FIRST CHOICE BANK

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

December 31, 2016 and 2015

CONTENTS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

Independent Auditor's Report

Board of Directors and Shareholders of
First Choice Bank
Cerritos, California

Report on Financial Statements

We have audited the accompanying financial statements of First Choice Bank, which are comprised of the statements of financial condition as of December 31, 2016 and 2015, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 First Choice Bank as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, CA
March 23, 2017

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FIRST CHOICE BANK

STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2016 AND 2015

ASSETS	2016	2015
Cash and Due from Banks	$ 4,670,748	$ 2,605,784
Interest-Bearing Deposits at Other Banks	99,003,453	94,831,705
Securities Purchased under Agreements to Resell	6,357,416	-
TOTAL CASH AND CASH EQUIVALENTS	110,031,617	97,437,489
Investment Securities Available for Sale	35,789,824	24,972,282
Investment Securities Held to Maturity	5,675,243	16,010,460
Loans Held for Sale	4,827,225	12,907,887
Loan Receivable, Net	687,918,835	644,741,681
Federal Home Loan and Other Bank Stock, at Cost	3,764,500	3,236,159
Premises and Equipment	1,035,501	1,379,459
Deferred Taxes	6,681,885	6,272,684
Accrued Interest and Other Assets	7,730,134	4,984,389
TOTAL ASSETS	$ 863,454,764	$ 811,942,490
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-Bearing Demand	$ 150,763,876	$ 158,377,342
Money Market, NOW and Savings	446,828,566	428,254,227
Time Deposits	158,968,267	121,866,530
TOTAL DEPOSITS	756,560,709	708,498,099
Federal Home Loan Bank Borrowings	-	6,000,000
Accrued Interest and Other Liabilities	5,446,587	5,009,706
TOTAL LIABILITIES	762,007,296	719,507,805
Commitments and Contingencies - Note D and I	-	-
Shareholders' Equity:		
Preferred Stock 10,000,000 Shares Authorized, None Outstanding	-	-
Common Stock No Par Value; 25,000,000 Shares Authorized; Issued and Outstanding: 7,112,954 in 2016 and 6,831,992 in 2015	87,177,037	81,759,465
Additional Paid-in Capital	989,431	1,323,196
Retained Earnings	13,717,777	9,686,529
Accumulated Other Comprehensive Loss - Net Unrealized Loss on Available-for-Sale Securities, Net of Taxes of $305,410 in 2016 and $233,898 in 2015	(436,777)	(334,505)
TOTAL SHAREHOLDERS' EQUITY	101,447,468	92,434,685
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 863,454,764	$ 811,942,490

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

FIRST CHOICE BANK

STATEMENTS OF INCOME
DECEMBER 31, 2016 AND 2015

	2016	2015
INTEREST INCOME		
Interest and Fees on Loans	$ 35,739,036	$ 30,961,208
Interest on Investment Securities	787,777	908,980
Other Interest Income	983,981	586,602
TOTAL INTEREST INCOME	37,510,794	32,456,790
INTEREST EXPENSE		
Interest on Savings, NOW and Money Market Accounts	4,067,003	4,250,773
Interest on Time Deposits	1,839,911	1,298,383
Interest on Borrowings	140,383	98,118
TOTAL INTEREST EXPENSE	6,047,297	5,647,274
NET INTEREST INCOME	31,463,497	26,809,516
Provision for Loan Losses	1,740,000	3,119,400
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	29,723,497	23,690,116
NONINTEREST INCOME		
Service Charges, Fees and Other Income	492,510	400,182
Net Servicing Fees	440,571	580,912
Bank Enterprise Award	265,496	-
Gain on Sale of Loans	3,207,746	3,046,147
TOTAL NONINTEREST INCOME	4,406,324	4,027,241
NONINTEREST EXPENSE		
Salaries and Employee Benefits	13,146,537	11,960,591
Occupancy Expenses	1,245,689	1,229,935
Professional Fees	960,108	855,421
Other Expenses	4,695,626	4,395,238
TOTAL NONINTEREST EXPENSE	20,047,960	18,441,185
INCOME BEFORE INCOME TAXES	14,081,861	9,276,172
Income Taxes	5,812,200	3,883,600
NET INCOME	$ 8,269,661	$ 5,392,572
Net income per share		
Basic	$ 1.18	$ 0.92
Diluted	$ 1.17	$ 0.90
Weighted-average common shares outstanding		
Basic	7,007,406	5,873,836
Diluted	7,082,134	5,983,652

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

FIRST CHOICE BANK

STATEMENTS OF COMPREHENSIVE INCOME
DECEMBER 31, 2016 AND 2015

	2016	2015
Net Income	$ 8,269,661	$ 5,392,572
OTHER COMPREHENSIVE (LOSS) INCOME:		
Unrealized (Loss) Gain on Investment Securities:		
Change in Net Unrealized (Loss) Gain	(173,785)	466,785
	(173,785)	466,785
Related Income Tax Expense:		
Change in Net Unrealized (Loss) Gain	(71,512)	192,082
	(71,512)	192,082
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(102,273)	274,703
TOTAL COMPREHENSIVE INCOME	$ 8,167,389	$ 5,667,275

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

FIRST CHOICE BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
DECEMBER 31, 2016 AND 2015

