



SUNCREST BANK

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018 AND 2017

Dear Shareholders and Customers,

On behalf of the Suncrest Bank Board of Directors, we are pleased to present our annual report for 2018. It has been a truly transformational year for our bank.

Record Results in 2018

In September of 2018 we surpassed \$900 million in total assets for the first time in the bank's history and at the end of the year, our assets totaled \$ 928.7 million which is an increase of \$399.8 million, or 75.6% over the prior year's ending balance. Our loan portfolio grew by \$296.8 million to \$650.1 million, an 84.0% increase over 2017, and our total deposits grew by \$324.1 million and ended the year at \$791.0 million, a 69.4% increase over the prior year. Our net income before tax for the year was \$13.6 million an increase of 67.6% over 2017 and both our Return on Average Assets (ROAA) and Efficiency Ratio have improved significantly in 2018 and were 1.30% and 55.9% respectively.

Merger with Community Business Bank

In May 2018 we completed our merger with the \$325 million Community Business Bank (CBB) headquartered in West Sacramento. This merger was truly transformational for our company significantly expanding our geographic footprint adding branches in West Sacramento and Lodi, and a Loan Production Office in Roseville. In addition, following completion of the back office and systems integration associated with the merger, our quarterly earnings per share have increased by over 30%. We also welcomed two highly experienced banking executives from CBB to our Board of Directors, namely John DiMichele and Chad Meyer.

Fastest Growing Publicly Traded Bank in the U.S.

In the five years from 2013 to 2018¹ Suncrest Bank increased its total assets by 812% making us the fastest growing bank in the State of California and the fastest growing publicly traded² bank in the United States over that period. This remarkable result could not have been achieved without the effort, commitment and enthusiasm our fantastic employees show each and every day.

Prudent and Profitable Balance Sheet Growth

This impressive growth has been achieved while also improving both the credit quality of our loan portfolio and the profitability of our balance sheet. At the end of 2018 our nonperforming assets (NPAs) stood at only 0.12% of total assets or \$1.1 million. We have also maintained a healthy spread between loan yield and cost of deposits. For the full year 2018 our average loan yield was 5.84% and our average cost of deposits was 0.36%. Our average Net Interest Margin (NIM) of 4.59% for 2018 was one of the highest reported of all California banks.

¹ Asset growth is calculated from 3/31/2013 to 9/30/2018 for comparison purposes.

² Shares available to be traded on a major U.S. exchange and OTC Markets

S&P's Top 100 Best Performing Banks

In March of 2019, Suncrest was named as one of S&P's Global Market Intelligence Top 100 Best-Performing Community Banks for 2018 with assets less than \$3 billion. Suncrest ranked 30th nationwide and 6th in the State of California. To compile the rankings S&P considers a set of performance criteria including; return on average tangible assets before tax, net charge-offs as a percentage of average loans, Texas ratio, efficiency ratio, net interest margin and loan growth. Suncrest ranked 3rd in California for banks over \$750 million in assets and number one in Central California.

Our New "Three in Three" Plan

In late 2013 we set ourselves the audacious goal of growing to \$500 million in assets within five years. We called it our "Five in Five" plan. This simple goal was easy to understand and easy to communicate at all levels across the organization. Through the dedication, hard work and focus of our amazing staff we achieved this goal 18 months ahead of schedule, surpassing \$500 million in July of 2017. At the end of 2018 we developed and launched a new strategic plan which we are calling our "**Three in Three**" plan." Our new goal is to be *The Best Community Bank in California*. We want to achieve that goal within *three* years by focusing on *three* objectives namely, to be;

- (1) "*The Best to Work For*" in terms of employee engagement and our organizational culture.
- (2) "*The Best to Work With*" in terms of how well we deliver for our customers and support our communities.
- (3) "*The Best to Invest In*" in terms of our financial performance versus peers³ and shareholder value created.

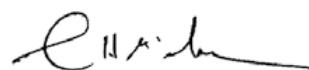
Our Local Market Business Model

We remain fully committed to the Local Market Business Model that has served us so well through our last five years of growth. That model is based on one simple philosophy; focusing on the banking needs of retail customers and small businesses within the local communities we serve is critical to the economic health and future prosperity of those communities and is the foundation of Suncrest's business success. This philosophy is embodied in the Bank's Mission Statement – "*Helping to Build and Sustain Local Communities.*"

In closing we want to thank our Customers, Shareholders, Directors, Management, Employees and Vendors for everything they do to help make Suncrest Bank a great company to be part of.



