CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018 AND 2017

CONTENTS

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

VALUE THE difference

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 sheets as of December 31, 2018 and 2017 the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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, 2018 and 2017 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.

Supplementary Information

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in Schedules 1 and 2 is presented for purposes of additional analysis of the December 31, 2018 consolidated financial statements rather than to present the financial position and results of operations of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Vavrinek, Trine, Day + Co., LLP

Laguna Hills, California
February 28, 2019

CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and Due from Banks	$ 5,294,034	$ 8,677,699
Federal Funds Sold and Interest-Bearing Balances	6,690,000	3,335,000
TOTAL CASH AND CASH EQUIVALENTS	11,984,034	12,012,699
Interest-Bearing Deposits in Other Banks	1,934,000	1,934,000
Debt Securities:		
Available for Sale	6,721,735	7,256,837
Held to Maturity	7,955,177	8,539,454
TOTAL DEBT SECURITIES	14,676,912	15,796,291
Loans:		
Real Estate	122,997,681	101,832,736
Commercial and Industrial	31,743,478	24,319,197
Consumer	4,708,944	6,961,330
TOTAL LOANS	159,450,103	133,113,263
Net Deferred Loan Fees and Costs	22,520	115,599
Net Discounts	(123,780)	(193,780)
Allowance for Loan Losses	(2,480,232)	(2,536,356)
NET LOANS	156,868,611	130,498,726
Federal Reserve Bank and Federal Home Loan Bank Stock - at Cost	1,365,300	1,262,650
Premises and Equipment	646,144	162,977
Company Owned Life Insurance	6,293,436	6,140,311
Accrued Interest and Other Assets	1,484,708	1,057,633
TOTAL ASSETS	$ 195,253,145	$ 168,865,287

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

CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-Bearing Demand	$ 74,316,279	$ 60,184,150
Money Market and NOW Accounts	61,285,970	46,178,663
Savings	24,407,659	27,099,672
Time Deposits Under $250,000	7,156,914	13,467,896
Time Deposits $250,000 and Over	2,835,928	3,327,379
TOTAL DEPOSITS	170,002,750	150,257,760
FHLB Advances	5,000,000	-
Subordinated Debentures	3,093,000	3,093,000
Accrued Interest and Other Liabilities	610,785	552,136
TOTAL LIABILITIES	178,706,535	153,902,896
Shareholders' Equity:		
Common Stock - 100,000,000 Shares Authorized, $5 par value; 74,036,505 Shares Issued and Outstanding	41,955,124	41,873,812
Accumulated Deficit	(25,199,729)	(26,823,300)
Accumulated Other Comprehensive Loss	(208,785)	(88,121)
TOTAL SHAREHOLDERS' EQUITY	16,546,610	14,962,391
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 195,253,145	$ 168,865,287

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

CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
INTEREST INCOME		
Interest and Fees on Loans	$ 7,002,611	$ 5,615,582
Interest on Debt Securities	330,594	477,358
Other Interest Income	520,709	393,614
TOTAL INTEREST INCOME	7,853,914	6,486,554
INTEREST EXPENSE		
Interest on Money Market and NOW Accounts	435,702	256,153
Interest on Savings Deposits	243,045	259,111
Interest on Time Deposits	179,866	226,774
Interest on Borrowings	158,657	129,335
TOTAL INTEREST EXPENSE	1,017,270	871,373
NET INTEREST INCOME	6,836,644	5,615,181
(Recovery of) Loan Losses	(164,758)	(394,012)
NET INTEREST INCOME AFTER RECOVERY OF LOAN LOSSES	7,001,402	6,009,193
NONINTEREST INCOME		
Service Charges and Fees	570,901	632,820
Loss on Sale of Securities	-	(160,204)
Earnings on Company Owned Life Insurance	153,124	166,025
Other Income	183,904	63,194
TOTAL NONINTEREST INCOME	907,929	701,835
NONINTEREST EXPENSE		
Salaries and Employee Benefits	4,064,888	3,313,387
Occupancy Expenses	510,906	401,254
Furniture and Equipment	214,676	138,126
Other Expenses	1,492,990	1,288,547
TOTAL NONINTEREST EXPENSE	6,283,460	5,141,314
INCOME BEFORE INCOME TAXES	1,625,871	1,569,714
Income Tax Expense	2,300	18,600
NET INCOME	$ 1,623,571	$ 1,551,114
NET INCOME PER SHARE-BASIC AND DILUTED	$ 0.02	$ 0.02

