CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED 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
CalWest Bancorp and Subsidiary
Irvine, California

We have audited the accompanying consolidated financial statements of CalWest Bancorp and Subsidiary, which are comprised of the consolidated balance sheet as of December 31, 2016 the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CalWest Bancorp and Subsidiary as of December 31, 2016 the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of CalWest Bancorp and Subsidiary as of and for the year ended December 31, 2015, were audited by other auditors whose report dated March 24, 2016, expressed an unmodified opinion on those statements.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
March 21, 2017

CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash and Due from Banks	$ 4,662,975	$ 3,265,495
Federal Funds Sold and Interest-Bearing Balances	6,405,000	7,490,000
TOTAL CASH AND CASH EQUIVALENTS	11,067,975	10,755,495
Interest-Bearing Deposits in Other Banks	13,184,000	12,434,000
Investment Securities:		
Available for Sale	26,392,858	32,154,282
Held to Maturity	9,008,232	9,678,480
TOTAL INVESTMENT SECURITIES	35,401,090	41,832,762
Loans Held for Sale	-	363,451
Loans:		
Real Estate	75,720,645	48,331,993
Commercial and Industrial	15,620,223	14,904,960
Consumer	438,198	570,159
TOTAL LOANS	91,779,066	63,807,112
Net Deferred Loan Fees and Costs	104,937	(108,682)
Net Discounts	(384,315)	(504,315)
Allowance for Loan Losses	(2,653,860)	(2,653,862)
NET LOANS	88,845,828	60,540,253
Federal Reserve Bank and Federal Home Loan Bank Stock - at Cost	1,284,950	1,093,800
Premises and Equipment	158,831	195,755
Company Owned Life Insurance	5,982,386	6,547,913
Accrued Interest and Other Assets	1,989,925	916,252
TOTAL ASSETS	$157,914,985	$134,679,681

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

CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-Bearing Demand	$ 51,576,857	$ 46,604,490
Money Market and NOW Accounts	38,158,026	31,611,230
Savings	21,021,824	15,509,732
Time Deposits Under $250,000	3,374,443	3,558,991
Time Deposits $250,000 and Over	27,330,949	21,091,898
TOTAL DEPOSITS	141,462,099	118,376,341
Subordinated Debentures	3,093,000	3,093,000
Subordinated Notes	-	605,000
Accrued Interest and Other Liabilities	388,477	1,209,470
TOTAL LIABILITIES	144,943,576	123,283,811
Shareholders' Equity:		
Preferred Stock- Series C - 53,000 Shares Authorized and Outstanding at December 31, 2015	-	5,300,000
Common Stock - 100,000,000 Shares Authorized, $5 par value; 74,036,505 and 46,021,488 Shares Issued and Outstanding in 2016 and 2015, Respectively	41,850,232	35,964,141
Accumulated Deficit	(28,374,414)	(29,579,835)
Accumulated Other Comprehensive (Loss)	(504,409)	(288,436)
TOTAL SHAREHOLDERS' EQUITY	12,971,409	11,395,870
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$157,914,985	$134,679,681

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

CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
INTEREST INCOME		
Interest and Fees on Loans	$ 4,044,150	$ 3,326,808
Interest on Investment Securities	693,046	738,685
Other Interest Income	298,862	225,759
TOTAL INTEREST INCOME	5,036,058	4,291,252
INTEREST EXPENSE		
Interest on Money Market and NOW Accounts	141,798	122,120
Interest on Savings Deposits	104,417	64,063
Interest on Time Deposits	242,243	272,633
Interest on Borrowings	148,756	191,958
TOTAL INTEREST EXPENSE	637,214	650,774
NET INTEREST INCOME	4,398,844	3,640,478
(Recovery of) Loan Losses	(431,629)	(562,357)
NET INTEREST INCOME AFTER RECOVERY OF LOAN LOSSES	4,830,473	4,202,835
NONINTEREST INCOME		
Service Charges and Fees	563,588	582,951
Servicing Income on Loans Sold	23,656	45,503
Gain on Sale of Securities	119,847	110,548
Earnings on Company Owned Life Insurance	189,812	189,173
Life Insurance Gain	358,163	-
Other Income	173,792	55,747
TOTAL NONINTEREST INCOME	1,428,858	983,922
NONINTEREST EXPENSE		
Salaries and Employee Benefits	2,913,314	2,755,523
Occupancy Expenses	391,714	384,460
Furniture and Equipment	132,106	115,028
Other Expenses	1,615,176	2,654,454
TOTAL NONINTEREST EXPENSE	5,052,310	5,909,465
INCOME (LOSS) BEFORE INCOME TAXES	1,207,021	(722,708)
Income Tax Expense	1,600	1,600
NET INCOME (LOSS)	1,205,421	(724,308)
Preferred Stock Dividends and Accretion of Discount	-	(200)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 1,205,421	$ (724,508)
NET INCOME (LOSS) PER SHARE-BASIC AND DILUTED	$ 0.02	$ (0.20)

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

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Net Income (Loss)	$ 1,205,421	$ (724,308)
Other Comprehensive Income		
Unrealized Holding Gain Arising During the Period	(96,126)	82,143
Reclassification Adjustment for Gains Included in Net Income	(119,847)	(110,548)
Tax Effect	-	-
Total Other Comprehensive Income (Loss)	(215,973)	(28,405)
Comprehensive Income (Loss)	$ 989,448	$ (752,713)