	Common Stock		Additional		Accumulated Other	
	Number of Shares	Amount	Paid-In Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balance at January 1, 2015	4,547,910	$ 48,849,585	$ 749,539	$ 7,262,053	$(609,208)	$ 56,251,969
Net Income				5,392,572		5,392,572
Stock-Based Compensation			1,024,494			1,024,494
4% Stock Dividend	185,506	2,968,096		(2,968,096)		-
Issuance of Common Stock, net of Expenses of $1,033,481	1,935,485	28,966,537				28,966,537
Issuance of Restricted Shares, net	106,189					-
Vesting of Restricted Shares		237,306	(237,306)			-
Repurchase of Shares	(7,858)		(68,466)			(68,466)
Exercise of Stock Options	64,760	737,941	(145,065)			592,876
Other Comprehensive Income, Net of Taxes					274,703	274,703
Balance at December 31, 2015	6,831,992	81,759,465	1,323,196	9,686,529	(334,505)	92,434,685
Net Income				8,269,661		8,269,661
Stock-Based Compensation			1,272,528			1,272,528
4% Stock Dividend	273,446	4,238,413		(4,238,413)		-
Issuance of Restricted Shares, net	30,145					-
Vesting of Restricted Shares, Including Tax Benefits		1,065,959	(1,043,612)			22,347
Repurchase of Shares	(33,445)		(534,481)			(534,481)
Exercise of Stock Options	10,816	113,200	(28,200)			85,000
Other Comprehensive Loss, Net of Taxes					(102,272)	(102,272)
Balance at December 31, 2016	7,112,954	$ 87,177,037	$ 989,431	$ 13,717,777	$(436,777)	$ 101,447,468

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

FIRST CHOICE BANK

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING ACTIVITIES		
Net Income	$ 8,269,661	$ 5,392,572
Adjustments to Reconcile Net Income to Net Cash		
From Operating Activities:		
Depreciation and Amortization	550,240	521,175
Amortization of Premiums and Accretion of (Discounts) on Investments	376,065	320,022
Provision for Loan Losses	1,740,000	3,119,400
Gain on Sale of Loans	(3,207,746)	(3,046,147)
Loans Originated for Sale	(38,707,553)	(42,035,804)
Proceeds from Loans Originated for Sale	50,512,072	38,439,120
Amortization (Accretion) of Premiums and Change in Deferred Loan Fees, Net	(833,069)	(311,633)
Deferred Income Taxes	(337,689)	(1,588,236)
Stock-Based Compensation	1,272,528	1,024,494
Other Items, Net	(1,439,130)	2,236,683
NET CASH FROM OPERATING ACTIVITIES	18,195,379	4,071,646
INVESTING ACTIVITIES		
Proceeds from Maturities and Paydown of Securities Available for Sale	5,820,273	4,293,319
Proceeds from Maturities and Paydown of Securities Held to Maturities	5,706	-
Purchase of Securities Available for Sale	(17,436,352)	(4,028,857)
Purchase of Securities Held to Maturities	(2,421,800)	-
Proceeds from Maturities of Securities Held to Maturities	13,000,000	-
Net Increase in Loans	(45,447,584)	(151,141,716)
Purchase of Federal Home Loan and Other Bank Stock	(528,341)	(266,059)
Purchases of Premises and Equipment	(206,283)	(363,992)
NET CASH FROM INVESTING ACTIVITIES	(47,214,381)	(151,507,305)
FINANCING ACTIVITIES		
Net Increase in Deposits	48,062,611	172,380,592
Net (Decrease) in Borrowings from Federal Home Loan Bank	(6,000,000)	(26,000,000)
Proceeds from Issuance of Stock, Net	-	28,966,537
Repurchase of Shares	(534,481)	(68,466)
Proceeds from Exercise of Stock Options	85,000	592,876
NET CASH FROM FINANCING ACTIVITIES	41,613,131	175,871,539
INCREASE IN CASH AND CASH EQUIVALENTS	12,594,128	28,435,880
Cash and Cash Equivalents at Beginning of Year	97,437,489	69,001,609
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 110,031,617	$ 97,437,489
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 6,129,132	$ 5,648,187
Taxes Paid	$ 8,520,000	$ 5,140,000

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Bank was incorporated under the laws of the State of California in March 2005, and commenced banking operations in August 2005 and has been organized as a single operating segment operating with four full-service branches in Cerritos, Rowland Heights, Alhambra and Anaheim, California. The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals within its principal market area of Orange County and Los Angeles County.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through March 23, 2017, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, the carrying value of deferred tax assets, the status of legal contingencies and fair value of financial instruments are particularly subject to change in the near term.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, interest-bearing deposits at other banks with original maturities of less than 90 days, federal funds sold and securities purchased under agreements to resell. 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. These reserve requirements totaled approximately $28,029,000 and $33,285,000 at December 31, 2016 and 2015, respectively. The Bank was in compliance with its reserve requirements as of December 31, 2016.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment Securities

Bonds, notes, and debentures are classified as held to maturity and reported at cost, adjusted for premiums and discounts when management has the positive intent and ability to hold to maturity.

Investments not classified as trading securities nor as held to maturity securities are classified as available-for-sale securities and recorded at fair value. Unrealized gains or losses on available-for-sale securities are excluded from net income and reported as an amount net of taxes as a separate component of other comprehensive income included in shareholders' equity. Premiums or discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method. Realized gains or losses on sales of available-for-sale securities are recorded using the specific identification method.

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.

Loan Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains or losses realized on the sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold, adjusted for any servicing asset or liability. Gains and losses on sales of loans are included in noninterest income.

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 deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans - Continued

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

The Bank determines a separate allowance for each portfolio segment. The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value and the probability of collecting all amounts when due. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral.

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

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses - Continued

General reserves cover non-impaired loans and are based on historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions; changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit; and the effect of other external factors such as competition and legal and regulatory requirements.