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

CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Net Income	$ 1,623,571	$ 1,551,114
Other Comprehensive Income (Loss)		
Unrealized Holding (Loss) Gain Arising During the Period	(120,664)	256,084
Reclassification Adjustment for Losses Included in Net Income	-	160,204
Tax Effect	-	-
Total Other Comprehensive (Loss) Income	(120,664)	416,288
Comprehensive Income	$ 1,502,907	$ 1,967,402

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, 2018 AND 2017

	Common Stock			Accumulated Other	
	Number of Shares	Amount	Accumulated Deficit	Comprehensive Income (Loss)	Total
Balance at January 1, 2017	74,036,505	$ 41,850,232	$ (28,374,414)	$ (504,409)	$ 12,971,409
Net Income	-	-	1,551,114	-	1,551,114
Stock Based Compensation	-	23,580	-	-	23,580
Other Comprehensive Income	-	-	-	416,288	416,288
Balance at December 31, 2017	74,036,505	41,873,812	(26,823,300)	(88,121)	14,962,391
Net Income	-	-	1,623,571	-	1,623,571
Stock Based Compensation	-	81,312	-	-	81,312
Other Comprehensive Loss	-	-	-	(120,664)	(120,664)
Balance at December 31, 2018	74,036,505	$ 41,955,124	$ (25,199,729)	$ (208,785)	$ 16,546,610

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 1,623,571	$ 1,551,114
Adjustments to Reconcile Net Income to Net Cash From Operating Activities:		
Depreciation and Amortization of Premises and Equipment	106,952	54,398
Net Amortization (Accretion) on Loans and Securities	124,012	166,633
(Recovery of) Loan Losses	(164,758)	(394,012)
Loss on Sale of Securities	-	160,204
Unrealized Gain on Equity Securities Without a Readily Determinable Value	(111,960)	-
Stock-based Compensation	81,312	23,580
Earnings on Company Owned Life Insurance	(153,125)	(166,025)
Net Change in Other Assets and Liabilities	(256,466)	1,104,051
NET CASH FROM OPERATING ACTIVITIES	1,249,538	2,499,943
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of Held-to-Maturity Securities	-	(3,988,840)
Proceeds from Maturities of Available-for-Sale Securities	381,841	1,387,654
Proceeds from Maturities of Held to Maturity Securities	492,862	4,374,681
Proceeds from the Sale of Available-for-Sale Securities	-	17,920,755
Net Change in Loans	(26,205,127)	(41,258,886)
Net Change in FRB and FHLB Bank Stock	(102,650)	22,300
Purchases of Premises and Equipment	(590,119)	(58,544)
NET CASH FROM INVESTING ACTIVITIES	(26,023,193)	(21,600,880)
CASH FLOWS FINANCING ACTIVITIES		
Net Change in Deposits	19,744,990	8,795,661
Increase in FHLB Advances	5,000,000	-
NET CASH FROM FINANCING ACTIVITIES	24,744,990	8,795,661
NET CHANGE IN CASH	(28,665)	(10,305,276)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,012,699	22,317,975
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 11,984,034	$ 12,012,699
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 1,013,607	$ 875,514
Taxes Paid	$ 2,300	$ 18,600

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements include the accounts of CalWest Bancorp and its subsidiary, CalWest 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 CalWest Bank. Accordingly, no separate financial information on the Company is provided, other than reflected in the consolidating schedules included as supplementary information. The Company's stock is listed and traded in the over-the-counter markets and is therefore considered a public business entity for financial reporting purposes.

Nature of Operations

In March 2018, the Bank converted from a national bank charter to a state bank charter and will now be regulated by the Federal Reserve Bank and the California Department of Business Oversight instead of the Office of the Comptroller of the Currency. Concurrently, the Company consolidated its four banking divisions into one banking entity known as CalWest Bank with full service branches in Irvine, Rancho Santa Margarita, Huntington Beach and Redlands California. CalWest Bank serves entrepreneurs, high net worth individuals and the general business community through these four branch locations. The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals located in Southern California.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through February 28, 2019, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2018 and 2017. The Company maintains amounts due from bank, which exceed federally insured limits. The Company has not experienced any losses in such accounts.