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

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Preferred Stock		Common Stock			Accumulated Other	
	Number of Shares	Amount	Number of Shares	Amount	Accumulated Deficit	Comprehensive Income (Loss)	Total
Balance at January 1, 2015	4,656	$ 4,888,800	2,521,488	$ 28,385,319	$ (28,855,327)	$ (260,031)	$ 4,158,761
Net Loss					(724,308)		(724,308)
Accretion of Preferred Stock Discount		200			(200)		-
Issuance of Equity Capital, Net of Expenses	53,000	5,300,000	19,055,000	2,683,447			7,983,447
Exchange of Preferred Stock for Common Stock	(4,656)	(4,889,000)	24,445,000	4,889,000			-
Stock Based Compensation				6,375			6,375
Other Comprehensive Loss						(28,405)	(28,405)
Balance at December 31, 2015	53,000	5,300,000	46,021,488	35,964,141	(29,579,835)	(288,436)	11,395,870
Net Income					1,205,421		1,205,421
Conversion of Preferred Stock for Common Stock	(53,000)	(5,300,000)	26,500,000	5,300,000			-
Conversion of Subordinated Notes for Common Stock			1,515,017	579,716			579,716
Stock Based Compensation				6,375			6,375
Other Comprehensive Loss						(215,973)	(215,973)
Balance at December 31, 2016	-	$ -	74,036,505	$ 41,850,232	$ (28,374,414)	$ (504,409)	$ 12,971,409

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

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$ 1,205,421	$ (724,308)
Adjustments to Reconcile Net Income (Loss) to Net Cash From Operating Activities:		
Depreciation and Amortization of Premises and Equipment	47,730	32,702
Net Amortization (Accretion) on Loans and Securities	341,162	245,290
(Recovery of) Loan Losses	(431,629)	(562,357)
Gain on Sale of Securities	(119,847)	(110,548)
Stock-based Compensation	6,375	6,375
Gain on Settlement of Fixed Price Convertible Notes	(121,760)	-
Earnings on Company Owned Life Insurance	(189,812)	(189,173)
Life Insurance Gain	(358,163)	-
Net Change in Other Assets and Liabilities	(502,048)	283,853
NET CASH FROM OPERATING ACTIVITIES	(122,571)	(1,018,166)
CASH FLOW FROM INVESTING ACTIVITIES		
Net Change in Interest Bearing Deposits in Other Banks	(750,000)	1,006,000
Purchases of Available-for-Sale Securities	(10,538,025)	(3,721,898)
Purchases of Held-to-Maturity Securities	-	(8,427,677)
Proceeds from Maturities of Available-for-Sale Securities	4,043,345	5,072,960
Proceeds from Maturities of Held to Maturity Securities	565,237	445,666
Proceeds from the Sale of Available-for-Sale Securities	11,923,827	7,140,753
Net Change in Loans	(27,510,495)	(416,419)
Net Change in Bank Stocks	(191,150)	(87,500)
Purchases of Premises and Equipment	(10,806)	(131,172)
NET CASH FROM INVESTING ACTIVITIES	(22,468,067)	880,713
CASH FLOWS FINANCING ACTIVITIES		
Net Change in Deposits	23,085,758	(5,234,526)
Proceeds from Issuance of Equity Capital, net of expenses	-	7,983,447
Retirement of Subordinated Debt	(182,640)	-
NET CASH FROM FINANCING ACTIVITIES	22,903,118	2,748,921
NET CHANGE IN CASH	312,480	2,611,468
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,755,495	8,144,027
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 11,067,975	$ 10,755,495
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 1,427,084	$ 462,459
Taxes Paid	$ 1,600	$ 1,600
Exchange of Preferred Stock for Common Stock	$ 5,300,000	$ 4,889,000
Exchange of Common Stock for Convertible Subordinated Notes	$ 579,716	$ -

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

CALWEST BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements include the accounts of CalWest Bancorp and its subsidiary, South County Bank (the "Bank") collectively referred to herein as the "Company". All significant intercompany transactions have been eliminated. CalWest Bancorp has no significant business activity other than its investment in South County Bank. Accordingly, no separate financial information on the Company is provided, other than reflected in the consolidating schedules included as supplementary information.

Nature of Operations

The Bank has been organized as a single operating segment with three separate divisions, CalWest Bank, Inland Valley Bank and Surf City Bank. The Bank operates a full service branch in Irvine under the name of CalWest Bank division, a full service branch in Redlands under the Inland Valley Bank division and a full service branch in Huntington Beach under the Surf City Bank division. In addition, the Bank operates a full service branches in Rancho Santa Margarita, California under the name South County Bank N.A. The Bank'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 21, 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.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, federal funds sold and interest-bearing balances in other financial institutions with an original maturity of 90 days or less. 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 complied with the reserve requirements as of December 31, 2016 and 2015. The Company maintains amounts due from bank, which exceed federally insured limits. The Company has not experienced any losses in such accounts.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment Securities

Bonds, notes, and debentures for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period 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 held-to-maturity or 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.

Loans Held for Sale and Servicing Assets

Small Business Administration ("SBA") loans originated or purchased and intended for sale are carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Gains on sales of loans are recognized at the time of sale equal to the difference between the net sales proceeds and the carrying value of the loan sold, adjusted for any servicing asset recognized. A valuation allowance is recorded against servicing assets when fair value is below the carrying amount.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans - Continued

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan.

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 collectibility. 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 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 based on expected future cash flows discounted using the loan's effective rate immediately prior to the restructuring.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses - Continued

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; risk of untimely recognition; 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 real estate, commercial 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 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.

Federal Home Loan Bank ("FHLB") Stock

The Company 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, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. The Company's investment in FHLB stock was $758,000 and $773,500 at December 31, 2016 and 2015, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other Real Estate Owned

Other real estate owned ("OREO") represents properties acquired through foreclosure or other proceedings. OREO is held for sale and is recorded at the lower of the recorded amount of the loan or fair value of the properties less estimated costs of disposal. Any write-down to fair value at the time of transfer to OREO is charged to the allowance for loan losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances to reduce the carrying amounts to fair value less estimated costs to dispose are recorded as necessary. Additions to or reductions from valuation allowances are recorded in other expense.

