# GOLDEN STATE BANCORP

## CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

GOLDEN STATE BANCORP

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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# INDEPENDENT AUDITOR'S REPORT

Board of Directors
Golden State Bancorp
Glendale, California

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Golden State Bancorp, which comprise the consolidated statements of financial condition as of December 31, 2017 and 2016, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

(Continued)

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Golden State Bancorp as of December 31, 2017 and 2016, 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.

Crowe Horwath LLP

Crowe Horwath LLP

Costa Mesa, California
March 29, 2018

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 2,483,153 | $ 2,976,298 |
| Interest-bearing deposits in other banks | 17,555,000 | 21,315,564 |
| Total cash and cash equivalents | 20,038,153 | 24,291,862 |
| Loans | | |
| Construction and land development | 18,638,993 | 9,316,536 |
| Commercial real estate and other | 146,837,600 | 106,099,496 |
| Commercial and industrial | 22,996,800 | 12,627,742 |
| Consumer | 260,124 | 157,048 |
| Total loans | 188,733,517 | 128,200,822 |
| Deferred loan fees, net of costs | (500,577) | (275,319) |
| Allowance for loan losses | (2,091,968) | (1,312,468) |
| Net loans | 186,140,972 | 126,613,035 |
| Federal Home Loan Bank stock, at cost | 662,700 | 471,400 |
| Premises and equipment | 1,106,474 | 1,218,540 |
| Other real estate owned | 5,460,267 | 5,460,267 |
| Accrued interest and other assets | 1,080,518 | 862,118 |
| | $ 214,489,084 | $ 158,917,222 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Deposits | | |
| Noninterest-bearing demand | $ 41,654,845 | $ 42,582,057 |
| Savings, NOW and money market accounts | 53,617,518 | 45,808,472 |
| Time deposits under $250,000 | 48,854,420 | 28,214,907 |
| Time deposits $250,000 and over | 23,526,438 | 17,537,015 |
| Total deposits | 167,653,221 | 134,142,451 |
| Federal Home Loan Bank (FHLB) borrowings | 20,000,000 | 10,000,000 |
| Other borrowings | 5,000,000 | - |
| Accrued interest and other liabilities | 867,415 | 681,626 |
| Total liabilities | 193,520,636 | 144,824,077 |
| Commitments and contingencies - Notes 3 and 11 | | |
| Shareholders' equity | | |
| Preferred stock - 500,000,000 shares authorized; issued and outstanding - 112,328 in 2017 and 2016 | 2,911,240 | 2,911,240 |
| Common stock - 500,000,000 shares authorized; issued and outstanding - 1,410,802 in 2017 and 1,026,186 in 2016 | 38,782,851 | 33,782,851 |
| Additional paid-in capital | 384,326 | 339,470 |
| Retained earnings (accumulated deficit) | (21,109,969) | (22,940,416) |
| Total shareholders' equity | 20,968,448 | 14,093,145 |
| | $ 214,489,084 | $ 158,917,222 |

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

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the years ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| Interest income | | |
| Interest and fees on loans | $ 8,860,709 | $ 5,657,699 |
| Interest on federal funds sold and other | 265,250 | 183,873 |
| Total interest income | 9,125,959 | 5,841,572 |
| Interest expense | | |
| Interest on savings, NOW and money market accounts | 467,482 | 217,156 |
| Interest on time deposits | 763,104 | 439,104 |
| Interest on FHLB borrowing | 199,768 | 173,019 |
| Total interest expense | 1,430,354 | 829,279 |
| Net interest income | 7,695,605 | 5,012,293 |
| Provision for (recovery of) loan losses | 744,500 | (270,000) |
| **Net interest income after provision for loan losses** | 6,951,105 | 5,282,293 |
| Non-interest income | | |
| Service charges, fees and other | 427,474 | 319,777 |
| | 427,474 | 319,777 |
| Non-interest expense | | |
| Salaries and employee benefits | 2,898,397 | 2,446,486 |
| Occupancy and equipment expenses | 486,793 | 822,980 |
| Other expenses | 2,161,422 | 2,054,746 |
| | 5,546,612 | 5,324,212 |
| **Income before income taxes** | 1,831,967 | 277,858 |
| Income tax expense | 1,520 | 2,400 |
| **Net income and comprehensive income** | $ 1,830,447 | $ 275,458 |
| Earnings per share: | | |
| Basic | $ 1.63 | $ 0.27 |
| Diluted | $ 1.29 | $ 0.20 |