Debt Securities

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

Management evaluates debt 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 debt 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.

Equity Securities

Effective January 1, 2018 with the adoption of ASU 2016-01, equity securities that have a readily determinable fair value are recorded at fair value with changes in fair value recorded in earnings. The Company did not own any such securities as of December 31, 2018. Equity securities without a readily determinable fair include investments in Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock, which are recorded at cost, and investment in Pacific Coast Bankers Bank stock, which is included in Other Assets in the Consolidated Balance Sheets and recorded at cost, less impairment and adjusted for observable price changes under the measurement alternative provided under generally accepted accounting standards. The Company recorded a $111,960 gain on equity securities without a readily determinable market value in 2018 due to the adoption of the ASU, which is included in Other Income in the Consolidated Statements of Income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses - Continued

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.

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 $807,700 and $766,500 at December 31, 2018 and 2017, 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 (losses) on securities available for sale was ($160,204) in 2017. 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. Weighted-average shares used in the computation of basic and diluted earnings per share were 74,036,505 for 2018 and 2017.

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

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 an entity'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 2018 financial statements to conform to the classifications used in 2017.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in GAAP. The new standard was effective for the Company on January 1, 2018. Adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial statements and related disclosures as the Company's primary sources of revenues are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of ASU 2014-09. The Company's revenue recognition pattern for revenue streams within the scope of ASU 2014-09, including but not limited to service charges on deposit accounts and gains/losses on the sale of loans, did not change significantly from current practice. The standard permits the use of either the full retrospective or modified retrospective transition method. The Company elected to use the modified retrospective transition method which requires application of ASU 2014-09 to uncompleted contracts at the date of adoption however, periods prior to the date of adoption were not retrospectively revised as the impact of the ASU on uncompleted contracts at the date of adoption was not material.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The new standard was effective for the Company on January 1, 2018. Adoption of ASU 2016-01 did not have a material impact on the Company's financial statements, but the Company did record a $111,960 gain on equity securities without a readily determinable market value in 2018 due to the adoption of the ASU. Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value impact earnings instead of other comprehensive income. Equity securities without readily marketable fair values are to be carried at amortized cost, less impairment (if any) plus or minus changes resulting from observable price changes in orderly transactions for an identical investment or similar investment of the same issuer. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. Additionally, the Company refined the calculation used to determine the disclosed fair value of loans held for investment as part of adopting this standard reflecting an exit price notion instead of an entrance price. The refined calculation did not have a significant impact on fair value disclosures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Newly Issued But Not Yet Effective Standards

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. Based on leases outstanding at December 31, 2018, the Company does not expect this ASU to have a material impact on the income statement, but does anticipate an increase in assets and liabilities when this ASU becomes effective on January 1, 2019 approximately equal to the minimum lease payments disclosed in Note 4, discounted at an incremental borrowing rate.

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

NOTE 2 - DEBT SECURITIES

Debt 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, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
U.S. Government and Agency Securities	$ 2,082,104	$ -	$ (75,295)	$ 2,006,809
Corporate Securities	4,848,416	-	(133,490)	4,714,926
	$ 6,930,520	$ -	$ (208,785)	$ 6,721,735
Held-To-Maturity Securities:				
U.S. Government and Agency Securities	$ 1,496,081	$ -	$ (18,026)	$ 1,478,055
Mortgage-Backed Securities - GSE's	6,459,096	7,860	(121,165)	6,345,791
	$ 7,955,177	$ 7,860	$ (139,191)	$ 7,823,846
December 31, 2017				
Available-for-Sale Securities:				
U.S. Government and Agency Securities	$ 2,466,164	$ -	$ (77,782)	$ 2,388,382
Corporate Securities	4,878,794	14,520	(24,859)	4,868,455
	$ 7,344,958	$ 14,520	$ (102,641)	$ 7,256,837
Held-To-Maturity Securities:				
U.S. Government and Agency Securities	$ 1,493,479	$ -	$ (11,269)	$ 1,482,210
Mortgage-Backed Securities - GSE's	7,045,975	10,559	(94,778)	6,961,756
	$ 8,539,454	$ 10,559	$ (106,047)	$ 8,443,966

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

NOTE 2 - DEBT SECURITIES - Continued

During 2017, the Company received proceeds of $17,920,755 from the sale of available-for-sale investment securities resulting in gross gains of $52,961 and gross losses of $213,165.