Company Owned Life Insurance

The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Advertising Costs

The Company expenses the costs of advertising in the period incurred.

Income Taxes

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

The 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 taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Comprehensive Income

Changes in unrealized gain on available-for-sale securities is the only component of accumulated other comprehensive income for the Company. The amount reclassified out of other accumulated comprehensive income relating to realized gains on securities available for sale was $119,847 and $110,548 in 2016 and 2015, respectively. There was no tax effect on these realized gains due to the deferred tax asset valuation allowance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Instruments

In the ordinary course of business, the Company 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 12. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

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 options 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. Due to operating losses, potentially dilutive instruments become anti-dilutive and therefore basic and dilutive EPS are the same in 2015. Weighted-average shares used in the computation of basic earnings per share were 73,031,601 for 2016, and 3,594,091 for 2015. Weighted-average dilutive shares were 74,036,505 for 2016.

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 10 for additional information on the Company's stock option plan.

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 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 Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

See Note 16 for more information and disclosures relating to the Company's fair value measurements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the classifications used in 2016.

Newly Issued But Not Yet Effective Standards

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 Company is currently evaluating the effects of ASU 2014-09 on its consolidated 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 Company is currently evaluating the effects of ASU 2016-01 on its consolidated 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 Company is currently evaluating the effects of ASU 2016-02 on its consolidated financial statements and disclosures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Newly Issued But Not Yet Effective Standards - 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 Company is currently evaluating the provisions of ASU 2016-09 to determine the potential impact on its consolidated financial statements.

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 Company is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its consolidated financial statements.

NOTE 2 - INVESTMENT SECURITIES

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The carrying amount of securities and their approximate fair values at December 31 were as follows:

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
U.S. Government and Agency Securities	$ 8,741,413	$ -	$ (298,368)	$ 8,443,045
Mortgage-Backed Securities - GSE's	13,247,398	45,937	(186,659)	13,106,676
Corporate Securities	4,908,456	3,024	(68,343)	4,843,137
	$ 26,897,267	$ 48,961	$ (553,370)	$ 26,392,858
Held-To-Maturity Securities:				
U.S. Government and Agency Securities	$ 1,490,921	$ 2,089	$ -	$ 1,493,010
Mortgage-Backed Securities - GSE's	7,517,311	4,300	(132,698)	7,388,913
	$ 9,008,232	$ 6,389	$ (132,698)	$ 8,881,923
December 31, 2015				
Available-for-Sale Securities:				
U.S. Government and Agency Securities	$ 18,596,434	$ 111,024	$ (307,624)	$ 18,399,834
Mortgage-Backed Securities - GSE's	13,846,284	34,282	(126,118)	13,754,448
	$ 32,442,718	$ 145,306	$ (433,742)	$ 32,154,282
Held-To-Maturity Securities:				
U.S. Government and Agency Securities	$ 1,488,405	$ -	$ (7,080)	$ 1,481,325
Mortgage-Backed Securities - GSE's	8,190,075	959	(221,300)	7,969,734
	$ 9,678,480	$ 959	$ (228,380)	$ 9,451,059

The term "GSE" refers to mortgage-backed securities issued by U.S. Government Sponsored Agencies such as FNMA, FHLMC and GNMA.

NOTE 2 - INVESTMENT SECURITIES - Continued

During 2016, the Company received proceeds of $11,923,827 from the sale of available-for-sale investment securities resulting in gross gains of $119,847 and gross losses of $0. During 2015, the Company received proceeds of $7,140,753 from the sale of available-for-sale investment securities resulting in gross gains of $115,815 and gross losses of $5,267.

Investment securities carried at approximately $31.4 million and $32.2 million at December 31, 2016 and 2015, respectively, were pledged to secure public deposits and the borrowings discussed in Note 7.

The scheduled maturities of investment securities at December 31, 2016 are shown below. Securities not due at a single maturity date are shown separately.

	Available-for-Sale Securities		Held-to-Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	$ -	$ -	$ -	$ -
Due in One Year to Five Years	1,371,880	1,363,368	1,490,921	1,493,010
Due in Five to Ten Years	3,536,576	3,479,769	-	-
Greater Than Ten Years	8,741,413	8,443,045	-	-
Mortgage-Backed Securities	13,247,398	13,106,676	7,517,311	7,388,913
	$ 26,897,267	$ 26,392,858	$ 9,008,232	$ 8,881,923

NOTE 2 - INVESTMENT SECURITIES - Continued

The gross unrealized loss and related estimated fair value of investment securities that have been in a continuous loss position for less than twelve months and over twelve months at December 31 are as follows:

	Less than Twelve Months		Over Twelve Months		Total	
December 31, 2016	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value
Available-for-Sale Securities:						
U.S. Government and Agency Securities	$ (195,237)	$ 5,610,016	$ (103,131)	$ 2,833,030	$ (298,368)	$ 8,443,046
Mortgage-Backed Securities - GSE's	(186,659)	9,185,177	-	-	(186,659)	9,185,177
Corporate Securities	(68,343)	4,249,146	-	-	(68,343)	4,249,146
	$ (450,239)	$ 19,044,339	$ (103,131)	$ 2,833,030	$ (553,370)	$ 21,877,369
Held-To-Maturity Securities:						
Mortgage-Backed Securities - GSE's	$ (132,698)	$ 5,435,030	$ -	$ -	$ -	$ -
December 31, 2015						
Available-for-Sale Securities:						
U.S. Government and Agency Securities	$ (12,999)	$ 3,293,836	$ (294,625)	$ 11,926,789	$ (307,624)	$ 15,220,625
Mortgage-Backed Securities - GSE's	(97,946)	8,953,125	(28,172)	1,488,367	(126,118)	10,441,492
	$ (110,945)	$ 12,246,961	$ (322,797)	$ 13,415,156	$ (433,742)	$ 25,662,117
Held-To-Maturity Securities:						
U.S. Government and Agency Securities	$ (7,080)	$ 1,481,325	$ -	$ -	$ (7,080)	$ 1,481,325
Mortgage-Backed Securities - GSE's	(221,300)	7,334,207	-	-	(221,300)	7,334,207
	$ (228,380)	$ 8,815,532	$ -	$ -	$ (228,380)	$ 8,815,532