William A. Benneyan
Chairman



Ciaran McMullan
President & CEO

³ Peer group will be publicly traded California Banks between \$750 million and \$1.5 billion

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

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders of
Suncrest Bank

Report on Financial Statements

We have audited the accompanying financial statements of Suncrest Bank, which are comprised of the statements of financial condition as of December 31, 2018 and 2017, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Suncrest Bank as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
March 27, 2019

SUNCREST BANK

**STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2018 AND 2017**

ASSETS

	2018	2017
Cash and Due from Banks	\$ 34,747,273	\$ 19,728,313
Federal Funds Sold	18,137,000	33,006,000
Interest-Bearing Deposits in Other Banks	20,000,000	10,000,000
TOTAL CASH AND CASH EQUIVALENTS	72,884,273	62,734,313
Debt Securities Available for Sale	137,719,068	90,368,057
Loans:		
Real Estate - Other	479,188,736	282,056,497
Construction and Land Development	41,740,794	12,383,517
Commercial and Industrial	110,580,313	59,374,124
Municipal Leases	18,535,425	-
Consumer	261,082	247,067
TOTAL LOANS	650,306,350	354,061,205
Deferred Loan Fees, Net of Costs	(159,936)	(693,011)
Allowance for Loan Losses	(4,372,547)	(3,412,669)
NET LOANS	645,773,867	349,955,525
Federal Home Loan Bank and Other Bank Stock, at Cost	5,453,891	3,152,891
Premises and Equipment	6,014,471	5,904,262
Other Real Estate Owned	313,720	313,720
Bank Owned Life Insurance	8,284,240	5,238,821
Net Deferred Tax Assets	4,139,000	3,108,000
Goodwill	38,989,566	3,325,220
Core Deposit Intangible	3,974,505	1,313,301
Accrued Interest and Other Assets	5,130,273	3,503,278
	\$ 928,676,874	\$ 528,917,388

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

SUNCREST BANK

**STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2018 AND 2017**

LIABILITIES AND SHAREHOLDERS' EQUITY

	2018	2017
Deposits:		
Noninterest-bearing Demand	\$ 292,174,413	\$ 162,335,707
Savings, NOW and Money Market Accounts	386,793,012	235,311,974
Time Deposits Under \$250,000	60,029,435	34,995,894
Time Deposits \$250,000 and Over	52,020,824	34,257,401
TOTAL DEPOSITS	791,017,684	466,900,976
Accrued Interest and Other Liabilities	4,622,643	1,199,304
TOTAL LIABILITIES	795,640,327	468,100,280
Commitments and Contingencies - Notes E and K		
Shareholders' Equity:		
Preferred Stock - No par value, 10,000,000 Shares		
Authorized, None Outstanding	-	-
Common Stock - No par value, 25,000,000 Shares Authorized,		
Shares Issued and Outstanding, 12,420,300 in 2018 and		
7,007,594 in 2017	119,643,464	57,279,494
Additional Paid-in Capital	2,441,948	1,985,398
Retained Earnings	12,152,740	2,295,485
Accumulated Other Comprehensive Income (Loss) - Net		
Unrealized Loss on Securities Available for Sale,		
Net of Taxes of \$505,220 in 2018 and \$312,511 in 2017	(1,201,605)	(743,269)
TOTAL SHAREHOLDERS' EQUITY	133,036,547	60,817,108
	\$ 928,676,874	\$ 528,917,388

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

SUNCREST BANK

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

	2018	2017
INTEREST INCOME		
Interest and Fees on Loans	\$ 30,336,366	\$ 20,173,453
Interest on Debt Securities	2,899,825	978,572
Interest on Federal Funds Sold and Other	1,252,639	1,005,631
TOTAL INTEREST INCOME	34,488,830	22,157,656
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	1,412,820	507,232
Interest on Time Deposits	894,540	518,576
Interest on Other Borrowings	27,325	-
TOTAL INTEREST EXPENSE	2,334,685	1,025,808
NET INTEREST INCOME	32,154,145	21,131,848
Provision for Loan Losses	1,270,000	950,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	30,884,145	20,181,848
NONINTEREST INCOME		
Service Charges and Fees on Deposit Accounts	434,317	317,126
Interchange Fees	383,169	283,928
Gain on Sale of Loans	332,288	275,515
Gain on Sale of Available-for-Sale Securities	-	59,632
Earnings on Bank Owned Life Insurance	189,620	124,375
Other Income	244,781	159,168
	1,584,175	1,219,744
NONINTEREST EXPENSE		
Salaries and Employee Benefits	9,297,693	7,524,994
Occupancy Expenses	1,361,207	962,670
Equipment Expenses	474,551	426,656
Other Expenses	7,726,814	4,369,242
	18,860,265	13,283,562
INCOME BEFORE INCOME TAXES	13,608,055	8,118,030
Income Taxes	3,750,800	4,732,503
NET INCOME	\$ 9,857,255	\$ 3,385,527
NET INCOME PER SHARE - BASIC	\$ 0.95	\$ 0.48
NET INCOME PER SHARE - DILUTED	\$ 0.94	\$ 0.48

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

SUNCREST BANK

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

	2018	2017
Net Income	\$ 9,857,255	\$ 3,385,527
OTHER COMPREHENSIVE LOSS:		
Unrealized Losses on Securities Available for Sale	(651,045)	(323,264)
Less Reclassification Adjustment for Net Realized Gain on Available-for-Sale Securities Included in Net Income	-	(59,632)
	(651,045)	(382,896)
Provision (Benefit) for Income Tax Expenses:		
Change in Net Unrealized Loss	(192,709)	(132,180)
Reclassification of Net Gain Recognized in Net Income	-	(24,449)
	(192,709)	(156,629)
TOTAL OTHER COMPREHENSIVE LOSS	(458,336)	(226,267)
TOTAL COMPREHENSIVE INCOME	\$ 9,398,919	\$ 3,159,260