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

Federal Home Loan Bank and Other Bank Stock

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. The Bank also has restricted securities in the form of capital stock invested in Pacific Coast Banker's Bank and The Independent Banker Bank FHLB and other bank stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Other Real Estate Owned

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value at the date of foreclosure, establishing a new cost basis by a charge to the allowance for loan losses, if necessary. Other real estate owned is carried at the lower of the Bank's carrying value of the property or its fair value, less estimated costs to sell. Fair value is generally based on current appraisals, which are frequently adjusted by management to reflect current conditions and estimated selling costs. Any subsequent write-downs are charged against operating expenses and recognized as a valuation allowance. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses.

Premises and Equipment

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

NOTE A - 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 an amount or range of loss can be reasonable estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

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.

Loan Sales and Servicing of Financial Assets

The Bank originates SBA loans for sale in the secondary market. Servicing rights are recognized separately when they are acquired through sale of loans. Servicing rights are initially recorded at fair value with the income statement effect recorded in gain on sale of loans. Fair value is based on a valuation model that calculates the present value of estimated future cash flows from the servicing assets. The valuation model uses assumptions that market participants would use in estimating cash flows from servicing assets, such as the cost to service, discount rates and prepayment speeds. The Bank compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. For purposes of measuring impairment, the Bank has identified each servicing asset with the underlying loan being serviced. A valuation allowance is recorded where the fair value is below the carrying amount of the asset. If the Bank later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase in income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayments speeds and changes in the discount rates.

Servicing fee income which is reported on the income statement in net servicing fees are recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and recorded as income when earned. The amortization of servicing rights and changes in the valuation allowance are netted against loan servicing income.

Advertising Costs

The Bank expenses the costs of advertising in the year incurred.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. See Note K for additional information on the Bank's stock-based compensation plan.

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.

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 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. The treasury stock method has been applied to determine the dilutive effect of stock options in computing diluted EPS.

Comprehensive Income

Changes in unrealized gains and losses on investment securities is the only component of accumulated other comprehensive income for the Bank.

Financial Instruments

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Risk and Uncertainties

In the normal course of its business, the Bank encounters two significant types of risk: economic and regulatory. Economic risk is comprised of three components: interest rate risk, credit risk and market risk. The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature and re-price at different speeds, or on a different basis, than its interest-bearing assets. Credit risk is the risk of default on loans that results from the borrower's inability or unwillingness to make contractually required payments. Market risk results from changes in the value of assets and liabilities, which may impact, favorably or unfavorably, the reliability of those assets and liabilities.

The Bank is subject to various government regulations which can change significantly from period to period. The Bank also undergoes periodic examination by the regulatory agencies. This may subject its financial position to further changes with respect to asset valuation, amounts of required loss allowances, and operating restrictions as a result of the regulators' judgments based upon information available to them at the time of their examination.

Fair Value Measurement

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

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

Reclassifications

Certain reclassifications have been made in the 2015 financial statements to conform to the presentation used in 2016. These reclassifications had no impact on the Bank's previously reported financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent Accounting Guidance Not Yet Effective

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This Update requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. These amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and one year later for nonpublic business entities. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that period. The Bank is currently evaluating the effects of ASU 2014-09 on its financial statements and disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. Changes made to the current measurement model primarily affect the accounting for equity securities and readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is generally effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and one year later for nonpublic business entities. The Bank is currently evaluating the effects of ASU 2016-01 on its financial statements and disclosures.

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 is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent Accounting Guidance Not Yet Effective - Continued

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting (Topic 718.)* ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Under ASU 2016-09, excess tax benefits and certain tax deficiencies will no longer be recorded in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. In addition, the guidance requires excess tax benefits be presented as an operating activity on the statement of cash flows rather than as a financing activity. ASU 2016-09 also permits an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. This guidance is effective for public business entities for interim and annual reporting periods beginning after December 15, 2016 and for nonpublic business entities annual reporting periods beginning after December 15, 2017 and interim periods within the reporting periods beginning after December 15, 2018. Early adoption is permitted, but all of the guidance must be adopted in the same period. The Bank is currently evaluating the provisions of ASU 2016-09 to determine the potential impact on its financial statements and disclosures.

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 annual reporting periods beginning after December 15, 2020 for nonpublic business entities and interim periods within the reporting periods beginning after December 15, 2021. 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 B - INVESTMENT SECURITIES

Debt and equity securities have been classified in the statements of condition according to management's intent. The carrying amount of held-to-maturity and available-for-sale securities and their approximate fair values at December 31, 2016 and 2015 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016				
Held to Maturity:				
U.S. Government and Agency Securities	$ 3,260,039	$ -	$(20,673)	$ 3,239,366
Mortgage-Backed Securities	2,415,204	-	(97,380)	2,317,824
	$ 5,675,243	$ -	$(118,053)	$ 5,557,190
Available for Sale:				
Mortgage-Backed Securities	$ 11,897,456	$ 28,707	$(279,838)	$ 11,646,325
Collateralized Mortgage Obligations	14,453,945	17,830	(173,514)	14,298,261
SBA Pools	9,054,596	-	(227,571)	8,827,025
Mutual Fund Investment	1,049,257	-	(31,044)	1,018,213
	$ 36,455,254	$ 46,536	$(711,966)	$ 35,789,824
December 31, 2015				
Held to Maturity:				
U.S. Government and Agency Securities	$ 16,010,460	$ -	$(189,246)	$ 15,821,214
Available for Sale:				
Mortgage-Backed Securities	$ 12,614,357	$ 24,651	$(215,963)	$ 12,423,045
Collateralized Mortgage Obligations	11,598,583	32,501	(83,416)	11,547,668
Mutual Fund Investment	1,018,896	-	(17,327)	1,001,569
	$ 25,231,836	$ 57,152	$(316,706)	$ 24,972,282

As of January 31, 2015, the Bank reclassified its U.S. Government and Agency securities from available-for-sale to held-to-maturity. At the time of reclassification, the amortized cost was $16,313,214 with a fair value of $15,976,283. As of December 31, 2016 and 2015, the unrealized loss in accumulated other comprehensive income from securities transferred from available-for sale to held-to-maturity amounted to $76,757 and $308,848, respectively.