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

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2017 and 2016

| | Preferred Stock | | Common Stock | | Additional | Retained Earnings | |
|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Paid-in Capital | (Accumulated Deficit) | Total |
| Balance at January 1, 2016 | 112,328 | $ 2,911,240 | 1,026,186 | $ 33,782,851 | $ 294,350 | $ (23,215,874) | $ 13,772,567 |
| Net income | - | - | - | - | - | 275,458 | 275,458 |
| Stock-based compensation | - | - | - | - | 45,120 | - | 45,120 |
| Balance at December 31, 2016 | 112,328 | 2,911,240 | 1,026,186 | 33,782,851 | 339,470 | (22,940,416) | 14,093,145 |
| Net income | - | - | - | - | - | 1,830,447 | 1,830,447 |
| Issuance of common stock | - | - | 384,616 | 5,000,000 | - | - | 5,000,000 |
| Stock-based compensation | - | - | - | - | 44,856 | - | 44,856 |
| Balance at December 31, 2017 | 112,328 | $ 2,911,240 | 1,410,802 | $ 38,782,851 | $ 384,326 | $ (21,109,969) | $ 20,968,448 |

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

GOLDEN STATE BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 1,830,447 | $ 275,458 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization | 133,735 | 105,467 |
| Provision for (recovery of) loan losses | 744,500 | (270,000) |
| Stock-based compensation | 44,856 | 45,120 |
| Other items | (32,611) | 242,309 |
| Net cash from operating activities | 2,720,927 | 398,354 |
| **Cash flows from investing activities** | | |
| Net increase in loans | (60,272,437) | (38,368,753) |
| Purchases of premises and equipment | (21,669) | (585,201) |
| Purchase of Federal Home Loan Bank (FHLB) stock | (191,300) | (151,300) |
| Net cash from investing activities | (60,485,406) | (39,105,254) |
| **Cash flows from financing activities** | | |
| Net increase in demand deposits and savings accounts | 6,881,834 | 23,796,745 |
| Net increase in time deposits | 26,628,936 | 8,450,461 |
| Net increase in FHLB advances | 10,000,000 | - |
| Proceeds from other borrowings | 5,000,000 | - |
| Proceeds from issuance of common stock | 5,000,000 | - |
| Net cash from financing activities | 53,510,770 | 32,247,206 |
| Net change in cash | (4,253,709) | (6,459,694) |
| Cash and cash equivalents at beginning of year | 24,291,862 | 30,751,556 |
| **Cash and cash equivalents at end of year** | $ 20,038,153 | $ 24,291,862 |
| Supplemental cash flow information | | |
| Cash paid during the year for: | | |
| Income taxes | $ 1,520 | $ 2,400 |
| Interest | 1,416,354 | 816,722 |

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: On October 30, 2015, Golden State Bank became the wholly owned subsidiary of Golden State Bancorp. The consolidated financial statements as of December 31, 2017 and 2016 include the accounts of Golden State Bancorp (Bancorp) and its wholly owned subsidiary, Golden State Bank (the “Bank”), collectively referred to herein as the “Company”. All significant intercompany transactions have been eliminated.

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

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

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 29, 2018, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, deposits with other financial institutions with maturities under ninety days 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 Company was in compliance with its reserve requirements as of December 31, 2017 and 2016.

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

Loans: Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs 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.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (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 uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each segment.

The Company determines a separate allowance for each portfolio segment. The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value and the probability of collecting all amounts when due. 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 Company 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 Company recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired with measurement of impairment as described above.

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

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.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

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

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

The Company has adopted guidance issued by the Financial Accounting Standards Board (FASB) that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Financial Instruments: In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and commercial letters of credit as described in Note 11. Such financial instruments are recorded in the financial statements when they are funded.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

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

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

See Note 13 for more information and disclosures relating to the Company's fair value measurements.

