank adopted the 2020 Long-Term Stock Incentive Plan (the Plan), which authorizes the issuance of up to 12.0 million shares in the form of stock options, restricted stock or other stock-based awards. No awards have been granted under the Plan until 2025. On November 10, 2025, the Bank granted 6,747,815 in stock options at \$.10 per share that vested immediately. The Bank recognized stock based compensation expense of \$10,525. Fair value of the stock option grant was estimated on the date of grant.

The Bank has a Supplemental Executive Retirement Plan (SERP) that pays monthly benefits of \$9,253 to a former CEO through May 2028. The liability associated with this obligation, including accrued interest, amounted to \$336,835 and \$433,433 as of December 31, 2025 and 2024, respectively.

### **Note 14 - Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2025 and 2024, that the Bank met all capital adequacy requirements to which it was subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and capital restoration plans are required. As of December 31, 2025, the OCC has categorized the Bank as "well-capitalized" under the regulatory framework for Prompt Corrective Action ("PCA"). There are no conditions or events since that notification that management believes have changed the Bank's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the Community Bank Leverage Ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2022.

The CBLR removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of Section 38 of the Federal Deposit Insurance Act. The CBLR minimum requirement is 9%. The rules allow for a two-quarter grace period to correct a ratio that falls below the required amount, provided that a bank maintains a leverage ratio of 8% for calendar year 2022 and beyond. Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction.

The Bank's actual and required capital amounts and ratios are presented below as of December 31, 2025 (dollar amounts in thousands):

	Actual		To Be Well-Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
Tier 1 Capital (To Average Assets)	\$ 24,747	10.2%	\$ 21,879	9.0%

The Bank's actual and required capital amounts and ratios are presented below as of December 31, 2024 (dollar amounts in thousands):

	Actual		To Be Well-Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
Tier 1 Capital (To Average Assets)	\$ 28,621	11.1%	\$ 23,310	9.0%

The Consent Order ("the Order") as issued by the Office of the Comptroller of the Currency ("OCC") on November 12, 2020, was terminated in August 2025.

Consent Order: On November 12, 2020 the Bank consented to the issuance of the Order by the Office of the Comptroller of the Currency ("OCC"). The Order superseded a previous Order, dated October 26, 2011, and placed significant requirements on the Bank, as summarized below.

1. Compliance Management - The Bank must maintain a Board Compliance Committee to ensure effective monitoring of the Bank's compliance with the consent order. The committee must consist of at least three directors of which a majority shall be directors who are not employees or officer of the Bank.
2. Board and Management Supervision – The Bank shall adopt a written program to ensure appropriate controls, staffing and oversight of Bank's corporate governance and decision-making processes to correct the deficient practices as described in the most recent examination report.
3. Plan and Capital Plan - The Board shall continue to implement and ensure adherence to the Bank's written Strategic Plan and Capital Plan.
4. Internal Audit – The Bank shall develop a comprehensive, written internal audit program that adequately assesses controls and operations. The program shall include independent testing for Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance.
5. BSA/AML Articles– Various BSA/AML related articles are included, relating to maintenance of a qualified BSA officer, customer due diligence policies and procedures and adoption of BSA/AML related internal controls.
6. Credit Risk Management – The Bank shall adopt a credit underwriting and administration program that addresses various weaknesses in the current program identified by the OCC.
7. Books and Records: The Bank is required to develop and maintain accurate books and records, including compliance with Generally Accepted Accounting Principles (GAAP) and timely and accurate completion of regulatory call reports.

**Note 15 - Fair Value Measurements**

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

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

**Mortgage Servicing Rights:** The Bank engages an independent third party to perform a valuation of its mortgage servicing rights periodically. Mortgage servicing rights are valued using discounted cash flow modeling techniques that require estimates regarding future cash flows, actual and expected prepayment speeds, discount rates, servicing costs, and other economic factors. Certain adjustments are made to the model inputs to reflect the specific characteristics of the Bank's portfolio (Level 3).

The following table summarizes the Bank's assets measured at fair value on a recurring basis as of December 31, 2025:

	Fair Value	Level 1	Level 2	Level 3
Assets (Liabilities) Measured at Fair Value on a Recurring Basis				
Mortgage-backed securities	\$ 13,935,728	\$ -	\$ 13,935,728	\$ -
Subordinated debt securities	13,904,111	-	13,904,111	-
Mortgage servicing rights	298,496	-	-	298,496
	<u>\$ 28,138,335</u>	<u>\$ -</u>	<u>\$ 27,839,839</u>	<u>\$ 298,496</u>

The following table summarizes the Bank's assets measured at fair value on a recurring basis as of December 31, 2024:

	Fair Value	Level 1	Level 2	Level 3
Assets (Liabilities) Measured at Fair Value on a Recurring Basis				
Mortgage-backed securities	\$ 15,277,216	\$ -	\$ 15,277,216	\$ -
Subordinated debt securities	19,723,430	-	19,723,430	-
Mortgage servicing rights	383,039	-	-	383,039
	<u>\$ 35,383,685</u>	<u>\$ -</u>	<u>\$ 35,000,646</u>	<u>\$ 383,039</u>