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

SUNCREST BANK

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Amount				
Balance January 1, 2017	6,979,497	\$ 57,046,519	\$ 1,851,183	\$(1,210,042)	\$(397,002)	\$ 57,290,658
Net Income				3,385,527		3,385,527
Stock-based Compensation			367,190			367,190
Issuance of Stock to Employees in Exchange for Services Rendered	28,097	232,975	(232,975)			-
Reclassification of Stranded Tax Effects from Change in Tax Rate				120,000	(120,000)	-
Other Comprehensive Loss, Net of Taxes					(226,267)	(226,267)
Balance at December 31, 2017	<u>7,007,594</u>	<u>57,279,494</u>	<u>1,985,398</u>	<u>2,295,485</u>	<u>(743,269)</u>	<u>60,817,108</u>
Net Income				9,857,255		9,857,255
Stock-based Compensation			582,281			582,281
Stock Options Exercised	162,556	1,614,560				1,614,560
Issuance of Stock to Employees in Exchange for Services Rendered	13,109	125,731	(125,731)			-
Issuance of Stock in the Acquisiton of Community Business Bank	2,874,089	36,788,340				36,788,340
Issuance of Common Stock, Net of Expenses of \$956,038	2,380,952	24,043,959				24,043,959
Repurchase of Common Stock	(18,000)	(208,620)				(208,620)
Other Comprehensive Loss, Net of Taxes					(458,336)	(458,336)
Balance at December 31, 2018	<u>12,420,300</u>	<u>\$ 119,643,464</u>	<u>\$ 2,441,948</u>	<u>\$ 12,152,740</u>	<u>\$(1,201,605)</u>	<u>\$ 133,036,547</u>

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

SUNCREST BANK

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
OPERATING ACTIVITIES		
Net Income	\$ 9,857,255	\$ 3,385,527
Adjustments to Reconcile Net Income to Net Cash		
From Operating Activities:		
Depreciation and Amortization	549,799	410,057
Stock-based Compensation	582,281	367,190
Provision for Loan Losses	1,270,000	950,000
Deferred Tax Expense	1,453,000	2,710,000
Earnings on Bank Owned Life Insurance	(189,620)	(124,375)
Gain on Sale of Available-for-Sale Securities	-	(59,632)
Gain on Sale of Loans	(332,288)	(275,515)
Loans Originated for Sale	(3,524,784)	(2,947,920)
Proceeds from Sale of Loans	4,311,200	3,275,771
Core Deposit Intangible Amortization	602,796	263,310
Net Accretion of Discount on Loans Acquired	(369,854)	(1,471,675)
Other Items	976,703	(811,801)
NET CASH FROM OPERATING ACTIVITIES	15,186,488	5,670,937
INVESTING ACTIVITIES		
Purchase of Available-for-Sale Securities	(44,006,079)	(57,134,888)
Maturities of Available-for-Sale Securities	7,952,901	10,460,055
Proceeds from Sale of Available-for-Sale Securities	52,606,407	9,423,034
Net Increase in Loans	(46,790,347)	(44,527,735)
Purchase of Federal Home Loan Bank Stock	(367,000)	-
Proceeds from Sale of Other Real Estate Owned	1,546,800	477,297
Cash Paid in Acquisition	(22,601,769)	-
Purchase of Premises and Equipment	(337,127)	(2,095,959)
NET CASH FROM INVESTING ACTIVITIES	(51,996,214)	(83,398,196)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	80,444,571	93,032,690
Net Change in Time Deposits	(17,634,784)	(15,117,993)
Net Change in FHLB Advances	(41,300,000)	-
Repurchase of Common Stock	(208,620)	-
Proceeds from Issuance of Common Stock, Net	24,043,959	-
Proceeds from Exercise of Stock Options	1,614,560	-
NET CASH FROM FINANCING ACTIVITIES	46,959,686	77,914,697
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,149,960	187,438
Cash and Cash Equivalents at Beginning of Year	62,734,313	62,546,875
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 72,884,273	\$ 62,734,313
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	\$ 2,144,600	\$ 1,019,632
Taxes Paid	\$ 1,830,000	\$ 2,340,000

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

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Bank has been incorporated in the State of California and organized as a single operating segment that operates seven full-service branches in Visalia, Porterville, Kingsburg, Fresno, Yuba City, West Sacramento and Lodi, California. The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals located primarily in the Central Valley of California.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through March 27, 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, interest bearing deposits with original maturity of 90 days or less and federal funds sold. Generally, federal funds are sold for periods of 90 days or less.

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 Bank was in compliance with its reserve requirements as of December 31, 2018.

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

Debt Securities

Bonds, notes, and debentures for which the Bank 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 of maturity.

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Debt Securities - Continued

Securities 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 and discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method. Realized gains or losses 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

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

Loans

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

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans - Continued

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

Allowance for Loan Losses

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

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

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

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

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses - Continued

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

Portfolio segments identified by the Bank include real estate – other, construction and land development, commercial and industrial, municipal leases 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.

Certain Acquired Loans

As part of business acquisition, the Bank acquired certain loans that have shown evidence of credit deterioration since origination. These acquired loans are recorded at the allocated fair value, such that there is no carryover of the seller's allowance for loan losses. Such acquired loans are accounted for individually. The Bank estimates the amount and timing of expected cash flows for each purchased loan, and the expected cash flows in excess of the allocated fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded through the allowance for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Bank also maintains a separate allowance for off-balance sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance sheet commitments totaled \$45,000 at December 31, 2018 and \$25,000 at December 31, 2017, and is included in other liabilities on the balance sheet.