Stock-Based Compensation: The Company recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period. See Note 12 for additional information on the Company's stock option plan.

Reclassifications: Certain reclassifications were made to prior years' presentations to conform to the current year. These reclassifications are of a normal recurring nature, and had no effect on prior year net income or shareholders' equity.

**NOTE 2 - LOANS**

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

**NOTE 2 - LOANS** (Continued)

The following table presents the activity in the allowance for loan losses for the year 2017, and the recorded investment in loans and impairment method as of December 31, 2017, by portfolio segment:

| | Construction and Land Development | Commercial Real Estate and Other | Commercial and Industrial | Consumer | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Beginning of year | $ 50,103 | $ 1,147,307 | $ 111,483 | $ 3,575 | $ 1,312,468 |
| Provision | 537,095 | 168,881 | 36,712 | 1,812 | 744,500 |
| Charge-offs | - | - | - | - | - |
| Recoveries | - | 35,000 | - | - | 35,000 |
| End of year | $ 587,198 | $ 1,351,188 | $ 148,195 | $ 5,387 | $ 2,091,968 |
| Reserves: | | | | | |
| Specific | $ - | $ - | $ - | $ - | $ - |
| General | 587,198 | 1,351,188 | 148,195 | 5,387 | 2,091,968 |
| | $ 587,198 | $ 1,351,188 | $ 148,195 | $ 5,387 | $ 2,091,968 |
| Loans evaluated for impairment: | | | | | |
| Individually | $ - | $ 182,499 | $ 295,680 | $ - | $ 478,179 |
| Collectively | 18,638,993 | 146,655,101 | 22,701,120 | 260,124 | 188,255,338 |
| | $ 18,638,993 | $ 146,837,600 | $ 22,996,800 | $ 260,124 | $ 188,733,517 |

**NOTE 2 - LOANS** (Continued)

The following table presents the activity in the allowance for loan losses for the year 2016, and the recorded investment in loans and impairment method as of December 31, 2016, by portfolio segment:

| | Construction and Land Development | Commercial Real Estate and Other | Commercial and Industrial | Consumer | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Beginning of year | $ 82,090 | $ 893,267 | $ 287,453 | $ 3,263 | $ 1,266,073 |
| Provision | (31,987) | 112,645 | (350,970) | 312 | (270,000) |
| Charge-offs | - | - | - | - | - |
| Recoveries | - | 141,395 | 175,000 | - | 316,395 |
| End of year | $ 50,103 | $ 1,147,307 | $ 111,483 | $ 3,575 | $ 1,312,468 |
| Reserves: | | | | | |
| Specific | $ - | $ - | $ - | $ - | $ - |
| General | 50,103 | 1,147,307 | 111,483 | 3,575 | 1,312,468 |
| | $ 50,103 | $ 1,147,307 | $ 111,483 | $ 3,575 | $ 1,312,468 |
| Loans evaluated for impairment: | | | | | |
| Individually | $ - | $ 548,637 | $ 337,496 | $ - | $ 886,133 |
| Collectively | 9,316,536 | 105,550,859 | 12,290,246 | 157,048 | 127,314,689 |
| | $ 9,316,536 | $ 106,099,496 | $ 12,627,742 | $ 157,048 | $ 128,200,822 |

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

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

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

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

(Continued)

**NOTE 2 - LOANS** (Continued)

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

The risk category of loans by class of loans was as follows as of December 31, 2017 and 2016:

| | Pass | Special Mention | Substandard | Impaired | Total |
|---|---|---|---|---|---|
| December 31, 2017 | | | | | |
| Construction and land development | $ 18,638,993 | $ - | $ - | $ - | $ 18,638,993 |
| Commercial real estate and other | 146,655,101 | - | - | 182,499 | 146,837,600 |
| Commercial and industrial | 22,701,120 | - | - | 295,680 | 22,996,800 |
| Consumer | 260,124 | - | - | - | 260,124 |
| | $ 188,255,338 | $ - | $ - | $ 478,179 | $ 188,733,517 |
| December 31, 2016 | | | | | |
| Construction and land development | $ 9,316,536 | $ - | $ - | $ - | $ 9,316,536 |
| Commercial real estate and other | 104,409,319 | 505,360 | 636,180 | 548,637 | 106,099,496 |
| Commercial and industrial | 12,152,246 | - | 138,000 | 337,496 | 12,627,742 |
| Consumer | 157,048 | - | - | - | 157,048 |
| | $ 126,035,149 | $ 505,360 | $ 774,180 | $ 886,133 | $ 128,200,822 |