NOTE B - INVESTMENT SECURITIES - Continued

The amortized cost and estimated fair value of all investment securities held to maturity and available for sale at December 31, 2016, by contractual maturities are shown below. Contractual maturities may differ from expected maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	$ -	$ -	$ -	$ -
Due from One Year to Five Years	-	-	-	-
Due from Five Years to Ten Years	3,260,039	3,239,366	-	-
Due After Ten Years	-	-	-	-
Mortgage-Backed and Collateralized Mortgage Obligation Securities	2,415,204	2,317,824	26,351,401	25,944,586
SBA Pools			9,054,596	8,827,025
Mutual Fund Investment	-	-	1,049,257	1,018,213
	$ 5,675,243	$ 5,557,190	$ 36,455,254	$ 35,789,824

The Bank did not sell any investment securities during 2016 and 2015.

At December 31, 2016 securities with a carrying amount of $1,227,944 were pledged to the Federal Reserve Bank as discussed in Note F.

NOTE B - INVESTMENT SECURITIES - Continued

As of December 31, 2016 and 2015 unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as follows:

	Less than Twelve Months		Over Twelve Months		Total	
December 31, 2016	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Held to Maturity:						
U.S. Government and Agency Securities	$(97,430)	$ 3,239,366	$ -	$ -	$(97,430)	$ 3,239,366
Mortgage-Backed Securities	(97,380)	2,317,824			(97,380)	2,317,824
Available for Sale:						
Mortgage-Backed Securities	(175,284)	7,493,231	(104,554)	3,027,523	(279,838)	10,520,754
Collateralized Mortgage Obligation	(173,514)	11,895,991	-	-	(173,514)	11,895,991
SBA Pools	(227,571)	8,827,025			(227,571)	8,827,025
Mutual Fund Investment	-	-	(31,044)	1,018,213	(31,044)	1,018,213
	$(771,179)	$ 33,773,436	$(135,598)	$ 4,045,736	$(906,776)	$ 37,819,172
December 31, 2015						
Held to Maturity:						
U.S. Government and Agency Securities	$ -	$ -	$(498,094)	$ 15,821,214	$(498,094)	$ 15,821,214
Available for Sale:						
Mortgage-Backed Securities	(35,093)	3,107,700	(180,870)	7,957,124	(215,963)	11,064,824
Collateralized Mortgage Obligation	(22,673)	4,274,905	(60,743)	3,556,344	(83,416)	7,831,249
Mutual Fund Investment	(17,327)	1,001,569	-	-	(17,327)	1,001,569
	$(75,093)	$ 8,384,174	$(739,707)	$ 27,334,682	$(814,800)	$ 35,718,856

As of December 31, 2016, the Bank had twenty-four investment securities where estimated fair value had decreased 2.3% from amortized cost. Unrealized losses on debt 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 C - LOANS

The Bank's loan portfolio consists primarily of loans to borrowers within Orange County and Los Angeles County of California. 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 C - LOANS - Continued

The Bank also originates SBA loans either for sale to institutional investors or for retention in the loan portfolio. Loans identified as held for sale are carried at lower of origination cost or market value and separately designated as such in the financial statements. A portion of the Bank's revenues are from origination of loans guaranteed by the Small Business Administration under its various programs and sale of the guaranteed portions of the loans. Funding for these loans depends on annual appropriations by the U.S. Congress. The Bank was servicing approximately $119,476,000 and $104,971,000 in SBA loans previously sold as of December 31, 2016 and 2015, respectively.

The Bank has pledged loans to secure lines of credit with the Federal Home Loan Bank and the Federal Reserve Bank as discussed in Note F.

The composition of the Bank's loan portfolio at December 31 was as follows:

	2016	2015
Construction and Land Development	$ 110,965,419	$ 119,347,334
Real Estate:		
Residential	166,273,798	131,559,015
Commercial Real Estate - Owner Occupied	87,544,430	90,202,324
Commercial Real Estate - Non-Owner Occupied	191,651,831	219,844,831
Commercial and Industrial	128,563,625	95,406,952
Consumer	8,327,819	-
Other	5,909,108	486,416
	699,236,030	656,846,872
Deferred Loan Fees, Net of Costs	285,857	(614,046)
Net Discount on Purchased Loans	(3,787)	(75,689)
Allowance for Loan Losses	(11,599,265)	(11,415,456)
Loans Receivable, Net	$ 687,918,835	$ 644,741,681

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

FIRST CHOICE BANK

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

	2016	2015
Balance at Beginning of Year	$ 11,415,456	$ 8,500,659
Additions to the Allowance Charged to Expense	1,740,000	3,119,400
Recoveries on Loans Charged-Off	-	-
	13,155,456	11,620,059
Less Loans Charged-Off	(1,556,191)	(204,603)
	$ 11,599,265	$ 11,415,456

NOTE C - LOANS - Continued

FIRST CHOICE BANK

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

The following table presents the activity in the allowance for loan losses as of December 31, 2016 and 2015 by portfolio segment:

December 31, 2016	Construction and Land Development	Real Estate	Commercial and Industrial	Consumer	Other	Total
Allowance for Loan Losses:						
Beginning of Year	$ 2,348,911	$ 6,322,285	$ 2,718,415	$ -	$ 25,845	$ 11,415,456
Provisions	$ (517,291)	$ 177,874	$ 1,930,709	$ 101,725	$ 46,983	$ 1,740,000
Charge-offs	$ -	$ -	$ (1,556,191)		$ -	$ (1,556,191)
Recoveries	$ -	$ -	$ -		$ -	$ -
End of Year	$ 1,831,620	$ 6,500,159	$ 3,092,933	$ 101,725	$ 72,828	$ 11,599,265
Reserves:						
Specific	$ -	$ 500,000	$ 1,135,000	$ -	$ -	$ 1,635,000
General	1,831,620	6,000,159	1,957,933	101,725	72,828	9,964,265
	$ 1,831,620	$ 6,500,159	$ 3,092,933	$ 101,725	$ 72,828	$ 11,599,265
Individually	$ -	$ 1,861,883	$ 1,487,321	$ -	$ -	$ 3,349,204
Collectively	110,965,419	443,608,176	127,076,304	8,327,819	5,909,108	695,886,826
	$ 110,965,419	$ 445,470,059	$ 128,563,625	$ 8,327,819	$ 5,909,108	$ 699,236,030
December 31, 2015						
Allowance for Loan Losses:						
Beginning of Year	$ 1,155,820	$ 5,861,852	$ 1,482,987	$ -	$ -	$ 8,500,659
Provisions	1,193,091	460,433	1,440,031		25,845	3,119,400
Charge-offs	-	-	(204,603)		-	(204,603)
Recoveries	-	-	-		-	-
End of Year	$ 2,348,911	$ 6,322,285	$ 2,718,415	$ -	$ 25,845	$ 11,415,456
Reserves:						
Specific	$ -	$ 50,398	$ 1,834,362	$ -	$ -	$ 1,884,760
General	2,348,911	6,271,887	884,053		25,845	9,530,696
	$ 2,348,911	$ 6,322,285	$ 2,718,415	$ -	$ 25,845	$ 11,415,456
Individually	$ -	$ 703,166	$ 3,641,882	$ -	$ -	$ 4,345,048
Collectively	119,347,334	440,903,004	91,765,070		486,416	652,501,824
	$ 119,347,334	$ 441,606,170	$ 95,406,952	$ -	$ 486,416	$ 656,846,872

NOTE C - 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:

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

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

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

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 was as follows as of December 31, 2016:

December 31, 2016	Pass	Special Mention	Substandard	Impaired	Total
Construction and Land Development	$ 110,965,419	$ -	$ -	$ -	$ 110,965,419
Real Estate:					
Residential	165,785,786	134,048	-	353,965	166,273,798
CRE - Owner Occupied	-	11,514,453	-	426,742	87,544,430
CRE - Non-Owner Occupied	190,570,654	-	-	1,081,176	191,651,831
Commercial and Industrial	-	1,241,920	2,902,010	1,487,321	128,563,625
Consumer	8,327,819	-	-	-	8,327,819
Other	5,909,108	-	-	-	5,909,108
	$ 481,558,786	$ 12,890,421	$ 2,902,010	$ 3,349,204	$ 699,236,030

NOTE C - LOANS - Continued

The risk category of loans by class of loans was as follows as of December 31, 2015:

December 31, 2015	Pass	Special Mention	Substandard	Impaired	Total
Construction and Land Development	$119,347,334	$ -	$ -	$ -	$119,347,334
Real Estate:					
Residential	131,559,015	-	-	-	131,559,015
CRE - Owner Occupied	88,397,936	-	1,101,222	703,166	90,202,324
CRE - Non-Owner Occupied	219,844,831	-	-	-	219,844,831
Commercial and Industrial	87,091,265	-	4,673,805	3,641,882	95,406,952
Other	486,416	-	-	-	486,416
	$646,726,797	$ -	$ 5,775,027	$4,345,048	$656,846,872

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

	Still Accruing			
December 31, 2016	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Construction and Land Development	$ -	$ -	$ -	$ -
Real Estate:				
Residential	285,028	218,513	-	353,965
CRE - Owner Occupied	-	-	-	426,742
CRE - Non-Owner Occupied	-	-	-	1,081,176
Commercial and Industrial	-	-	-	1,487,321
Other	-	-	-	-
	$ 285,028	$ 218,513	$ -	$ 3,349,204
December 31, 2015				
Construction and Land Development	$ -	$ -	$ -	$ -
Real Estate:				
Residential	835,856	-	-	-
CRE - Owner Occupied	-	-	-	271,536
CRE - Non-Owner Occupied	-	-	-	-
Commercial and Industrial	-	-	-	3,641,882
Other	-	-	-	-
	$ 835,856	$ -	$ -	$ 3,913,418

NOTE C - LOANS - Continued

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

December 31, 2016	Unpaid Principal Balance	Recorded Investment	Impaired Loans: Without Specific Reserve	Impaired Loans: With Specific Reserve	Related Allowance	Average Recorded Investment	Interest Income Recognized
Construction and Land Development	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real Estate:							
Residential	353,965	353,965	-	353,965	200,000	375,188	-
CRE - Owner Occupied	426,742	426,742	426,742	-	-	429,368	-
CRE - Non-Owner Occupied	1,081,176	1,081,176	-	1,081,176	300,000	270,294	-
Commercial and Industrial	3,326,444	1,487,321	-	1,487,321	1,135,000	2,420,842	-
Other	-	-	-	-	-	-	-
	$ 5,188,327	$ 3,349,204	$ 426,742	$ 2,922,462	$ 1,635,000	$ 3,495,692	$ -