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Federal Home Loan Bank and Other Bank Stock

The Bank is a member of the Federal Home Loan Bank (“FHLB”) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. The investment in FHLB stock and other bank stock is carried at cost, classified as a restricted security and redeemable at par with certain restrictions. FHLB stock and other bank stock is periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. The Bank’s investment in FHLB stock was approximately \$3.8 million and \$2.0 million as of December 31, 2018 and 2017, respectively. The Bank’s investment in The Independent BankersBank (“TIB”) stock was approximately \$1.2 million and \$1.0 million as of December 31, 2018 and 2017, respectively. The Bank’s investment in Pacific Coast Bankers Bank (“PCBB”) stock was approximately \$400,000 and \$200,000 as of December 31, 2018 and 2017, respectively.

Pursuant to the adoption of Accounting Standards Update (“ASU”) 2016-01 on January 1, 2018, the Bank elected the measurement alternative for measuring equity securities without readily determinable fair values at cost less impairment, plus or minus observable price changes in orderly transactions. The carrying amount of equity securities without readily determinable fair values is \$1.6 million as of December 31, 2018 and includes investments in PCBB and TIB. All bankers bank stock is recorded at cost.

Other Real Estate Owned

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value at the date of foreclosure, establishing a new cost basis by a charge to the allowance for loan losses, if necessary. Other real estate owned is carried at the lower of cost or fair value, less estimated costs to sell. Fair value is based on current appraisals less estimated selling costs. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses. As of December 31, 2018 other real estate owned consisted of vacant land. The Bank did not have any foreclosures in process of single-family residential property as of December 31, 2018.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which ranges from three to ten years for furniture and equipment and forty years for premises. 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.

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Goodwill and Other Intangible Assets

Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful lives are not amortized, but tested for impairment at least annually. The Bank has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the balance sheet.

Other intangible assets consist of core deposit intangible assets arising from whole bank acquisitions. They are initially measured at fair value and then amortized over their estimated useful lives of approximately seven years. Amortization expense in 2018 was \$603,000 and in 2017 was \$263,000. Future amortization expense for the next five years is approximately \$580,000 per year.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Advertising Costs

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

Revenue Recognition – Noninterest Income

The Bank adopted the provisions of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018 and all subsequent ASUs that modified Topic 606. Results for reporting periods beginning after December 31, 2017 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with Topic 605. The Bank recognizes revenue as it is earned and noted no impact to its revenue recognition policies as a result of the adoption of ASU 2014-09. All of the Bank's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income.

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Bank expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Bank performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract; and (v) recognize revenue when (or as) the Bank satisfies a performance obligation. The Bank only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Bank assesses the goods or services that

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition – Noninterest Income – Continued

are promised within each contract and identifies those that contain performance obligation, and assesses whether each promised good or service is distinct. The Bank then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The following is a discussion of key revenues within the scope of the new revenue guidance.

Service Charges and Fees on Deposit Accounts

The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Interchange Fees

Interchange fees represents fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through a payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

Gains/Losses on Other Real Estate Owned (“OREO”) Sales

Gains/losses on the sale of OREO are included in non-interest expense and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at the time of each real estate closing.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Bank, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods.

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

Earnings Per Share ("EPS")

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Comprehensive Income

Changes in unrealized gains and losses on available-for-sale securities is the only component of accumulated other comprehensive income for the Bank. The amount reclassified out of other accumulated comprehensive income relating to realized gains on sale of securities was approximately \$0 and \$60,000 for 2018 and 2017, respectively. The related tax effect for the reclassification was approximately \$0 and \$24,000 for 2018 and 2017, respectively.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI")*. ASU 2018-02 allows entities to elect to reclassify stranded tax effects on items within AOCI, resulting from the new tax bill signed into law on December 22, 2017, to retained earnings. The Bank elected to early adopt this new standard in 2017 and recorded a reclassification from AOCI to retained earnings in the amount of \$120,000.

Financial Instruments

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

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Bank's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period, on a straight-line basis. The Bank 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 income statement when incurred.

See Note L for additional information on the Bank'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 and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

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

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

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

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

Reclassifications

Certain reclassifications have been made in the 2017 financial statements to conform to the presentation used in 2018. These reclassifications had no impact of the Bank's previously reported net income and shareholders' equity.

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recently Adopted Accounting Guidance

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 adoption of ASU 2016-01 did not have a material impact on its financial statements and disclosures.

Recent Accounting Guidance Not Yet Effective

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2018 for public business entities and one year later for all other entities. The Bank is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures. Based on leases outstanding as of December 31, 2018, the Bank does not expect this ASU to have a material impact on its income statement, but does anticipate an increase of approximately \$4.2 million in asset and liabilities upon adoption on January 1, 2019.