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2017 and 2016:

| | Still Accruing | | |
|---|---|---|---|
| | 30-89 Days Past Due | Over 90 Days Past Due | Nonaccrual |
| December 31, 2017 | | | |
| Construction and land development | $ - | $ - | $ - |
| Commercial real estate and other | - | - | |
| Commercial and industrial | - | - | 295,680 |
| Consumer | - | - | - |
| | $ - | $ - | $ 295,680 |

(Continued)

**NOTE 2 - LOANS** (Continued)

| | Still Accruing 30-89 Days Past Due | Still Accruing Over 90 Days Past Due | Nonaccrual |
|---|---|---|---|
| December 31, 2016 | | | |
| Construction and land development | $ - | $ - | $ - |
| Commercial real estate and other | - | - | 349,968 |
| Commercial and industrial | 138,000 | - | 337,496 |
| Consumer | - | - | - |
| | $ 138,000 | $ - | $ 687,464 |

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

| | Unpaid Principal Balance | Recorded Investment | Impaired Loans With Specific Allowance | Impaired Loans Without Specific Allowance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|---|---|
| 2017 | | | | | | | |
| Construction and land development | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Commercial real-estate and other | 182,499 | 182,499 | - | 182,499 | - | 243,712 | - |
| Commercial and Industrial | 295,680 | 295,680 | - | 295,680 | - | 211,059 | 26,988 |
| Consumer | - | - | - | - | - | - | - |
| | $ 478,179 | $ 478,179 | $ - | $ 478,179 | $ - | $ 454,771 | $ 26,988 |
| 2016 | | | | | | | |
| Construction and land development | $ - | $ - | $ - | $ - | $ - | $ 681,327 | $ - |
| Commercial real-estate and other | 548,637 | 548,637 | - | 548,637 | - | 2,728,366 | 26,711 |
| Commercial and Industrial | 337,496 | 337,496 | - | 337,496 | - | 683,942 | - |
| Consumer | - | - | - | - | - | - | - |
| | $ 886,133 | $ 886,133 | $ - | $ 886,133 | $ - | $ 4,093,635 | $ 26,711 |

Interest income included above was not recognized on a cash basis, but rather on an accrual basis.

(Continued)

**NOTE 2 - LOANS** (Continued)

Troubled Debt Restructurings:

As of December 31, 2017 and 2016, the Company had a recorded investment in troubled debt restructurings of $478,179 and $536,165, respectively. The Company has not committed to lend any additional amounts to borrowers whose loans have been restructured in troubled debt restructurings as of December 31, 2017.

The Company did not modify any loans as troubled debt restructurings during 2017. The Company modified one loan with a balance of $337,496 in a troubled debt restructuring during 2016. There were no subsequent defaults of loans that were modified as troubled debt restructurings within twelve months of the modification during 2017 or 2016.

## NOTE 3 - PREMISES AND EQUIPMENT

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

| | 2017 | 2016 |
|---|---|---|
| Furniture, fixtures, and equipment | $ 2,072,617 | $ 2,053,092 |
| Leasehold improvements | 1,416,662 | 1,414,518 |
| | 3,489,279 | 3,467,610 |
| Less accumulated depreciation and amortization | (2,382,805) | (2,249,070) |
| | $ 1,106,474 | $ 1,218,540 |

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

At December 31, 2017, the future lease rental payable under non-cancellable operating lease commitments are as follows:

| | |
|---|---|
| 2018 | $ 337,518 |
| 2019 | 337,518 |
| 2020 | 337,518 |
| 2021 | 306,112 |
| 2022 | 274,705 |
| Thereafter | 549,411 |
| | $ 2,142,782 |

The minimum rental payments shown above are given for the existing lease obligations and are not a forecast of future rental expenses. Total rental expenses were approximately $337,000 and $506,000 for the years ended December 31, 2017 and 2016, respectively.