December 31, 2015	Unpaid Principal Balance	Recorded Investment	Impaired Loans: Without Specific Reserve	Impaired Loans: With Specific Reserve	Related Allowance	Average Recorded Investment	Interest Income Recognized
Construction and Land Development	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real Estate:							
Residential	-	-	-	-	-	-	-
CRE - Owner Occupied	703,166	703,166	-	703,166	50,398	279,911	-
CRE - Non-Owner Occupied	-	-	-	-	-	-	-
Commercial and Industrial	3,641,882	3,641,882	-	3,641,882	1,834,362	1,272,329	-
Other	-	-	-	-	-	-	-
	$ 4,345,048	$ 4,345,048	$ -	$ 4,345,048	$ 1,884,760	$ 1,552,240	$ -

At December 31, 2016 and 2015, the Bank had approximately $2,658,000 and $4,161,000 in recorded investment in loans identified as troubled debt restructurings (“TDR’s”) and had allocated approximately $1,535,000 and $1,865,000 as specific reserves for these loans, respectively. The Bank has not committed to lend any additional amounts to customers with outstanding loans that are classified as TDR's as of December 31, 2016.

During the years ended December 31, 2016 and 2015, loan modifications resulting in TDR status generally included one or a combination of the following: extensions of the maturity date, principal payment deferments for six months to one year, reduced principal payments for two years and or signed forbearance agreement with a payment plan.

NOTE C - LOANS - Continued

The following table represents loans by class modified as TDRs that occurred during the years ended December 31, 2016 and 2015:

December 31, 2016	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Real Estate:			
Construction & Land Development	-	$ -	$ -
1-4 Family	-	-	-
Commercial Real Estate	1	390,012	390,012
Commercial & Industrial	-	-	-
Other	-	-	-
	1	$ 390,012	$ 390,012

December 31, 2015	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Real Estate:			
Construction & Land Development	-	$ -	$ -
1-4 Family	-	-	-
Commercial Real Estate	1	431,630	431,630
Commercial & Industrial	2	3,796,188	3,796,188
Other	-	-	-
	3	$ 4,227,818	$ 4,227,818

There were no loans modified as troubled debt restructuring for which there was a payment default within twelve months following the modification during the years ended December 31, 2016 and 2016. A loan is considered to be in payment default once it is 90 days contractually past due under the modification.

NOTE D - PREMISES AND EQUIPMENT

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

	2016	2015
Leasehold Improvements	$ 1,038,535	$ 1,031,675
Furniture, Fixtures, and Equipment	2,333,533	2,134,110
	3,372,067	3,165,785
Less Accumulated Depreciation and Amortization	(2,336,567)	(1,786,326)
	$ 1,035,501	$ 1,379,459

The Bank leases branches, administrative office facilities and loan production officers under non-cancellable operating lease arrangements that expire at various dates through 2021. These leases contain options, which enable the Bank to renew the leases at fair rental value. In addition to minimum rentals, the leases have escalation clauses based upon various price indices and include provisions for additional payments to cover taxes, insurance and maintenance.

At December 31, 2016, the future minimum rental payments under these lease commitments are as follows:

2017	$ 724,162
2018	612,897
2019	511,598
2020	226,052
2021	49,089
Total	$ 2,123,798

The minimum rental payments shown above are given for the existing lease obligation and are not a forecast of future rental expense.

Total rent expense, including common area costs, included in occupancy expense amounted to $847,885 and $847,153 in 2016 and 2015, respectively.

NOTE E - DEPOSITS

At December 31, 2016 the scheduled maturities of time deposits are as follows:

2017	$ 112,771,244
2018	12,265,437
2019	12,614,996
2020	9,397,000
Thereafter	11,919,591
	$ 158,968,267

Time deposits that equal or exceed the FDIC insurance limit of $250,000 amounted to $57,682,218 and $39,709,789 as of December 31, 2016 and 2015, respectively. As of December 31, 2016, the Bank participated $20 million for a state public deposits program in order to receive deposits from the state or from political subdivisions within the state in amounts that would not be covered by FDIC. The Bank also pledged $22 million Letters of Credit from FHLB as collateral for a state public deposits program.

NOTE F - BORROWING ARRANGEMENTS

The Bank may borrow up to $7 million overnight on an unsecured basis from two of its primary correspondent banks.

As of December 31, 2016, the Bank had borrowing capacity of approximately $1.2 million with the Federal Reserve Bank discount window. The Bank had pledged investment securities in the amount of $1.2 million as collateral for this line. There were no borrowings under this arrangement as of December 31, 2016.

As of December 31, 2016, the Bank had borrowing capacity up to $180 million from the Federal Home Loan Bank of San Francisco (“FHLB”) subjected to providing adequate collateral and continued compliance with the Advances and Security Agreement and other eligibility requirements established by the FHLB. The Bank had pledged loans in the amount of $364 million as collateral for this borrowing agreement. There were no borrowings under this arrangement as of December 31, 2016. As of December 31, 2015, the Bank has an advance of $6,000,000 that bears interest at 1.22% per annum with a maturity date of December 29, 2016.