Debt securities carried at approximately $10.0 million and $11.0 million at December 31, 2018 and 2017, respectively, were pledged to secure public deposits and the borrowings discussed in Note 7.

The scheduled maturities of debt securities at December 31, 2018 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	4,448,416	4,338,590	1,496,081	1,478,055
Due in Five to Ten Years	400,000	376,336	-	-
Greater Than Ten Years	2,082,104	2,006,809	-	-
Mortgage-Backed Securities	-	-	6,459,096	6,345,791
	$ 6,930,520	$ 6,721,735	$ 7,955,177	$ 7,823,846

NOTE 2 – DEBT SECURITIES - Continued

The gross unrealized loss and related estimated fair value of debt 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, 2018	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	$ -	$ -	$ (75,295)	$ 2,006,809	$ (75,295)	$ 2,006,809
Corporate Securities	(56,826)	1,967,382	(76,664)	2,747,544	(133,490)	4,714,926
	$ (56,826)	$ 1,967,382	$ (151,959)	$ 4,754,353	$ (208,785)	$ 6,721,735
Held-To-Maturity Securities:						
U.S. Government and						
Agency Securities	$ -	$ -	$ (18,026)	$ 1,478,055	$ (18,026)	$ 1,478,055
Mortgage-Backed Securities - GSE's	-	-	(121,165)	6,002,328	(121,165)	6,002,328
	$ -	$ -	$ (139,191)	$ 7,480,383	$ (139,191)	$ 7,480,383
December 31, 2017						
Available-for-Sale Securities:						
U.S. Government and						
Agency Securities	$ -	$ -	$ (77,782)	$ 2,388,382	$ (77,782)	$ 2,388,382
Corporate Securities	(13,188)	2,002,779	(11,671)	822,592	(24,859)	2,825,371
	$ (13,188)	$ 2,002,779	$ (89,453)	$ 3,210,974	$ (102,641)	$ 5,213,753
Held-To-Maturity Securities:						
U.S. Government and			-	-	-	-
Agency Securities	$ (11,269)	$ 1,482,210	$ -	$ -	$ (11,269)	$ 1,482,210
Mortgage-Backed Securities - GSE's	(35,659)	3,770,410	(59,119)	2,553,734	(94,778)	6,324,144
	$ (46,928)	$ 5,252,620	$ (59,119)	$ 2,553,734	$ (106,047)	$ 7,806,354

At December 31, 2018, the Company had 23 debt 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 securities to be other-than-temporarily impaired at December 31, 2018.

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 2018, and the recorded investment in loans and impairment method as of December 31, 2018, by portfolio segment:

December 31, 2018	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	$ 1,527,687	$ 984,538	$ 24,131	$ 2,536,356
(Recovery of) Loan Losses	38,320	(140,721)	(62,357)	(164,758)
Recoveries	24,947	36,099	47,588	108,634
Charge-offs	-	-	-	-
End of Year	$ 1,590,954	$ 879,916	$ 9,362	$ 2,480,232
Reserves:				
Specific	$ -	$ -	$ -	$ -
General	1,590,954	879,916	9,362	2,480,232
	$ 1,590,954	$ 879,916	$ 9,362	$ 2,480,232
Loans Evaluated for Impairment:				
Individually	$ 119,655	$ 1,921	$ 29,965	$ 151,541
Collectively	122,878,026	31,741,557	4,678,979	159,298,562
	$ 122,997,681	$ 31,743,478	$ 4,708,944	$ 159,450,103

NOTE 3 - 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:

December 31, 2017	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	$ 1,566,310	$ 1,082,064	$ 5,486	$ 2,653,860
(Recovery of) Loan Losses	(119,639)	(231,270)	(43,103)	(394,012)
Recoveries	81,016	133,744	61,748	276,508
Charge-offs	-	-	-	-
End of Year	$ 1,527,687	$ 984,538	$ 24,131	$ 2,536,356
Reserves:				
Specific	$ -	$ -	$ -	$ -
General	1,527,687	984,538	24,131	2,536,356
	$ 1,527,687	$ 984,538	$ 24,131	$ 2,536,356
Loans Evaluated for Impairment:				
Individually	$ 188,992	$ 78,766	$ -	$ 267,758
Collectively	101,643,744	24,240,431	6,961,330	132,845,505
	$ 101,832,736	$ 24,319,197	$ 6,961,330	$ 133,113,263