Below is the roll-forward of Level 3 financial instruments measured at fair value on a recurring basis for the years ended December 31, 2025 and 2024:

	<u>2025</u> <u>Mortgage</u> <u>Servicing Rights</u>	<u>2024</u> <u>Mortgage</u> <u>Servicing Rights</u>
Beginning Balance	\$ 383,039	\$ 414,881
Decrease in Fair Value, Recognized in Income	<u>(84,543)</u>	<u>(31,842)</u>
Ending Balance	<u>\$ 298,496</u>	<u>\$ 383,039</u>

Fair value estimates are determined as a specific point in time utilizing quoted market prices, where available, or various assumptions and estimates. As the assumptions and estimates change, the fair value of the financial instruments will change.

The use of assumptions and various techniques, as well as the absence of secondary markets for certain financial instruments, will likely reduce the comparability of value disclosures between companies.

The following table identifies the unobservable inputs, the values used, and the basis for their determination as of December 31, 2025:

<u>Asset Type</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs Used</u>	<u>Rate</u>
Mortgage Servicing Rights	\$ 298,496	Discounted Cash Flow	Constant Prepayment Rate	8.00%
			Discount Rate	10.00%
			Cost to Service	\$70/loan/year

The following table identifies the unobservable inputs, the values used, and the basis for their determination as of December 31, 2024:

<u>Asset Type</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs Used</u>	<u>Rate</u>
Mortgage Servicing Rights	\$ 383,039	Discounted Cash Flow	Constant Prepayment Rate	6.46%
			Discount Rate	10.00%
			Cost to Service	\$70/loan/year

Level 3 assets measured at fair value on a non-recurring basis include one collateral dependent loan as of December 31, 2025. The carrying value of this loan is \$750,000 which is comprised of a \$952,000 outstanding loan balance less a \$202,000 specific reserve. Fair value was determined using an appraisal of the underlying real estate collateral securing the loan which reflected an approximate 25% discount from its appraised value.

Level 3 assets measured at fair value on a non-recurring basis included one collateral dependent loan as of December 31, 2024. The carrying value of this loan was \$741,000 which was comprised of a \$1.0 million outstanding loan balance less a \$259,000 specific reserve. Fair value was determined using an appraisal of the underlying real estate collateral securing the loan which reflected an approximate 25% discount from its appraised value.

#### **Note 16 - Preferred Stock - Series C and D**

In December 2015, the Bank issued 10 million shares of Series C Perpetual Non-Cumulative, no par value, Preferred Stock for \$0.30 per share. The shares carry a liquidation value of \$0.30 per share. The shares are not callable by the holders but are convertible to common stock on a one for one basis at the discretion of the Bank should the Board of Directors determine that the ability to raise capital in a future capital raise event would be impaired by the existence of the Series C Preferred Stock, or in the case of a business combination. In 2023, the Series C Preferred Stock was converted to Common shares on a one-for-one basis, at the Board's discretion based on the above terms.

On December 2, 2022, the Bank issued 5,800 shares of Series D Convertible Preferred Stock for \$1,000 per share. The issuance was intended to provide supplemental capital to the Bank. All shares of the Series D Preferred Stock were converted to common stock effective on November 28, 2023 using a price of \$0.10 per share, which was the per share offering price in the \$15.0 million capital raise that occurred on the same date.

#### **Note 17 - 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, 2025 and 2024, are summarized as follows (dollars in thousands):

	Fair Value Hierarchy	2025		2024	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets</b>					
Cash and cash equivalents	Level 1	\$ 10,780	\$ 10,780	\$ 24,772	\$ 24,772
Debt securities available for sale	Level 2	27,840	27,840	35,001	35,001
Loans, net	Level 3	212,552	213,133	187,359	184,299
Restricted stock	Level 2	1,781	1,781	1,453	1,453
Mortgage servicing rights	Level 3	298	298	383	383
Accrued interest receivable	Level 2	1,162	1,162	1,301	1,301
<b>Liabilities</b>					
Noninterest-bearing deposits	Level 1	\$ 9,759	\$ 9,759	\$ 6,269	\$ 6,269
Interest-bearing deposits	Level 2	193,386	186,257	222,411	223,730
FHLB advances	Level 2	33,000	33,000	-	-
Accrued interest payable	Level 2	90	90	152	152

### Note 18 – Subsequent Event

In January 2026, the Bank completed the sale of 267,716,673 shares of common stock at a price of \$0.06 per share, resulting in gross proceeds of approximately \$16.1 million. The Board of Directors approved a resolution in December 2025 to increase the amount of authorized shares of common stock to 720,000,000 to accommodate for this capital raise. Management expects the capital raise to strengthen the Bank's regulatory capital ratios.