NOTE G - INCOME TAXES

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Income tax expense consists of the following:

	2016	2015
Currently payable:		
Federal	$ 4,560,573	$ 4,065,895
State	1,589,316	1,405,941
	6,149,889	5,471,836
Deferred taxes	(337,689)	(1,588,236)
	$ 5,812,200	$ 3,883,600

The following is a summary of the components of the net deferred tax asset (liability) accounts recognized in the accompanying statements of financial condition at December 31:

	2016	2015
Deferred Tax Assets:		
Allowance for Loan Losses Due to Tax Limitations	$ 4,693,106	$ 4,557,084
Organizational Expenses	34,402	43,922
Deferred State Taxes	535,694	487,827
Stock-Based Compensation	12,150	156,375
Accrued Expenses	1,249,637	892,039
Depreciation Differences	30,516	-
Unrecognized Loss on AFS Securities	305,410	233,898
Other Items	135,144	6,325
	6,996,059	6,377,470
Deferred Tax Liabilities:		
Depreciation Differences	-	(67,375)
Deferred Compensation	(252,999)	-
Other Items	(61,175)	(37,411)
	(314,174)	(104,786)
Net Deferred Tax Assets	$ 6,681,885	$ 6,272,684

NOTE G - INCOME TAXES - Continued

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

	2016		2015	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 4,787,833	34.0%	$ 3,153,898	34.0%
State Franchise Tax, Net of Federal Benefit	1,001,793	7.1%	661,851	7.1%
Other Items, Net	22,574	0.2%	67,851	0.8%
Actual Tax Expense	$ 5,812,200	41.3%	$ 3,883,600	41.9%

The Bank is subject to federal income tax and California franchise tax. Federal income tax returns for the years ending after December 31, 2012 are open to audit by the federal authorities and California returns for the years ending after December 31, 2011 are open to audit by state authorities. As of December 31, 2016 and 2015 the Bank had no unrecognized tax benefits recorded. The Bank does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months.

NOTE H - OTHER EXPENSES

Other expenses as of December 31 are comprised of the following:

	2016	2015
Promotion Expense	$ 191,870	$ 180,214
Equipment Expenses	708,134	662,630
Office Expenses	655,553	638,398
Director Fees and Expenses	191,750	194,000
Regulatory Fees and Assessments	566,867	524,237
Bank Insurance	84,747	74,148
Administrative Expenses	1,703,320	1,452,507
Data Processing	580,888	531,373
Provision for Credit Losses - Off-Balance Sheet	3,019	115,748
Other	9,478	21,983
	$ 4,695,626	$ 4,395,238

NOTE I - COMMITMENTS

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

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

As of December 31, 2016 and 2015, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2016	2015
Commitments to Extend Credit	$ 154,595,000	$ 155,170,000
Standby Letters of Credit	917,000	403,000
	$ 155,512,000	$ 155,573,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Bank evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank is based on management's credit evaluation of the customer. The majority of the Bank's commitments to extend credit and standby letters of credit are secured by real estate.

The Bank is involved in various litigation, which has arisen in the ordinary course of its business. In the opinion of management, the disposition of such pending litigation will not have a material effect on the Bank’s financial statements.

NOTE J - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank may grant loans to certain executive officers and directors and the companies with which they are associated. The change in outstanding balances during the years ended December 31 is as follows:

	2016	2015
Beginning balance	$ 5,015,061	$ 6,284,298
Additions	-	250,000
Payments	(119,942)	(615,334)
Participant Sold	(2,727,072)	-
Former Director Loan	-	(903,903)
Ending balance	$ 2,168,048	$ 5,015,061

Deposits from certain officers and directors and the companies with which they are associated held by the Bank at December 31, 2016 and 2015 amounted to $30,041,271 and $21,333,846, respectively.

NOTE K - STOCK-BASED COMPENSATION PLANS

The Bank's 2013 Omnibus Stock Incentive Plan ("2013 Plan") was approved by shareholders in May 2013. Under the terms of the 2013 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 2013 Plan also permits the grant of stock appreciation rights ("SARs"), restricted shares, deferred shares, performance shares and performance unit awards. The 2013 Plan provides for the total number of awards of common stock that may be issued over the term of the plan not to exceed 1,390,620 shares, of which a maximum of 1,390,620 shares may be granted as incentive stock options. Stock options, SARs, performance share and unit awards are granted at a price no less than 100% of the fair market value of the stock on the date of grant. Options generally vest over a period of three to five years. The 2013 Plan provides for accelerated vesting if there is a change of control, as defined in the 2013 Plan. Stock options expire no later than ten years from the date of the grant. The 2013 Plan expires in 2023. The 2013 plan replaced the 2005 Stock Option Plan which expired in 2015. The Bank recognized stock-based compensation expense of $1,272,528 and $1,024,424, and related tax benefit of approximately $517,000 and $249,000 in 2016 and 2015, respectively.

The Bank did not grant any stock options during 2016 and 2015.

A summary of the Bank's outstanding stock options as of December 31, 2016, and changes during the year then ended are as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	109,674	$ 9.34		
Exercised	(10,816)	$ 7.86		
Granted	-	$ -		
Forfeited	-	$ -		
Outstanding at End of Year	98,858	$ 9.50	4.7 Years	$ 619,000
Options Exercisable	78,308	$ 9.04	4.1 Years	$ 527,000

As of December 31, 2016 there was approximately $23,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 0.65 years. The intrinsic value of options exercised during 2016 and 2015 was approximately $75,000 and $458,000, respectively.

NOTE K - STOCK-BASED COMPENSATION PLANS - Continued

A summary of the Bank's outstanding restricted shares as of December 31, 2016, and changes during the year then ended are as follows:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2016	144,708	$ 13.70
New Stock Grants	36,733	$ 14.99
Shares Vested	(117,477)	$ 14.16
Shares Forfeited	(5,382)	$ 13.95
Nonvested at December 31, 2016	58,581	$ 14.10

As of December 31, 2016 there was approximately $480,000 of total unrecognized compensation cost related to the restricted shares that will be recognized over the weighted-average period of 2.07 years. The intrinsic value of restricted shares that vested was approximately $1,808,000 and $400,000 during 2016 and 2015, respectively.