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, 2018 and 2017:

December 31, 2018	Pass	Special Mention	Substandard	Impaired	Total
Real Estate Loans:					
Construction and Land Development	$ 8,534,250	$ -	$ -	$ -	$ 8,534,250
Commercial Real Estate	91,597,430	-	302,083	119,655	92,019,168
Residential Real Estate	22,444,263	-	-	-	22,444,263
Commercial Loans:					
Small Business Administration	2,575,768	-	7,305	1,921	2,584,994
Commercial and Industrial	26,904,094	441,248	1,813,142	-	29,158,484
Consumer Loans	4,678,979	-	-	29,965	4,708,944
	$ 156,734,784	$ 441,248	$ 2,122,530	$ 151,541	$ 159,450,103
December 31, 2017					
Real Estate Loans:					
Construction and Land Development	$ 3,747,121	-	$ -	$ -	$ 3,747,121
Commercial Real Estate	78,522,737	2,291,418	311,706	157,893	81,283,754
Residential Real Estate	16,770,180	-	-	31,681	16,801,861
Commercial Loans:					
Small Business Administration	1,858,669	-	9,612	4,730	1,873,011
Commercial and Industrial	18,718,805	-	3,626,367	101,014	22,446,186
Consumer Loans	6,961,330	-	-	-	6,961,330
	$ 126,578,842	$ 2,291,418	$ 3,947,685	$ 295,318	$ 133,113,263

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2018 and 2017:

	Still Accruing		
December 31, 2018	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Commercial Loans:			
Small Business Administration	$ -	$ -	$ 1,921
December 31, 2017			
Real Estate Loans:			
Commercial Real Estate	$ 255,699	$ -	$ -
Residential Real Estate	1,599,965	-	29,496
Commercial Loans:			
Small Business Administration	-	-	4,669
Commercial and Industrial	-	-	81,154
	$ 1,855,664	$ -	$ 115,319

NOTE 3 - LOANS - Continued

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2018 and 2017:

	Unpaid Principal Balance	Recorded Investment	Impaired Loans Specific Allowance Without	Impaired Loans Specific Allowance With	Related Allowance	Average Recorded Investment
December 31, 2018						
Real Estate:						
Commercial Real Estate	$ 119,655	$ 119,655	$ 119,655	$ -	$ -	$ 130,399
Commercial:						
Small Business Administration	1,921	1,921	1,921	-	-	2,860
Commercial and Industrial	-	-	-	-	-	413,458
Consumer	29,965	29,965	29,965			29,968
	$ 151,541	$ 151,541	$ 121,576	$ -	$ -	$ 576,685
December 31, 2017						
Real Estate:						
Commercial Real Estate	$ 157,893	$ 157,893	$ 157,893	$ -	$ -	$ 160,866
Residential Real Estate	31,681	31,681	31,681	-	-	31,681
Commercial:						
Small Business Administration	12,907	4,730	4,730	-	-	6,285
Commercial and Industrial	101,014	101,014	101,014	-	-	128,511
	$ 303,495	$ 295,318	$ 295,318	$ -	$ -	$ 327,343

No interest income was recognized on impaired loans in 2018 and 2017.

The Company allocated $0 of specific reserves on loans with a recorded investment of $142,391 and $263,229 whose terms have been modified in troubled debt restructurings ("TDR") as of December 31, 2018 and 2017, 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, 2018 and 2017.

In 2017, the Company modified one loan with a December 31, 2017 balance of $26,977, resulting in TDR status. The modification resulted in a lowered monthly payment to accommodate insufficient cash flow. 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 troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2018 and 2017.

NOTE 4 - PREMISES AND EQUIPMENT

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

	2018	2017
Furniture, Fixtures, and Equipment	$ 1,975,714	$ 1,536,503
Leasehold Improvements	1,007,802	861,015
	2,983,516	2,397,518
Accumulated Depreciation and Amortization	(2,337,372)	(2,234,541)
	$ 646,144	$ 162,977

Depreciation and amortization expense was $106,952 and $54,398 for 2018 and 2017, respectively.