At December 31, 2016, the Company had thirty-six investment securities where total estimated fair value had declined from the Company's total amortized cost. Because the decline in market value is attributable to changes in interest rates and not credit quality and because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the securities, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2016.

NOTE 3 - LOANS

The Company's loan portfolio consists primarily of loans to borrowers within Southern California. Although the Company 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 Company's market area and, as a result, the Company's loan and collateral portfolios are, to some degree, concentrated in those industries.

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:

December 31, 2016	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	$ 1,404,557	$ 1,177,851	$ 71,454	$ 2,653,862
(Recovery of) Loan Losses	(55,176)	(245,418)	(131,035)	(431,629)
Recoveries	216,929	149,631	67,477	434,037
Charge-offs	-	-	(2,410)	(2,410)
End of Year	$ 1,566,310	$ 1,082,064	$ 5,486	$ 2,653,860
Reserves:				
Specific	$ 309	$ 8,897	$ -	$ 9,206
General	1,566,001	1,073,167	5,486	2,644,654
	$ 1,566,310	$ 1,082,064	$ 5,486	$ 2,653,860
Loans Evaluated for Impairment:				
Individually	$ 248,260	$ 202,220	$ -	$ 450,480
Collectively	75,472,385	15,418,003	438,198	91,328,586
	$ 75,720,645	$ 15,620,223	$ 438,198	$ 91,779,066

NOTE 3 - LOANS - Continued

The following table presents the activity in the allowance for loan losses for the year 2015, and the recorded investment in loans and impairment method as of December 31, 2015, by portfolio segment:

December 31, 2015	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	$ 1,282,666	$ 1,303,703	$ 93,779	$ 2,680,148
(Recovery of) Loan Losses	(31,130)	(446,259)	(84,968)	(562,357)
Recoveries	-	(54,511)	-	(54,511)
Charge-offs	153,021	374,918	62,643	590,582
End of Year	$ 1,404,557	$ 1,177,851	$ 71,454	$ 2,653,862
Reserves:				
Specific	$ 378	$ 41,079	$ -	$ 41,457
General	1,404,179	1,136,772	71,454	2,612,405
	$ 1,404,557	$ 1,177,851	$ 71,454	$ 2,653,862
Loans Evaluated for Impairment:				
Individually	$ 231,657	$ 368,658	$ -	$ 600,315
Collectively	48,100,336	14,536,302	570,159	63,206,797
	$ 48,331,993	$ 14,904,960	$ 570,159	$ 63,807,112

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.

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.

NOTE 3 - LOANS - Continued

The risk category of loans by class of loans was as follows as of December 31, 2016 and 2015:

December 31, 2016	Pass	Special Mention	Substandard	Impaired	Total
Real Estate Loans:					
Construction and Land Development	$ 2,664,213	$ -	$ -	$ -	$ 2,664,213
Commercial Real Estate	61,756,497	1,540,206	322,163	216,270	63,835,136
Residential Real Estate	9,189,306	-	-	31,990	9,221,296
Commercial Loans:					
Small Business Administration	2,091,619	-	20,997	8,897	2,121,513
Commercial and Industrial	10,774,438	-	2,530,949	193,323	13,498,710
Consumer Loans	438,198	-	-	-	438,198
	$86,914,271	$ 1,540,206	$ 2,874,109	$ 450,480	$ 91,779,066

December 31, 2015	Pass	Special Mention	Substandard	Impaired	Total
Real Estate Loans:					
Construction and Land Development	$ 3,800,501	-	$ -	$ -	$ 3,800,501
Commercial Real Estate	33,949,068	-	711,786	231,657	34,892,511
Residential Real Estate	9,638,981	-	-	-	9,638,981
Commercial Loans:					
Small Business Administration	1,051,607	-	10,857	281,459	1,343,923
Commercial and Industrial	12,629,016	-	844,822	87,199	13,561,037
Consumer Loans	570,159	-	-	-	570,159
	$61,639,332	$ -	$ 1,567,465	$ 600,315	$ 63,807,112

NOTE 3 - LOANS - Continued

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2016 and 2015:

	Still Accruing 30-89 Days Past Due	Still Accruing Over 90 Days Past Due	Nonaccrual
December 31, 2016			
Real Estate Loans:			
Residential Real Estate	$ -	$ -	$ 31,990
Commercial Loans:			
Small Business Administration	-	-	8,898
Commercial and Industrial	-	-	153,338
	$ -	$ -	$ 194,226
December 31, 2015			
Real Estate Loans:			
Commercial Real Estate	$ -	$ -	$ 8,167
Commercial Loans:			
Small Business Administration	-	-	236,513
Commercial and Industrial	-	-	17,406
	$ -	$ -	$ 262,086

NOTE 3 - LOANS - Continued

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2016 and 2015:

	Unpaid Principal Balance	Recorded Investment	Impaired Loans Specific Allowance Without	With	Related Allowance	Average Recorded Investment
December 31, 2016						
Real Estate:						
Commercial Real Estate	$ 216,270	$ 216,270	$ 216,270	$ -	$ -	$ 220,703
Residential Real Estate	75,816	31,990	31,681	309	309	31,990
Commercial:						
Small Business Administration	17,074	8,897	-	8,897	8,897	41,394
Commercial and Industrial	193,323	193,323	193,323	-	-	87,604
	$ 502,483	$ 450,480	$ 441,274	$ 9,206	$ 9,206	$ 381,691
December 31, 2015						
Real Estate:						
Commercial Real Estate	$ 239,834	$ 231,657	$ 8,167	$ 223,490	$ 378	$ 235,987
Commercial:						
Small Business Administration	282,281	281,459	2,681	278,778	35,303	305,156
Commercial and Industrial	135,957	87,199	17,406	69,793	5,776	170,587
	$ 658,072	$ 600,315	$ 28,254	$ 572,061	$ 41,457	$ 711,730

No interest income was recognized on impaired loans in 2016 and 2015.

The Company allocated $8,897 and $6,225 of specific reserves on loans with a recorded investment of $451,871 and $346,396 whose terms have been modified in troubled debt restructurings ("TDR") as of December 31, 2016 and 2015, respectively. The Company has committed to lend no additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2016 and 2015.

In 2016, the Company modified two loans with the same borrower with a December 31, 2016 balance of $153,338, resulting in TDR status for both loans. The modification for both loans was to allow interest-only payments for the four month period ended January 15, 2017. The recorded investment before and after the modification that resulted in TDR status was not materially different from the year-end amount noted above.

There were no loans that were modified as troubled debt restructurings that occurred during the year ended December 31, 2015. There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2016 and 2015.

NOTE 4 - PREMISES AND EQUIPMENT

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

	2016	2015
Furniture, Fixtures, and Equipment	$ 1,534,709	$ 1,523,903
Leasehold Improvements	861,015	861,015
	2,395,724	2,384,918
Accumulated Depreciation and Amortization	(2,236,893)	(2,189,163)
	$ 158,831	$ 195,755

Depreciation expense was $47,730 and $32,702 for 2016 and 2015, respectively.

The Company leases its facilities under noncancellable operating leases expiring at various dates through 2020. Future minimum annual payments for these leases as follows:

Year Ending	Amount
2017	$ 356,712
2018	309,990
2019	301,197
2020	90,756
2021	-
Total Minimum Payments Required	$ 1,058,655

The minimum rental payments shown above are given for the existing lease obligations and include annual rent adjustments. Rental expense, including related common area maintenance charges, was $360,809 and $358,392 for 2016 and 2015, respectively.

NOTE 5 - DEPOSITS

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

Year Ending	Amount
2017	$ 21,522,147
2018	6,942,634
2019	1,421,391
2020	473,613
2021	345,607
	$ 30,705,392

NOTE 6 - SUBORDINATED DEBENTURES AND NOTES

On September 17, 2003, the Company issued $3,093,000 of junior subordinated deferrable interest debentures (the "debentures") to CalWest Statutory Trust I (the "Trust"). These debentures are subordinated to effectively all borrowings of the Company and are due and payable on September 17, 2033. Interest is payable quarterly on these debentures at three-month LIBOR plus 2.95% for an effective rate of 3.56% as of December 31, 2016. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five years. The Company elected to defer all interest payments due after the fourth quarter 2010 and approximately $554,000 of due but unpaid interest was included in Accrued Interest and Other Liabilities at December 31, 2015. The full amount of the interest payable electively deferred was paid on March 17, 2016 and subsequently all interest payments have been made as required.

The Company also purchased a 3% common interest in the Trust. The balance of the equity of the Trust is comprised of mandatorily redeemable preferred securities.

In 2010, the Company issued $630,000 of mandatorily convertible subordinated notes to various individuals. These notes were subordinated to effectively all borrowings of the Company and scheduled to mature three years after issuance, at which time the Company could convert the notes to shares of common stock, at either a fixed or market price, at the holder's election at origination. The fixed price set at the time of origination was $6 per share.

The Company could prepay all or a portion of the notes prior to the conversion date. Interest was payable semi-annually at a rate of 8%, but the Company could defer interest payments until maturity. No payments of interest were made on these subordinated notes and approximately $248,696 of due but unpaid interest was included in Accrued Interest and Other Liabilities at December 31, 2015.

The Company annually extended the maturity date and conversion option by one year until 2016. In 2016, subordinated notes with market price conversion and a par value of $395,000 and accrued interest of $191,535 were converted at $0.385 and $0.39 per share, resulting in the issuance of 1,515,017 shares of common stock.

The Company offered the fixed price conversion note holders the option of cash in lieu of stock, in the amount of 60% of the outstanding principal plus accrued interest. In 2016 all fixed price conversion notes, with a par value of $210,000 and accrued interest of $94,400, were retired at a cost of $182,640. The discount reflected in this cash-out transaction of $121,760 was recognized as income by the Company in 2016.

NOTE 7 - OTHER BORROWINGS

As a member of the Federal Home Loan Bank of San Francisco ("FHLBSF"), the Company may borrow against a line of credit with a maximum financing availability of 25% of its total assets, adjusted quarterly, subject to the pledge of eligible collateral as well as other terms and conditions. Based on the amount of pledged collateral as of December 31, 2016, the Company had maximum financing availability of $17,325,059 with remaining borrowing capacity of $6,325,059. Securities with a fair value of approximately $18.8 million at December 31, 2016 have been pledged on this arrangement. Reflected in the remaining borrowing capacity is a letter of credit in the amount of $11 million issued on the behalf of Company customers.