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

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent Accounting Guidance Not Yet Effective - Continued

securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale (“AFS”) debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity’s assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019 for SEC filers, one year later for non SEC filing public business entities and annual reporting periods beginning after December 15, 2020 for nonpublic business entities and interim periods within the reporting periods beginning after December 15, 2021. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Bank is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment*. This guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation, and goodwill impairment will simply be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The amendments in this Update are required for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. ASU No. 2017-04 is effective for interim and annual reporting periods beginning after December 15, 2021 for public business entities who are not SEC filers and one year later for all other entities. The Bank is currently evaluating the effects of ASU 2017-04 on its financial statements and disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and the reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for all entities for interim and annual reporting periods beginning after December 31, 2019. Early adoption is permitted. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Bank’s financial statements.

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE B - ACQUISITIONS

The Bank accounted for the following acquisition under the acquisition method of accounting. The acquired assets, assumed liabilities and identifiable intangible assets were recorded at their respective acquisition date fair values. The Bank determined the fair value of the debt securities, loans, core deposit intangible and deposits with the assistance of third party valuations. The fair value of OREO was based on appraisals.

Acquisition of CBBC Bancorp and its wholly-owned subsidiary Community Business Bank

On May 21, 2018, the Bank acquired all the assets and assumed all the liabilities of CBBC Bancorp and its wholly-owned subsidiary Community Business Bank ("CBBC") in exchange for Bank stock and cash. The Bank issued 2,874,089 shares of Bank common stock with a fair value of \$12.80 per share and cash in the amount of \$30.2 million, for a total transaction value of approximately \$67.0 million. CBBC operated one branch in West Sacramento and one branch in Lodi, California. The Bank acquired CBBC as the location and culture fit within the Bank's strategic plans for expansion.

Goodwill in the amount of \$35.7 million was recognized in this acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill is not deductible for income tax purposes.

For loans acquired from CBBC, the contractual amounts due, expected cash flows to be collected and fair value as of May 21, 2018 were as follows (dollar amounts in thousands):

	Purchased Credit- Impaired	All Other Acquired Loans
Contractual Amounts Due	\$ -	\$ 320,942
Cash Flows not Expected to be Collected	-	-
Expected Cash Flows	-	320,942
Interest Component of Expected Cash Flows	-	70,520
Fair Value of Acquired Loans	<u>\$ -</u>	<u>\$ 250,422</u>

In accordance with generally accepted accounting principles there was no carryover of the allowance for loan losses that had been previously recorded CBBC.

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE B - ACQUISITIONS - Continued

The following table represents the assets acquired and liabilities assumed of CBBC as of May 21, 2018 and the fair value adjustments and the amounts recorded by the Bank in 2018 under the acquisition method of accounting (dollar amounts in thousands):

	<u>CBBC Book Value</u>	<u>Fair Value Adjustments</u>	<u>Fair Value</u>
ASSETS ACQUIRED			
Cash and Cash Equivalents	\$ 7,575	\$ -	\$ 7,575
Debt Securities	65,020	(207)	64,813
Loans, Gross	253,761	(3,339)	250,422
Allowance for Loan Losses	(2,455)	2,455	-
Other Bank Stock	1,934	-	1,934
Premises and Equipment	323	-	323
Bank Owned Life Insurance	2,856	-	2,856
Other Real Estate Owned	1,618	(71)	1,547
Deferred Tax Assets	1,134	(250)	884
Core Deposit Intangible	-	3,264	3,264
Accrued Interest and Other Assets	1,558	-	1,558
Total Assets Acquired	<u>\$ 333,324</u>	<u>\$ 1,852</u>	<u>\$ 335,176</u>
LIABILITIES ASSUMED			
Deposits	\$ 260,588	\$ 719	\$ 261,307
Other Liabilities	43,052	(485)	42,567
Total Liabilities Assumed	<u>303,640</u>	<u>234</u>	<u>303,874</u>
Excess of Assets Acquired Over Liabilities Assumed	<u>29,684</u>	<u>1,618</u>	<u>31,302</u>
	<u>\$ 333,324</u>	<u>\$ 1,852</u>	
Stock and Cash Consideration			<u>66,966</u>
Recorded as Goodwill on Acquisition			<u>\$(35,664)</u>

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE B - ACQUISITIONS - Continued

Supplemental pro forma disclosures

The following supplemental pro forma information presents the financial results for the years ended December 31, 2018 and 2017 as if the acquisition of CBBC, which was completed on May 21, 2018, and presents the net interest income and noninterest income, net income and net income per basic and diluted share as if the acquisition of CBBC was effective as of January 1, 2017. The unaudited pro forma financial information included in the table below is based on various estimates and is presented for informational purposes only and does not indicate the financial condition or results of operations of the combined company that would have been achieved for the periods presented had the transactions been completed as of the date indicated or that may be achieved in the future.