The Company leases its facilities under noncancellable operating leases expiring at various dates through 2028. Future minimum annual payments for these leases as follows:

Year Ending	Amount
2019	$ 508,579
2020	674,362
2021	616,741
2022	634,530
2023	598,370
Thereafter	2,735,521
Total Minimum Payments Required	$ 5,768,103

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 $446,229 and $369,507 for 2018 and 2017, respectively.

NOTE 5 - DEPOSITS

At December 31, 2018, the scheduled maturities of time deposits are as follows:

Year Ending	Amount
2019	$ 7,729,143
2020	670,570
2021	322,946
2022	1,021,183
2023	249,000
	$ 9,992,842

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 5.69% as of December 31, 2018. 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 also purchased a 3% common interest in the Trust. The balance of the equity of the Trust is comprised of mandatorily redeemable preferred securities.

NOTE 7 - OTHER BORROWINGS

Based on the amount of pledged collateral, the Company had maximum financing availability of $62.2 million with remaining borrowing capacity of $46.2 million as of December 31, 2018. Securities and loans with a carrying value of approximately $1.0 million and $104.8 million at December 31, 2018, respectively, have been pledged on this arrangement.

Reflected in the remaining borrowing capacity as of December 31, 2018 is a letter of credit in the amount of $11.0 million issued on the behalf of Company customers and an overnight advance maturing on January 2, 2019 in the amount of $5 million which carried an interest rate of 2.56%.

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 $10.2 million overnight from its correspondent banks on an unsecured basis. No amounts were outstanding on these arrangements as of December 31, 2018.

NOTE 8 - INCOME TAXES

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

	2018	2017
Current:		
Federal	$ (5,607)	$ 13,000
State	7,907	5,600
	2,300	18,600
Deferred Federal and State	477,000	3,112,000
Change in Valuation Allowance	(477,000)	(3,112,000)
Income Tax Expense	$ 2,300	$ 18,600

NOTE 8 - INCOME TAXES - Continued

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

	2018		2017	
	Amount	Rate	Amount	Rate
Federal Tax Rate	$ 341,000	21.0 %	$ 534,000	34.0 %
California Franchise Taxes	136,000	8.4 %	103,000	6.6 %
Tax-Free Income	(32,000)	(2.0)%	(56,000)	(3.6)%
Stock-Based Compensation	16,000	1.0 %	8,000	0.5 %
Impact of Enacted Change in Tax Rates	-	0.0 %	2,535,000	161.5 %
Valuation Allowance	(477,000)	(29.3)%	(3,112,000)	(198.3)%
Other Items - net	18,300	1.0 %	6,600	0.5 %
Actual Tax Expense	$ 2,300	0.1 %	$ 18,600	1.2 %

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

	2018	2017
Deferred Tax Assets:		
Net Operating Loss Carryforwards	$ 6,648,000	$ 7,080,000
Depreciation Differences	20,000	19,000
Deferred Compensation Plans	60,000	71,000
Nonaccrual Loan Interest	2,000	7,000
Net Unrealized Losses on AFS Securities	62,000	26,000
Other	118,000	66,000
	6,910,000	7,269,000
Valuation Allowance	(6,200,000)	(6,641,000)
Deferred Tax Liabilities:		
Allowance for Loan Losses Due to Tax Limitations	(474,000)	(427,000)
Deferred Loan Costs	(172,000)	(169,000)
Other	(64,000)	(32,000)
	(710,000)	(628,000)
Net Deferred Tax Assets (Liabilities)	$ -	$ -

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.

NOTE 8 - INCOME TAXES - Continued

At December 31, 2018 and 2017, 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 net 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.

Net deferred tax assets as of December 31, 2017 reflect a downward adjustment of $2,535,000, resulting from newly enacted federal corporate tax rates which were reduced from 34% to 21%, effective January 1, 2018.

At December 31, 2018, the Company had federal and state net operating loss carryforwards of approximately $22.1 million and $24.5 million, respectively. Federal and State of California net operating losses ("NOL's") carryforwards, to the extent not used, will begin to expire in 2028. The new tax bill enacted on December 22, 2017 allows NOL’s to be carried over without limitation, but this change in law only applies to NOL’s generated after 2017.

The Company is subject to Federal income tax and California franchise tax. Income tax returns for the years ending after December 31, 2014 are open to audit by the federal authorities and for the years ending after December 31, 2013 are open to audit by California state authorities.