The Company may also borrow from the discount window and other financing facilities available through the Federal Reserve Bank of San Francisco, subject to the pledge of eligible collateral.

The Company may also borrow up to $6.7 million overnight from its correspondent banks on an unsecured basis. No amounts were outstanding on these arrangements as of December 31, 2016.

NOTE 8 - INCOME TAXES

Income tax expense for the years ended December 31 consists of the following:

	2016	2015
Current:		
Federal	$ -	$ -
State	1,600	1,600
	1,600	1,600
Deferred Federal and State	278,000	(367,000)
Change in Valuation Allowance	(278,000)	367,000
Income Tax Expense	$ 1,600	$ 1,600

NOTE 8 - INCOME TAXES - Continued

A comparison of the federal statutory income tax rate of 34% to the Company's effective income tax follows:

	2016		2015	
	Amount	Rate	Amount	Rate
Federal Tax Rate	$ 410,000	34.0 %	$ (246,000)	(34.0)%
California Franchise Taxes	49,000	4.1 %	(62,000)	(8.6)%
Tax-Free Income	(186,000)	(15.4)%	(64,000)	(8.9)%
Stock-Based Compensation	2,000	0.2 %	7,000	1.0 %
Valuation Allowance	(278,000)	(23.0)%	367,000	50.8 %
Other Items - net	4,600	0.3 %	(400)	(0.1)%
Actual Tax Expense	$ 1,600	0.2 %	$ 1,600	0.2 %

The following is a summary of the components of the net deferred taxes recognized in the accompanying consolidated balance sheets:

	2016	2015
Deferred Tax Assets:		
Net Operating Loss Carryforwards	$ 10,172,000	$ 10,154,000
Depreciation Differences	34,000	47,000
Deferred Compensation Plans	106,000	112,000
Nonaccrual Loan Interest	18,000	87,000
Net Realized Losses on Sale of Available	208,000	119,000
Other	99,000	58,000
	10,637,000	10,577,000
Valuation Allowance	(9,935,000)	(10,124,000)
Deferred Tax Liabilities:		
Allowance for Loan Losses Due to Tax Limitations	(446,000)	(240,000)
Deferred Loan Costs	(212,000)	(169,000)
Other	(44,000)	(44,000)
	(702,000)	(453,000)
Net Deferred Tax Assets (Liabilities)	$ -	$ -

NOTE 8 - INCOME TAXES - Continued

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. Management evaluates the positive and negative evidence and determines the realizability of the deferred tax asset on a regular basis.

At December 31, 2016 and 2015, management reassessed the continuing need for this valuation allowance and determined that it was appropriate to maintain a full valuation allowance against the Company's deferred tax assets. Management will continue to evaluate the potential realizability of the deferred tax assets and will continue to maintain a valuation allowance to the extent it is determined that it is more likely than not that these assets will not be realized.

Internal Revenue Code ("IRC") section 382 places a limitation on the amount of taxable income that can be offset by net operating loss carryforwards after a change in control (generally greater than 50% change in ownership) of a loss corporation. Accordingly, utilization of the net operating loss carryforwards may be subject to an annual limitation. During the year ended December 31, 2015, the Company raised additional capital from investors. In evaluating these capital raise transactions, management determined that such activities did not result in an ownership change as defined under IRC 382.

At December 31, 2016, the Company had federal and state net operating loss carryforwards of approximately $24.6 million and $25.5 million, respectively. Federal net operating losses ("NOL's") carryforwards, to the extent not used, will begin to expire in 2028. A portion of the State NOL's is scheduled to expire in 2017 ($382,444) with the remainder beginning to expire in 2028.

NOTE 9 - OTHER EXPENSES

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

	2016	2015
Marketing and Business Promotion	$ 31,141	$ 35,012
Professional and Consulting	332,398	416,589
Office Expenses	153,938	158,454
Data Processing	306,349	266,512
Insurance Expense	102,131	104,529
Loan Expense	119,958	45,668
Regulatory Assessments	230,310	419,454
Operating Losses	-	940,360
Other Expenses	338,951	267,876
	$ 1,615,176	$ 2,654,454

NOTE 10 - STOCK OPTION PLAN

In May 2016, the shareholders approved the Company's 2016 Equity Based Compensation Plan under which a maximum of 10 million shares of the Company's common stock may be issued. The 2016 Plan replaces an expiring 2006 Plan for which there were 86,585 stock option shares still outstanding. The 2016 Plan authorizes the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock awards, and restricted stock units. Under the Plan, vesting restrictions on awards may be time based and/or performance based. Participation in the 2016 Plan is open to all employees of the Company and the Bank as well as the Company's directors. Generally, all awards expire no later than ten years from the date of the grant. The Bank recognized share-based compensation cost of $6,375 in both 2016 and 2015.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions presented below:

No stock options were issued in 2016 or 2015.

A summary of the status of the Company's stock option plan as of December 31, 2016, and changes during the year are presented below:

December 31, 2016	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	86,585	$ 3.69		
Granted	-	$ -		
Forfeited and Expired	-	$ -		
Exercised	-	$ -		
Outstanding at End of Year	86,585	$ 3.69	4.18 Years	-
Options Exercisable at Year-End	62,585	$ 4.72	3.03 Years	-

As of December 31, 2016, there was approximately $14,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 2.0 years.

NOTE 11 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to certain directors and the companies with which they are associated. The balance of these loans outstanding at December 31, 2016 and 2015, was approximately $0 and $497,000, respectively.

NOTE 12 - 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, 2016 and 2015, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2016	2015
Commitments to Extend Credit	$ 12,821,000	$ 11,825,000

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 customer'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 Company is involved in various matters of litigation which have 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 Company's financial statements.