	Years ended December 31,	
	2018	2017
Net interest income and noninterest income	\$ 39,056	\$ 35,821
Net income	\$ 8,260	\$ 6,955
Net income per share:		
Basic	\$ 0.66	\$ 0.57
Diluted	\$ 0.65	\$ 0.56

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE C - DEBT SECURITIES

Debt securities have been classified in the statements of financial condition according to management's intent. The amortized cost of securities and their approximate fair values at December 31 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2018</u>				
Available-for-Sale Securities:				
U.S. Treasury Notes	\$ 3,964,105	\$ -	\$(20,041)	\$ 3,944,064
U.S. Government and Agency Securities	16,464,025	-	(344,090)	16,119,935
Mortgaged-Backed Securities	104,350,475	426,882	(1,545,971)	103,231,386
Corporate Debt Obligations of State and Political Subdivisions	3,000,000	44,337	-	3,044,337
	<u>11,647,288</u>	<u>-</u>	<u>(267,942)</u>	<u>11,379,346</u>
	<u>\$ 139,425,893</u>	<u>\$ 471,219</u>	<u>\$(2,178,044)</u>	<u>\$ 137,719,068</u>
<u>December 31, 2017</u>				
Available-for-Sale Securities:				
U.S. Government and Agency Securities	\$ 16,463,926	\$ -	\$(330,768)	\$ 16,133,158
Mortgaged-Backed Securities	65,457,203	56,778	(791,645)	64,722,336
Obligations of State and Political Subdivisions	9,502,708	31,054	(21,199)	9,512,563
	<u>\$ 91,423,837</u>	<u>\$ 87,832</u>	<u>\$(1,143,612)</u>	<u>\$ 90,368,057</u>

The amortized cost and estimated fair value of all debt securities as of December 31, 2018 by expected maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale Securities	
	Amortized Cost	Fair Value
Due within One Year	\$ 1,688,302	\$ 1,675,712
Due from One Year to Five Years	65,473,418	64,598,535
Due from Five to Ten Years	60,859,499	59,865,807
Due after Ten Years	11,404,674	11,579,014
	<u>\$ 139,425,893</u>	<u>\$ 137,719,068</u>

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE C - 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, 2018 and 2017, are as follows:

	Less than Twelve Months		Over Twelve Months		Total	
	Unrealized		Unrealized		Unrealized	
	Losses	Fair Value	Losses	Fair Value	Losses	Fair Value
December 31, 2018						
U.S. Treasury Notes	\$(20,041)	\$ 3,944,064	\$ -	\$ -	\$(20,041)	\$ 3,944,064
U.S. Government and Agency Securities	-	-	(344,090)	16,119,935	(344,090)	16,119,935
Mortgaged-Backed Securities	(49,750)	12,748,022	(1,496,221)	58,398,462	(1,545,971)	71,146,484
Obligations of State and Political Subdivisions	(70,161)	2,227,710	(197,781)	9,151,636	(267,942)	11,379,346
	<u>\$(139,952)</u>	<u>\$ 18,919,796</u>	<u>\$(2,038,092)</u>	<u>\$ 83,670,033</u>	<u>\$(2,178,044)</u>	<u>\$ 102,589,829</u>
December 31, 2017						
U.S. Government and Agency Securities	\$ -	\$ -	\$(330,768)	\$16,133,158	\$(330,768)	\$ 16,133,158
Mortgaged-Backed Securities	(559,180)	46,355,178	(232,465)	10,657,056	(791,645)	57,012,234
Obligations of State and Political Subdivisions	(21,199)	3,046,820	-	-	(21,199)	3,046,820
	<u>\$(580,379)</u>	<u>\$ 49,401,998</u>	<u>\$(563,233)</u>	<u>\$26,790,214</u>	<u>\$(1,143,612)</u>	<u>\$ 76,192,212</u>

As of December 31, 2018, the Bank has 15 U.S. government agency securities, 51 mortgage-backed securities, and nine municipal securities that have been in an unrealized loss position over 12 months. The unrealized loss on these debt securities has not been recognized into income as management does not intend to sell, and it is not "more likely than not" that management would be required to sell the security prior to its anticipated recovery, and the decline in fair value is largely due to change in interest rates. The fair value is expected to recover as the bond approaches maturity.

Securities with a fair value of approximately \$1.2 million were pledged to secure public funds.

Gross realized gains on sales of available-for-sale securities were approximately \$0 and \$60,000 in 2018 and 2017, respectively.

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE D - LOANS

The Bank's loan portfolio consists primarily of loans to borrowers within the Central Valley of California. Although the Bank seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Bank's market area and, as a result, the Bank's loan and collateral portfolios are, to some degree, concentrated in those industries.

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

	<u>2018</u>	<u>2017</u>
Balance at Beginning of Year	\$ 3,412,669	\$ 2,496,163
Additions to the Allowance Charged to Expense	1,270,000	950,000
Recoveries on Loans Charged-Off	9,399	-
	<u>4,692,068</u>	<u>3,446,163</u>
Less Loans Charged-Off	<u>(319,521)</u>	<u>(33,494)</u>
	<u>\$ 4,372,547</u>	<u>\$ 3,412,669</u>

The Bank also originates Small Business Administration ("SBA") loans for potential sale to institutional investors. A portion of the Bank's revenues are from origination of loans guaranteed by the SBA under its various programs and sale of the guaranteed portions of the loans. Funding for these loans depends on annual appropriations by the U.S. Congress. The Bank was servicing approximately \$43.0 million and \$19.2 million in loans previously sold to others as of December 31, 2018 and 2017, respectively.