**NOTE 4 - DEPOSITS**

At December 31, 2017, the scheduled maturities of time deposits are as follows:

| | |
|---|---|
| Due in one year or less | $ 55,519,513 |
| Due from one to three years | 16,861,345 |
| | $ 72,380,858 |

**NOTE 5 - BORROWINGS**

The Company may borrow up to $2,000,000 overnight on an unsecured basis from one of its correspondent banks. During the year ended December 31, 2017, the Company had no balance outstanding under this arrangement.

At December 31, 2017, the Company has two term loans outstanding in the amount of $4,500,000 and $500,000 to two members of its Board of Directors, who are considered related parties. Both loans carry fixed interest rates of 7.25% and mature on December 27, 2020. Principal is due at maturity, and interest payments are due monthly.

The Company may also borrow up to approximately $67.7 million as of December 31, 2017 from the Federal Home Loan Bank of San Francisco (FHLBSF), subject to providing adequate collateral and fulfilling other conditions of the credit facility, of which $20.0 million has been advanced as of December 31, 2017 as follows:

| Amount | Interest Rate | Maturity Date |
|---|---|---|
| $ 5,000,000 | 2.00% | November 29, 2019 |
| 5,000,000 | 1.89% | February 20, 2020 |
| 5,000,000 | 1.57% | October 2, 2020 |
| 5,000,000 | 2.32% | November 29, 2022 |
| $ 20,000,000 | | |

The remaining borrowing capacity at the FHLB is approximately $47.7 million as of December 31, 2017 which is secured by approximately $89.8 million in loans.

(Continued)

**NOTE 6 - INCOME TAXES**

The provision for income taxes for the years ended December 31, 2017 and 2016 consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Current: | | |
| Federal | $ - | $ - |
| State | 1,520 | 2,400 |
| Total current | 1,520 | 2,400 |
| Deferred: | | |
| Federal | 574,000 | 88,000 |
| Expense due to enactment of tax reform | 2,379,000 | - |
| State | 208,000 | 36,000 |
| Total deferred | 3,161,000 | 124,000 |
| Change in valuation allowance | (782,000) | (124,000) |
| Change in valuation allowance, due to enactment of tax reform | (2,379,000) | - |
| Current income tax expense | $ 1,520 | $ 2,400 |

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition.

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the “Act”) was signed into law. Among other things, the Act reduces our corporate federal tax rate from 34% to 21% effective January 1, 2018. As a result, we are required to re-measure, through income tax expense, our deferred tax assets and liabilities using the enacted rate at which we expect them to be recovered or settled. Due to the fact that the Company has a full valuation allowance recorded against its net deferred tax asset, the overall tax impact was $0. The re-measurement of our net deferred tax asset, before valuation allowance, resulted in additional income tax expense of $2,379,000, offset by recording an equal and offsetting tax benefit of ($2,379,000) for the re-measurement of the related valuation allowance.

(Continued)

**NOTE 6 - INCOME TAXES** (Continued)

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

| | 2017 | 2016 |
|---|---|---|
| Deferred tax assets | | |
| Operating loss carry-forward | $ 5,951,000 | $ 9,178,000 |
| Allowance for loan losses | 69,000 | - |
| Other real estate owned reserve | 417,000 | 559,000 |
| Depreciation difference | - | 46,000 |
| Other assets | 219,000 | 243,000 |
| Total deferred tax assets | 6,656,000 | 10,026,000 |
| Deferred tax liabilities: | | |
| Allowance for loan loss | - | $ (211,000) |
| Depreciation differences | (14,000) | - |
| Prepaid expenses | (41,000) | (46,000) |
| Other liabilities | (160,000) | (167,000) |
| Total deferred tax liabilities | (215,000) | (424,000) |
| Less valuation allowance | (6,441,000) | (9,602,000) |
| Net deferred tax assets | $ - | $ - |

The valuation allowance was established because the Company has not reported earnings sufficient enough to support the recognition of the deferred tax assets. The Company has net operating loss carryforwards of approximately $19.2 million for federal income tax purposes and $22.3 million for California franchise tax purposes. Federal and California net operating loss carryforwards, to the extent not used will begin to expire in 2029.