NOTE L - EARNINGS PER SHARE ("EPS")

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute EPS:

	2016		2015	
	Income	Shares	Income	Shares
Net Income as Reported	$ 8,269,661		$ 5,392,572	
Weighted-Average Shares Outstanding During the Year		7,007,406		5,873,836
Used in Basic EPS	8,269,661	7,007,406	5,392,572	5,873,836
Dilutive Effect of Outstanding Stock Options and Restricted Shares		74,728		109,816
Used in Dilutive EPS	$ 8,269,661	7,082,134	$ 5,392,572	5,983,652

NOTE M - RETIREMENT SAVINGS PLAN

The Bank has adopted a 401(k) profit sharing plan (the "Plan") covering employees meeting certain eligibility requirements as to minimum age. Employees may make voluntary contribution to the Plan through payroll deductions on a pre-tax basis. The Bank makes matching contributions under a prescribed formula set forth in the plan. A participant’s account under the plan, together with investment earnings thereon, is normally distributable, following retirement, death, disability, or other termination of employment, in a single lump-sum payment. The Bank made contributions of $299,033 and $294,944 for 2016 and 2015, respectively.

NOTE N - 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 2016 is 0.625%. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

NOTE N - REGULATORY MATTERS - Continued

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, 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, 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.

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 Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016:						
Total Capital (to Risk-Weighted Assets)	$ 110,918	15.33%	$ 57,896	8.0%	$ 72,370	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 101,836	14.07%	$ 43,422	6.0%	$ 57,896	8.0%
CET1 Capital (to Risk-Weighted Assets)	$ 101,836	14.07%	$ 32,567	4.5%	$ 47,041	6.5%
Tier 1 Capital (to Average Assets)	$ 101,836	12.42%	$ 32,789	4.0%	$ 40,987	5.0%
As of December 31, 2015:						
Total Capital (to Risk-Weighted Assets)	$ 101,585	14.43%	$ 56,334	8.0%	$ 70,418	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 92,746	13.17%	$ 42,251	6.0%	$ 56,334	8.0%
CET1 Capital (to Risk-Weighted Assets)	$ 92,746	13.17%	$ 31,688	4.5%	$ 45,772	6.5%
Tier 1 Capital (to Average Assets)	$ 92,746	11.65%	$ 31,831	4.0%	$ 39,789	5.0%

The California Financial Code 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 to shareholders during the same period.

NOTE O - FAIR VALUE MEASUREMENTS

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities

The fair values of 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).

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2016 and December 31, 2015:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
December 31, 2016				
Assets Measured at Fair Value on a Recurring Basis				
Securities Available for Sale	$ -	$ 35,789,824	$ -	$ 35,789,824
December 31, 2015				
Assets Measured at Fair Value on a Recurring Basis				
Securities Available for Sale	$ -	$ 24,972,282	$ -	$ 24,972,282

NOTE P - 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.

NOTE P - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The following methods and assumptions were used to estimate the fair value of significant financial instruments not previously presented:

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values.

Loans

For variable rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for all other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. Prepayments prior to the re-pricing date are not expected to be significant. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Federal Home Loan Bank Stock and Other Bank Stock

The fair value of Federal Home Loan Bank Stock and other Bank stock is not readily determinable due to the lack of its transferability.

Deposits

The fair values disclosed for demand deposits, including interest and non-interest demand accounts, savings, and certain types of money market accounts are, by definition based on carrying value. Fair value for fixed-rate certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities on time deposits. Early withdrawal of fixed-rate certificates of deposit is not expected to be significant.

Federal Home Loan Bank Borrowings

The fair values of the Bank's borrowings from Federal Home Loan Bank are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements.

Accrued Interest Receivable and Payable

The fair value of accrued interest receivable and payable approximate their carrying amounts.

Off-Balance Sheet Financial Instruments

The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. The fair value of these financial instruments is not material.

NOTE P - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2016 and 2015 are summarized as follows:

		2016		2015	
	Fair Value Heirarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Cash and Cash Equivalents	Level 1	$ 110,031,617	$ 110,031,617	$ 97,437,489	$ 97,437,489
Investment Securities Available for Sale	Level 2	35,789,824	35,789,824	24,972,282	24,972,282
Investment Securities Held to Maturity	Level 2	5,675,243	5,557,190	16,010,460	15,821,214
Loans Held for Sale	Level 2	4,827,225	4,827,225	12,907,887	12,907,887
Loans Receivable, Net	Level 2	687,918,835	690,219,000	644,741,681	649,528,000
Federal Home Loan and Other Bank Stock	Level 2	3,764,500	N/A	3,236,159	N/A
Accrued Interest Receivable	Level 2	2,665,916	2,665,916	2,324,575	2,324,575
Financial Liabilities					
Deposits	Level 2	$ 756,560,709	$ 758,733,000	$ 708,498,099	$ 710,117,000
Federal Home Loan Bank Borrowings	Level 2	-	-	6,000,000	6,000,000
Accrued Interest Payable	Level 2	74,093	74,093	159,981	159,981

NOTE Q - STOCK DIVIDEND

The Bank has issued a 4% stock dividend in 2016 and 2015. The per share data in the statements of income and the footnotes have been adjusted to give retroactive effect to this dividend.

NOTE R - SUBSEQUENT EVENT

In January 2017, the Bank declared a $0.20 cash dividend to shareholders of record as of February 8, 2017. The cash dividend amounted to $1,438,994.