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE D - LOANS - Continued

The following table presents the activity in the allowance for loan losses for the year 2018 and 2017 and the recorded investment in loans and impairment method as of December 31, 2018 and 2017 by portfolio segment:

	Real Estate - Other	Construction and Land Development	Commercial and Industrial	Municipal Leases/ Consumer	Total
December 31, 2018					
Allowance for Loan Losses:					
Beginning of Year	\$ 2,261,617	\$ 77,364	\$ 1,052,735	\$ 20,953	\$ 3,412,669
Provisions	1,159,915	49,710	60,573	(198)	1,270,000
Charge-offs	(250,500)	-	(45,000)	(24,022)	(319,522)
Recoveries	-	-	-	9,400	9,400
	<u>\$ 3,171,032</u>	<u>\$ 127,074</u>	<u>\$ 1,068,308</u>	<u>\$ 6,133</u>	<u>\$ 4,372,547</u>
End of Year Reserves:					
Specific	\$ -	\$ -	\$ -	\$ -	\$ -
General	3,171,032	127,074	1,068,308	6,133	4,372,547
	<u>\$ 3,171,032</u>	<u>\$ 127,074</u>	<u>\$ 1,068,308</u>	<u>\$ 6,133</u>	<u>\$ 4,372,547</u>
Loans Evaluated for Impairment:					
Individually	\$ 430,748	\$ 126,651	\$ 226,541	\$ -	\$ 783,940
Collectively	478,757,988	41,614,143	110,353,772	18,796,507	649,522,410
	<u>\$ 479,188,736</u>	<u>\$ 41,740,794</u>	<u>\$ 110,580,313</u>	<u>\$ 18,796,507</u>	<u>\$ 650,306,350</u>
December 31, 2017					
Allowance for Loan Losses:					
Beginning of Year	\$ 1,746,195	\$ 62,595	\$ 650,732	\$ 36,641	\$ 2,496,163
Provisions	515,422	14,769	402,003	17,806	950,000
Charge-offs	-	-	-	(33,494)	(33,494)
Recoveries	-	-	-	-	-
	<u>\$ 2,261,617</u>	<u>\$ 77,364</u>	<u>\$ 1,052,735</u>	<u>\$ 20,953</u>	<u>\$ 3,412,669</u>
End of Year Reserves:					
Specific	\$ -	\$ -	\$ 245,572	\$ -	\$ 245,572
General	2,261,617	77,364	807,163	20,953	3,167,097
	<u>\$ 2,261,617</u>	<u>\$ 77,364</u>	<u>\$ 1,052,735</u>	<u>\$ 20,953</u>	<u>\$ 3,412,669</u>
Loans Evaluated for Impairment:					
Individually	\$ -	\$ 134,346	\$ 450,829	\$ -	\$ 585,175
Collectively	282,056,497	12,249,171	58,923,295	247,067	353,476,030
	<u>\$ 282,056,497</u>	<u>\$ 12,383,517</u>	<u>\$ 59,374,124</u>	<u>\$ 247,067</u>	<u>\$ 354,061,205</u>

As of December 31, 2018 and 2017, the Bank had unaccreted discount of \$3.5 million and \$1.2 million on acquired loans, respectively.

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE D - LOANS - Continued

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

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

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

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

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

The risk category of loans by class of loans was as follows as of December 31, 2018:

<u>December 31, 2018</u>	Pass	Special Mention	Substandard	Impaired	Total
Real Estate Other:					
Commercial	\$ 246,463,945	\$ 820,261	\$ 1,651,305	\$ 430,748	\$ 249,366,259
Farmland	123,940,777	385,679	-	-	124,326,456
1-4 Family Residential	57,692,599	-	-	-	57,692,599
Multifamily Residential	47,803,422	-	-	-	47,803,422
Construction and Land Development	41,365,821	248,322	-	126,651	41,740,794
Commercial and Industrial	102,974,989	198,936	7,179,847	226,541	110,580,313
Municipal Leases	18,535,425	-	-	-	18,535,425
Consumer	261,082	-	-	-	261,082
	<u>\$ 639,038,060</u>	<u>\$ 1,653,198</u>	<u>\$ 8,831,152</u>	<u>\$ 783,940</u>	<u>\$ 650,306,350</u>

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE D - LOANS - Continued

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

<u>December 31, 2017</u>	Special				Total
	Pass	Mention	Substandard	Impaired	
Real Estate Other:					
Commercial	\$ 140,470,951	\$ 395,621	\$ 2,920,841	\$ -	\$ 143,787,413
Farmland	71,581,960	2,921,448	-	-	74,503,408
1-4 Family Residential	45,261,076	-	-	-	45,261,076
Multifamily Residential	18,398,062	106,538	-	-	18,504,600
Construction and Land Development	11,989,155	260,016	-	134,346	12,383,517
Commercial and Industrial	58,649,155	154,640	119,500	450,829	59,374,124
Consumer	247,067	-	-	-	247,067
	<u>\$ 346,597,426</u>	<u>\$ 3,838,263</u>	<u>\$ 3,040,341</u>	<u>\$ 585,175</u>	<u>\$ 354,061,205</u>

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

<u>December 31, 2018</u>	Still Accruing			Nonaccrual
	30-59 Days	60-89 Days	Over 90 Days	
	Past Due	Past Due	Past Due	
Real Estate Other:				
Commercial	\$ -	\$ -	\$ -	\$ 430,748
Farmland	-	-	-	-
1-4 Family Residential	-	-	-	-
Multifamily Residential	-	-	-	-
Construction and Land Development	-	-	-	126,651
Commercial and Industrial	485,627	3,483	-	226,541
Municipal Leases	-	-	-	-
Consumer	-	-	-	-
	<u>\$ 485,627</u>	<u>\$ 3,483</u>	<u>\$ -</u>	<u>\$ 783,940</u>