NOTE 13 - EMPLOYEE BENEFITS

The Company has entered into salary continuation agreements with certain executive officers. Under these agreements, the Company is obligated to provide, upon retirement, a 15 year benefit to the officers. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of the agreements until the expected retirement dates of the participants. On May 5, 2010, certain officers entered into agreements that effectively converted the then existing liability under the salary continuation agreements of $314,205 to shares of common stock of the Company.

NOTE 13 - EMPLOYEE BENEFITS - Continued

The Company has also entered into split-dollar life insurance agreements with certain executive officers. The present value of the post-retirement cost of maintaining the life insurance policy is being accrued over the period from the effective date of the agreements until the expected retirement dates of the participants. The expense incurred for these agreements totaled approximately $3,194 and $2,894 for 2016 and 2015, respectively. Total accrued liability for these agreements as of December 31, 2016 and 2015 was $34,034 and $30,840, respectively.

The Company is a beneficiary of life insurance policies that have been purchased as a method of financing the benefits under these agreements. Income earned on the cash surrender value of these polices is tax-free to the Company and is utilized to reduce the overall costs of benefits provided to key officers. In 2016, the death of a former officer of Company resulted in a life insurance gain of $358,163.

NOTE 14 - 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 Company'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. The new "Basel III" 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. 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. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

In addition, the Basel III 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 is being phased-in on a pro rata basis over a four year period beginning in 2016. If the actual risk-weighted capital ratios fall below the capital adequacy minimum ratios plus the phased-in conservation buffer amount (.625% for 2016) then dividends, share buybacks and discretionary bonuses to executives could be limited in amount. The Bank was not limited by the provisions of the conservation buffer as of and for the year ended December 31, 2016.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total, Tier 1, and CET1 capital (primarily common stock and retained earnings less goodwill) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that the Bank meets all capital adequacy requirements to which it is subject as of December 31, 2016.

NOTE 14 - REGULATORY MATTERS - Continued

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. To be categorized as well-capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since the notification that management believes have changed the Bank's category.

On May 24, 2016, the Office of the Comptroller of the Currency ("OCC") issued an order which terminated the Bank's consent order dated January 24, 2011 and the Bank is no longer subject to the requirements of that earlier order. The Federal Reserve Bank of San Francisco had issued a similar agreement dated April 29, 2011, which was terminated on July 27, 2016.

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-Capitalizec Under Prompt Corrective Provisions	
As of December 31, 2016	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)	$ 17,325	16.27%	$ 8,520	8.00%	$ 10,651	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	15,977	15.00%	6,390	6.00%	6,390	6.00%
CET1 (to Risk-Weighted Assets)	15,977	15.00%	4,793	4.50%	6,923	6.50%
Tier 1 Capital (to Average Assets)	15,977	10.27%	6,226	4.00%	7,782	5.00%
As of December 31, 2015						
Total Capital (to Risk-Weighted Assets)	$ 15,657	21.36%	$ 5,864	8.00%	$ 7,330	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	14,718	20.08%	4,398	6.00%	5,864	8.00%
CET1 (to Risk-Weighted Assets)	14,718	20.08%	3,298	4.50%	4,764	6.50%
Tier 1 Capital (to Average Assets)	14,718	10.90%	5,400	4.00%	6,751	5.00%

The Bank is restricted as to the amount of dividends, which can be paid. Dividends declared by national banks that exceed the net income (as defined) for the current year plus retained net income for the preceding two years must be approved by the OCC. The Bank may not pay dividends that would result in its capital levels being reduced below the minimum requirements shown above. With certain exceptions, a California corporation, like the Company, may not pay a dividend to its shareholders unless its retained earnings equal at least the amount of the proposed dividend.

NOTE 15 - 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 obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

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 2015:

	Fair Value Measurements Using:			
December 31, 2016	Level 1	Level 2	Level 3	Total
Assets and Liabilities Measured at Fair Value on a Recurring Basis:				
Securities Available for Sale	$ -	$ 26,392,858	$ -	$ 26,392,858

December 31, 2015	Level 1	Level 2	Level 3	Total
Assets and Liabilities Measured at Fair Value on a Recurring Basis:				
Securities Available for Sale	$ -	$ 32,154,282	$ -	$ 32,154,282

NOTE 16 - 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 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

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

Financial Assets

The carrying amounts of cash, short term investments, due from customers on acceptances and bank acceptances outstanding are considered to approximate fair value. Short term investments include federal funds sold, securities purchased under agreements to resell, and interest bearing deposits with banks. The determination of the fair value of investment securities is discussed in Note 15. The fair value of loans are estimated using a combination of techniques, including discounting estimated future cash flows and quoted market prices of similar instruments where available.

Financial Liabilities

The carrying amounts of deposit liabilities payable on demand, and other borrowed funds are considered to approximate fair value. For fixed maturity deposits, fair value is estimated by discounting estimated future cash flows using currently offered rates for deposits of similar remaining maturities. The fair values of subordinated debt and notes are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements.

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.