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Amount | Rate | Amount | Rate |
| Statutory federal tax | $ 623,000 | 34.00% | $ 94,000 | 34.00% |
| State franchise tax, net of federal benefit | 148,020 | 8.10 | 24,000 | 8.60 |
| Change in valuation allowance | (782,000) | (42.70) | (124,000) | (44.70) |
| Other Items, net | 12,500 | 0.70 | 8,400 | 3.0 |
| Actual tax expense | $ 1,520 | 0.10% | $ 2,400 | 0.90% |

The Company is subject to federal tax and California franchise tax. Federal income tax returns for the years ended December 31, 2014, 2015, 2016, and 2017 are open to audit by the federal authorities. California franchise tax returns for years ended December 31, 2013, 2014, 2015, 2016, and 2017 are open to audit by state authorities. The Company has no unrecognized tax benefits recorded at December 31, 2017. Unrecognized tax benefits are not expected to significantly increase or decrease within the next twelve months.

(Continued)

## NOTE 7 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company can grant loans to certain directors and the companies with which they are associated. There was one loan to a related party with a balance of $1,125,015 outstanding as of December 31, 2017.

Deposits from certain officers and directors and their related interests with which they are associated held by the Company at December 31, 2017 and 2016, amounted to approximately $13,158,877 and $6,937,573, respectively.

Borrowings from related parties are described in Note 5. The interest expense pertaining to related party loans approximated $5,035 in 2017.

## NOTE 8 - EMPLOYEE BENEFIT PLAN

The Company adopted a 401(k) for its employees in 2007. Under the plan, eligible employees may defer a portion of their salaries. The plan also provides for discretionary Company profit sharing contributions. The Company did not make any contributions to the plan on behalf of employees in 2017 or 2016.

## NOTE 9 - EARNINGS PER SHARE (EPS)

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

| | 2017 | 2016 |
|---|---|---|
| Basic EPS: | | |
| Net income available to common shareholders | $ 1,830,447 | $ 275,478 |
| Weighted average common shares outstanding | 1,122,077 | 1,026,186 |
| Basic earnings per common share | $ 1.63 | $ 0.27 |
| Diluted EPS: | | |
| Net income available to common shareholders | $ 1,830,447 | $ 275,478 |
| Weighted average common shares outstanding | 1,122,077 | 1,026,186 |
| Add: Dilutive effects of assumed exercises of stock options | 15,092 | 59,944 |
| Add: Dilutive effects of assumed conversion of preferred stock | 280,820 | 280,820 |
| Average shares and dilutive potential common shares | 1,417,989 | 1,366,950 |
| Diluted earnings per common share | $ 1.29 | $ 0.20 |

Common Stock options totaling 297,565 shares and Preferred Stock options totaling 16,875 shares, with a converted common equivalent of 42,188 shares were considered in computing diluted earnings per share in 2017. This resulted in a dilutive effect of assumed exercises of stock options totaling 15,092 shares. For 2016, Common Stock options totaling 297,565 shares and Preferred Stock options totaling 16,875 shares, with a converted common equivalent of 42,188 shares were considered resulting in a dilutive effect of assumed exercises of stock options totaling 59,944 shares.

(Continued)

## NOTE 10 - COMMITMENTS

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

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

As of December 31, 2017 and 2016 the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

| | 2017 | 2016 |
|---|---|---|
| Commitments to extend credit | $ 31,982,888 | $ 20,620,000 |
| Commercial letters of credit | 644,660 | 600,000 |
| | $ 32,627,548 | $ 21,220,000 |

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 Company evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company is based on management's credit evaluation of the customer. The majority of the Company's commitments to extend credit and standby letters of credit are secured by real estate.

The allowance for losses on commitments to extend credit is primarily related to commercial lines of credit and commercial real estate lending. The inherent risk associated with the loan is evaluated at the same time the credit is extended. However, the allowance held for commitments is reported in other liabilities within the accompanying consolidated statements of financial condition and not as part of the allowance for loan losses. The allowance for losses on commitments to extend credit was $124,500 and $89,000 at December 31, 2017 and 2016, respectively.