NOTE 9 - OTHER EXPENSES

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

	2018	2017
Marketing and Business Promotion	$ 60,046	$ 45,902
Professional and Consulting	349,664	261,242
Office Expenses	239,515	191,732
Data Processing	348,071	336,523
Insurance Expense	64,835	59,635
Loan Expense	64,359	863
Regulatory Assessments	119,981	124,721
Other Expenses	246,519	267,929
	$ 1,492,990	$ 1,288,547

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 $81,312 and $23,580 in 2018 and 2017, respectively.

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:

	2018	2017
Risk Free Interest Rate	2.79%	2.18%
Estimated Average Life	7.5 Years	7.5 Years
Expected Dividend Rates	0.00%	0.00%
Expected Stock Volatility	25.10%	30.65%
Weighted-Average Option Value	$ 0.41	$ 0.14

A summary of the status of the Company's stock option plan as of December 31, 2018, and changes during the year are presented below:

December 31, 2018	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	2,586,585	$ 0.48		
Granted	426,871	$ 0.41		
Forfeited and Expired	(170,585)	$ 1.92		
Exercised	-	$ -		
Outstanding at End of Year	2,842,871	$ 0.38	8.7 Years	$ -
Options Exercisable at Year-End	532,000	$ 0.41	8.3 Years	$ -

As of December 31, 2018, there was approximately $306,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 2.5 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. There were no related party loans outstanding at December 31, 2018 and 2017.

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, 2018 and 2017, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2018	2017
Commitments to Extend Credit	$ 29,543,000	$ 25,659,000

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.

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 $3,800 and $3,500 for 2018 and 2017, respectively. Total accrued liability for these agreements as of December 31, 2018 and 2017 was approximately $41,000 and $37,000, 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.

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 (1.875% for 2018) 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, 2018.

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, 2018.

NOTE 14 - REGULATORY MATTERS - Continued

As of December 31, 2018, the most recent notification from the FDIC categorized the Bank as "well-capitalized" under the regulatory framework for prompt corrective action. 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.

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-Capitalize Under Prompt Corrective Provisions	
As of December 31, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)	$ 21,753	12.78%	$ 13,616	8.00%	$ 17,020	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	19,621	11.53%	10,212	6.00%	10,212	6.00%
CET1 (to Risk-Weighted Assets)	19,621	11.53%	7,659	4.50%	11,063	6.50%
Tier 1 Capital (to Average Assets)	19,621	10.08%	7,783	4.00%	9,729	5.00%
As of December 31, 2017						
Total Capital (to Risk-Weighted Assets)	$ 19,501	13.74%	$ 11,356	8.00%	$ 14,195	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	17,717	12.48%	8,517	6.00%	8,517	6.00%
CET1 (to Risk-Weighted Assets)	17,717	12.48%	6,388	4.50%	9,227	6.50%
Tier 1 Capital (to Average Assets)	17,717	10.15%	6,981	4.00%	8,726	5.00%

The California Financial Code generally acts to prohibit banks from making a cash distribution to its shareholders in excess of the lesser of the bank's undivided profits or the bank's net income for its last three fiscal years less the amount of any distribution made by the bank's shareholders during the same period.

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, 2018 and 2017:

	Fair Value Measurements Using:			
December 31, 2018	Level 1	Level 2	Level 3	Total
Assets and Liabilities Measured at Fair Value on a Recurring Basis:				
Securities Available for Sale	$ -	$ 6,721,735	$ -	$ 6,721,735

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets and Liabilities Measured at Fair Value on a Recurring Basis:				
Securities Available for Sale	$ -	$ 7,256,837	$ -	$ 7,256,837

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 carrying amount of loans, net of the allowance for loan losses is estimated to approximate fair value for purposes of this disclosure. The fair value of loans as estimated in this manner represents an exit price notion as of December 31, 2018 and an entry price notion as of December 31, 2017.