The estimated fair value of financial instruments at December 31, 2016 and 2015, are summarized as follows (dollar amounts in thousands):

		2016		2015	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Cash and Due from Banks	Level 1	$ 4,663	$ 4,663	$ 3,265	$ 3,265
Federal Funds Sold	Level 1	6,405	6,405	7,490	7,490
Interest-Bearing Deposits	Level 1	13,184	13,184	12,434	12,434
Securities Available for Sale	Level 2	26,393	26,393	32,154	32,154
Securities Held to Maturity	Level 2	9,008	8,882	9,678	9,451
Loan Held for Sale	Level 3	-	-	363	363
Net Loans	Level 3	88,846	88,970	60,540	60,534
Financial Liabilities					
Deposits	Level 2	$ 141,462	$ 134,363	$ 118,376	$ 118,509
Other Borrowings	Level 2	3,093	3,093	3,093	3,093
Debentures	Level 2	-	-	605	605

NOTE 17 - SHAREHOLDERS' EQUITY

On January 23, 2009, the Company entered into a Purchase Agreement with the United States Department of the Treasury (the "Treasury"), pursuant to which the Company issued and sold 4,656 shares of the Company's Preferred Stock as Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and 233 shares of Fixed Rate Cumulative Perpetual Warrant Preferred Stock, Series B (the "Series B Preferred Stock") for an aggregate purchase price of $4,656,000 in cash. The redemption value of both Series A and Series B Preferred Stock was $4,889,000 and cumulative dividends were payable on the Series A Preferred Stock of 5% the first five years and 9% thereafter. On December 23, 2015, the United States Department of the Treasury ("Treasury") agreed to exchange the Series A and Series B Preferred Stock for 24,445,000 shares of Common Stock at a value of $0.20 per share. These shares of Common Stock were then immediately sold by Treasury to third party investors. As part of this transaction, all unpaid dividends on the Series A Preferred Stock were forgiven.

On December 23, 2015, the Company issued 19,055,000 shares of Common Stock for $0.20 per share, net of expenses of $1,127,553. Also on December 23, 2015, the Company issued 53,000 shares of Series C Preferred Stock with a liquidation value of $100 per share. The Series C Preferred Stock was mandatorily convertible into 26,500,000 shares of Common Stock ($0.20 per share of common stock) on the day after the shareholders of the Company approved the increase the increase in the number of authorized shares of Common Stock that can be issued. The Preferred shares were converted to Common Stock on May 24, 2016 pursuant to the mandatorily convertible provision. No dividends accrued on the Preferred Stock as the conversion occurred within six months of the issue date, as per the terms of the Preferred Stock.

CALWEST BANCORP AND SUBSIDIARY

Supplementary Information

Consolidating Schedules

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2016

Assets	South County Bank	CalWest Bancorp	Eliminating Entries	Consolidated Balance
Cash and Due from Banks	$ 4,662,975	$ 498,841	$ (498,841)	$ 4,662,975
Federal Funds Sold	6,405,000			6,405,000
Interest-Bearing Deposits in Other Bank	13,184,000			13,184,000
Investment Securities Available for Sale	26,392,858			26,392,858
Investment Securities Held to Maturity	9,008,232			9,008,232
Loans, Net	88,845,828			88,845,828
FRB and FHLB Stock, at Cost	1,284,950			1,284,950
Premises and Equipment	158,831			158,831
Company Owned Life Insurance	5,982,386			5,982,386
Accrued Interest and Other Assets	1,896,925	15,567,061	(15,474,061)	1,989,925
	$ 157,821,985	$ 16,065,902	$ (15,972,902)	$ 157,914,985
Liabilities and Stockholders' Equity				
Deposits	$ 141,960,940	$ -	$ (498,841)	$ 141,462,099
Subordinated Debentures	-	3,093,000		3,093,000
Accrued Interest and Other Liabilities	386,984	1,493		388,477
Total Liabilities	142,347,924	3,094,493	(498,841)	144,943,576
Stockholders' Equity:				
Common Stock	33,267,891	41,850,232	(33,267,891)	41,850,232
Accumulated Deficit	(17,289,421)	(28,374,414)	17,289,421	(28,374,414)
Accumulated Other Comprehensive Loss	(504,409)	(504,409)	504,409	(504,409)
Total Stockholders' Equity	15,474,061	12,971,409	(15,474,061)	12,971,409
	$ 157,821,985	$ 16,065,902	$ (15,972,902)	$ 157,914,985

CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

	South County Bank	CalWest Bancorp	Eliminations	Consolidated
Interest Income				
Interest and Fees on Loans	$ 4,044,150	$ -	$ -	$ 4,044,150
Interest on Investment Securities	693,046			693,046
Other Interest Income	278,604	21,042	(784)	298,862
Total Interest Income	5,015,800	21,042	(784)	5,036,058
Interest Expense				
Interest on Money Market and NOW Accounts	142,582	-	(784)	141,798
Interest on Savings Deposits	104,417			104,417
Interest on Time Deposits	242,243			242,243
Interest on Borrowings	20	148,736		148,756
Total Interest Expense	489,262	148,736	(784)	637,214
Net Interest Income	4,526,538	(127,694)	-	4,398,844
(Recovery of) Loan Losses	(431,629)			(431,629)
Net Interest Income (Loss) after Recovery of Loan Losses	4,958,167	(127,694)	-	4,830,473
Noninterest Income				
Service Charges and Fees	563,588			563,588
Gain and Servicing Income on Loans Sold	23,656			23,656
Gain on Sale of Securities	119,847			119,847
Earnings on Company Owned Life Insurance	189,812			189,812
Life Insurance Gain	358,163			358,163
Other Income	52,032	121,760		173,792
Total Noninterest Income	1,307,098	121,760	-	1,428,858
Noninterest Expense				
Salaries and Employee Benefits	2,913,314			2,913,314
Occupancy Expenses	391,714			391,714
Furniture and Equipment	132,106			132,106
Other Expenses	1,575,857	39,319		1,615,176
Total Noninterest Expense	5,012,991	39,319	-	5,052,310
Income (Loss) before Taxes and Income from Subsidiary	1,252,274	(45,253)	-	1,207,021
Income Taxes	1,600	-	-	1,600
Income from Subsidiary		1,250,674	(1,250,674)	-
Net Income	$ 1,250,674	$ 1,205,421	$(1,250,674)	$ 1,205,421