## NOTE 11 - STOCK COMPENSATION PLAN

The Company's 2007 Omnibus Stock Incentive Plan (the "Plan") was approved by its shareholders on July 5, 2007. Under the terms of the Plan, directors, officers, employees and consultants may be granted options, stock appreciation rights, restricted stock awards, deferred stock awards and performance units and also allows for performance objectives upon which awards may be conditioned. The reserved share amount is subject to adjustments for stock splits, stock dividends, recapitalization or similar transactions. The Plan also provides for accelerated vesting if there is a change in control, as defined in the Plan. The Plan allows awards to be in the form of common shares and preferred shares that are convertible into 15% of issued and outstanding shares of common shares. The maximum number of common and preferred shares as to which awards may be granted under the Plan are 343,207 and 67,500 as of December 31, 2017, respectively.

(Continued)

**NOTE 11 - STOCK COMPENSATION PLAN** (Continued)

In 2017, the Company recognized $44,856 in expense associated with the common and preferred share options issued to various directors, officers, and employees of the Company. In 2016, the Company recognized $45,120 in expense associated with the common and preferred share options issued to various directors, officers, and employees of the Company.

A summary of the status of the Company's stock option plan as of December 31, 2017 and changes in the common stock options during the year ending thereon is presented below:

| | Shares | Weighted Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at beginning of year | 297,565 | $ 11.47 | | |
| Forfeited or expired | - | | | |
| Outstanding at end of year and expected to vest | 297,565 | $ 11.47 | 6.3 years | $ 464,055 |
| Options exercisable | 139,001 | $ 11.80 | 6.3 years | $ 167,473 |

There were no preferred or common share options granted during the years ended December 31, 2017 and 2016. No options were exercised during the years ended December 31, 2017 and 2016.

In February 2014, the Company granted 67,500 preferred share options to a director at an exercise price of $27.50. The options vest upon the earlier to occur of: 1) on the fifth anniversary of the date of the grant; or 2) fifteen business days in advance of the record date for a liquidity event that includes a change in control.

The award agreement was amended in March 2015. 75% of the preferred share options were converted to common share options at conversion ratio of 2.5 common shares options for every one preferred share option. The amendment caused the director to have 16,875 preferred share options and 126,563 common share options, which are included in the 297,565 common stock options above and were outstanding at December 31, 2017 and 2016.

**NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

(Continued)

**NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

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

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

*Cash, Due From Banks, and Interest Bearing Deposits in Other Banks* - The carrying amounts reported in the statement of financial condition for cash and due from banks and interest- bearing deposits in other banks approximate their fair value.

*Loans* - For variable-rate loans that re-price frequently and have experienced no significant change in credit risk, fair value is based on carrying value. Fair value for all other loans is estimated based on discounted cash flows 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* - It was not practicable to determine the fair value of the Federal Home Loan Bank stock due to restrictions placed on 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 and Other Borrowings* - Fair value for borrowings is estimated using a discounted cash flow calculation of future interest and principal payments at current interest rates.

*Accrued Interest Receivable and Payable* - The fair value of accrued interest receivable and payable approximates 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 are not deemed to be material.

(Continued)

**NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

The estimated fair value of financial instruments at December 31, 2017 and 2016 summarized is as follows (dollar amounts in thousands):

| | | 2017 | | 2016 | |
|---|---|---|---|---|---|
| | Fair Value Hierarchy | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial Assets | | | | | |
| Cash and due from banks | Level 1 | $ 2,483 | $ 2,483 | $ 2,976 | $ 2,976 |
| Interest bearing deposits in other banks | Level 1 | 17,555 | 17,555 | 21,316 | 21,316 |
| Loans, net | Level 3 | 186,141 | 185,594 | 126,613 | 126,215 |
| Federal Home Loan Bank stock | N/A | 663 | N/A | 471 | N/A |
| Accrued interest receivable | Level 2 | 478 | 478 | 284 | 284 |
| Financial liabilities | | | | | |
| Deposits | Level 2 | $ 167,653 | $ 167,429 | $ 134,142 | $ 134,737 |
| Federal Home Loan Bank Borrowings | Level 2 | 20,000 | 20,012 | 10,000 | 9,658 |
| Other borrowings | Level 2 | 5,000 | 5,000 | - | - |
| Accrued interest payable | Level 2 | 45 | 45 | 31 | 31 |