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, 2018 and 2017, are summarized as follows (dollar amounts in thousands):

		2018		2017	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Cash and Due from Banks	Level 1	$ 5,294	$ 5,294	$ 8,678	$ 8,678
Federal Funds Sold	Level 1	6,690	6,690	3,335	3,335
Interest-Bearing Deposits	Level 1	1,934	1,934	1,934	1,934
Securities Available for Sale	Level 2	6,722	6,722	7,257	7,257
Securities Held to Maturity	Level 2	7,955	7,824	8,539	8,444
Net Loans	Level 3	156,869	155,588	130,499	130,398
Financial Liabilities					
Deposits	Level 2	$ 170,003	$ 158,346	$ 150,258	$ 141,117
FHLB Advances	Level 2	5,000	5,000	-	-
Other Borrowings	Level 2	3,093	3,093	3,093	3,093

CALWEST BANCORP AND SUBSIDIARY

Supplementary Information

Consolidating Schedules

CALWEST BANCORP AND SUBSIDIARY

SCHEDULE 1 - CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2018

Assets	CalWest Bank	CalWest Bancorp	Eliminations	Consolidated
Cash and Due from Banks	$ 5,294,034	$ 143,758	$ (143,758)	$ 5,294,034
Federal Funds Sold	6,690,000	-		6,690,000
Interest-Bearing Deposits in Other Banks	1,934,000	-		1,934,000
Debt Securities Available for Sale	6,721,735	-		6,721,735
Debt Securities Held to Maturity	7,955,177	-		7,955,177
Loans, Net	156,868,611	-		156,868,611
FRB and FHLB Stock, at Cost	1,365,300	-		1,365,300
Premises and Equipment	646,144	-		646,144
Company Owned Life Insurance	6,293,436	-		6,293,436
Accrued Interest and Other Assets	1,391,708	19,506,148	(19,413,148)	1,484,708
	$ 195,160,145	$ 19,649,906	$ (19,556,906)	$ 195,253,145
Liabilities and Stockholders' Equity				
Deposits	$ 170,146,508	$ -	$ (143,758)	$ 170,002,750
FHLB Advances	5,000,000	-		5,000,000
Subordinated Debentures	-	3,093,000		3,093,000
Accrued Interest and Other Liabilities	600,489	10,296		610,785
Total Liabilities	175,746,997	3,103,296	(143,758)	178,706,535
Stockholders' Equity:				
Common Stock	33,372,783	41,955,124	(33,372,783)	41,955,124
Accumulated Deficit	(13,750,850)	(25,199,729)	13,750,850	(25,199,729)
Accumulated Other Comprehensive Loss	(208,785)	(208,785)	208,785	(208,785)
Total Stockholders' Equity	19,413,148	16,546,610	(19,413,148)	16,546,610
	$ 195,160,145	$ 19,649,906	$ (19,556,906)	$ 195,253,145

CALWEST BANCORP AND SUBSIDIARY

SCHEDULE 2 - CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	CalWest Bank	CalWest Bancorp	Eliminations	Consolidated
Interest Income				
Interest and Fees on Loans	$ 7,002,611	$ -	$ -	$ 7,002,611
Interest on Debt Securities	330,594	-	-	330,594
Other Interest Income	516,052	5,378	(721)	520,709
Total Interest Income	7,849,257	5,378	(721)	7,853,914
Interest Expense				
Interest on Money Market and NOW Accounts	436,423	-	(721)	435,702
Interest on Savings Deposits	243,045	-	-	243,045
Interest on Time Deposits	179,866	-	-	179,866
Interest on Borrowings	358	158,299	-	158,657
Total Interest Expense	859,692	158,299	(721)	1,017,270
Net Interest Income	6,989,565	(152,921)	-	6,836,644
(Recovery of) Loan Losses	(164,758)			(164,758)
Net Interest Income (Loss) after Recovery of Loan Losses	7,154,323	(152,921)	-	7,001,402
Noninterest Income				
Service Charges and Fees	570,901	-	-	570,901
Earnings on Company Owned Life Insurance	153,124	-	-	153,124
Other Income	183,904	-	-	183,904
Total Noninterest Income	907,929	-	-	907,929
Noninterest Expense				
Salaries and Employee Benefits	4,064,888	-	-	4,064,888
Occupancy Expenses	510,906	-	-	510,906
Furniture and Equipment	214,676	-	-	214,676
Other Expenses	1,447,846	45,144	-	1,492,990
Total Noninterest Expense	6,238,316	45,144	-	6,283,460
Income (Loss) before Taxes and Income from Subsidiary	1,823,936	(198,065)	-	1,625,871
Income Taxes	2,300	-	-	2,300
Income from Subsidiary	-	1,821,636	(1,821,636)	-
Net Income	$ 1,821,636	$ 1,623,571	$ (1,821,636)	$ 1,623,571