**NOTE 13 - REGULATORY MATTERS**

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

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

In addition, the rules introduced the concept of a "conservation buffer" of 2.5% applicable to the three capital adequacy risk-weighted asset ratios (CET1, Tier 1 and Total). The conservation buffer will be phased-in on a pro rata basis over a four year period beginning in 2016. The capital conservation buffer was 1.25% and .625% at December 31, 2017 and 2016, respectively. If the capital adequacy minimum ratios plus the phased-in conservation buffer amount exceed actual risk-weighted capital ratios, then dividends, share buybacks and discretionary bonuses to executives could be limited in amount.

(Continued)

**NOTE 13 - 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).

The most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well-capitalized, the Bank must maintain minimum ratios as set forth in the table below. In addition to this framework, the Bank has also agreed at this time with its regulators to maintain a Tier 1 capital-to-average assets ratio of 9.0%.

The following table also sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

| | | | Amount of Capital Required | | | |
|---|---|---|---|---|---|---|
| | Actual | | To Be Adequately Capitalized | | To Be Well-Capitalized Under Prompt Corrective Action Framework | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2017: | | | | | | |
| Total Capital (to Risk-Weighted Assets) | $ 27,268 | 13.22% | $ 19,082 | 8.00% | $20,630 | 10.00% |
| Tier 1 Capital (to Risk-Weighted Assets) | 25,051 | 12.14 | 14,956 | 6.00 | 16,504 | 8.00 |
| CET1 Capital (to Risk-Weighted Assets) | 25,051 | 12.14 | 11,862 | 4.50 | 13,409 | 6.50 |
| Tier 1 Capital (to Average Assets) | 25,051 | 12.10 | 8,580 | 4.00 | 10,724 | 5.00 |
| As of December 31, 2016: | | | | | | |
| Total Capital (to Risk-Weighted Assets) | $ 15,519 | 10.61% | $ 11,705 | 8.00% | $14,631 | 10.00% |
| Tier 1 Capital (to Risk-Weighted Assets) | 14,118 | 9.65 | 8,778 | 6.00 | 11,705 | 8.00 |
| CET1 Capital (to Risk-Weighted Assets) | 14,118 | 9.65 | 6,584 | 4.50 | 9,510 | 6.50 |
| Tier 1 Capital (to Average Assets) | 14,118 | 8.77 | 6,443 | 4.00 | 8,053 | 5.00 |

The Bank is restricted as to the amount of dividends that can be paid to the Holding Company. Dividends declared in excess of the lesser of the Bank’s undivided profits or the Bank’s net income for its last three fiscal years less the amount of any distribution made to the Bank’s shareholders during the same period must be approved by the Department of Business Oversight. With certain exceptions, the Company may not pay a dividend to its shareholders unless its retained earnings equal at least the amount of the proposed dividend.

**NOTE 14 - PREFERRED STOCK**

There were 112,328 shares of Series A Convertible Preferred stock outstanding at December 31, 2017 and 2016. The stock is noncumulative and does not have rights to dividends or voting rights until the shares are converted to shares of common stock.

**NOTE 14 - PREFERRED STOCK** (Continued)

The conversion ratio of the Series A Preferred Stock is based on the cash collections (net of reasonable collection cost) of a certain loan. The conversion ratio will be set on February 28, 2018. As of December 31, 2017, the percentage of net cash collections to the outstanding legal principal balance of $3,160,000 was 90.53%. Should no more cash collections be made or cost incurred until February 28, 2018, this would translate to a conversion ratio of 3.6922, however, full determination will not be made until February 28, 2018. Should any Series A Preferred Stock be converted before February 28, 2018, it would still have to be at the conversion ratio of 2.5 common stock for every one share of preferred stock.

**NOTE 15 – SUBSEQUENT EVENT**

The conversion ratio of the Series A Preferred Stock was set on February 28, 2018 at 3.6922 by the Bancorp's Board of Directors, and as no Series A Preferred Stock were converted before this date, the stated conversion rate will be applied for every one share of preferred stock.