<u>December 31, 2017</u>				
Real Estate Other:				
Commercial	\$ -	\$ -	\$ -	\$ -
Farmland	-	-	-	-
1-4 Family Residential	73,799	-	-	-
Multifamily Residential	-	-	-	-
Construction and Land Development	-	-	-	134,346
Commercial and Industrial	444,256	24,321	-	522,831
Consumer	1,320	-	-	-
	<u>\$ 519,375</u>	<u>\$ 24,321</u>	<u>\$ -</u>	<u>\$ 657,177</u>

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE D - LOANS - Continued

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

	<u>Impaired Loans</u>						
	Unpaid Principal Balance	Recorded Investment	Without Specific Allowance	With Specific Allowance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>December 31, 2018</u>							
Real Estate Other:							
Commercial	\$ 438,350	\$ 430,748	\$ 430,748	\$ -	\$ -	\$ 442,091	\$ -
Farmland	-	-	-	-	-	-	-
1-4 Family Residential	-	-	-	-	-	-	-
Multifamily Residential	-	-	-	-	-	-	-
Construction and Land Development	126,651	126,651	126,651	-	-	130,499	-
Commercial and Industrial	226,541	226,541	226,541	-	-	241,101	-
Municipal Leases	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
	<u>\$ 791,542</u>	<u>\$ 783,940</u>	<u>\$ 783,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 813,691</u>	<u>\$ -</u>
<u>December 31, 2017</u>							
Real Estate Other:							
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Farmland	-	-	-	-	-	-	-
1-4 Family Residential	-	-	-	-	-	-	-
Multifamily Residential	-	-	-	-	-	-	-
Construction and Land Development	146,381	134,346	134,346	-	-	865,114	-
Commercial and Industrial	450,829	450,829	5,995	444,834	245,572	433,645	-
Consumer	-	-	-	-	-	-	-
	<u>\$ 597,210</u>	<u>\$ 585,175</u>	<u>\$ 140,341</u>	<u>\$ 444,834</u>	<u>\$ 245,572</u>	<u>\$ 1,298,759</u>	<u>\$ -</u>

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE E - PREMISES AND EQUIPMENT

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

	2018	2017
Land	\$ 600,000	\$ 600,000
Building	4,291,115	4,261,720
Leasehold Improvements	631,574	554,719
Furniture, Fixtures, and Equipment	2,236,353	1,693,696
Construction in Progress	21,163	10,063
	7,780,205	7,120,198
Less Accumulated Depreciation and Amortization	(1,765,734)	(1,215,936)
	\$ 6,014,471	\$ 5,904,262

The Bank has operating leases for branches that will expire at various dates through January 2044. The leases include provisions for periodic rent increases as well as payment by the lessee of certain operating expenses. The leases also include provisions for options to extend the lease. The rental expense relating to the leases and other short term rentals was approximately \$644,000 and \$426,000 for the years ended December 31, 2018 and 2017, respectively.

At December 31, 2018, the future lease rental payable under noncancellable operating lease commitments for the branches was as follows:

2019	\$	827,800
2020		791,200
2021		552,500
2022		383,300
2023		382,000
Thereafter		3,140,000
		\$ 6,076,800

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

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE F - DEPOSITS

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

2019	\$ 71,441,516
2020	14,788,925
2021	3,654,509
2022	6,288,006
2023	15,877,303
	<u>\$ 112,050,259</u>

NOTE G - OTHER BORROWINGS

The Bank may borrow up to \$40.0 million overnight on an unsecured basis from its correspondent banks. As of December 31, 2018, the Bank has no amounts outstanding under these arrangements.

In addition, the Bank is also a member of the Federal Home Loan Bank ("FHLB") and has arranged a secured borrowing line with that institution, secured by the assets of the Bank. Under this line, the Bank may borrow up to approximately \$200.7 million subject to providing adequate collateral and continued compliance with the Advances and Security Agreement and other eligibility requirements established by the FHLB. The Bank has pledged \$446.7 million of loans as collateral for this line. As of December 31, 2018 the Bank had a \$61.0 million outstanding Letter of Credit under this arrangement to secure public monies.

NOTE H - OTHER EXPENSES

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

	<u>2018</u>	<u>2017</u>
Professional Fees	\$ 2,037,307	\$ 1,557,729
Data Processing	2,820,954	1,131,628
Office Expenses	488,328	280,450
Marketing and Business Promotion	634,831	426,524
Insurance	90,261	82,225
Regulatory Assessments	338,114	198,772
Core Deposit Intangible Amortization	602,796	263,310
Other Expenses	714,223	428,604
	<u>\$ 7,726,814</u>	<u>\$ 4,369,242</u>

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE I - INCOME TAXES

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

	2018	2017
Current:		
Federal	\$ 1,387,646	\$ 1,476,329
State	910,154	546,174
	2,297,800	2,022,503
Deferred	1,453,000	1,406,000
Deferred Tax Asset Adjustment for Enacted Change in Tax Rate	-	1,304,000
	\$ 3,750,800	\$ 4,732,503

Income tax expense for 2017 includes a downward adjustment of net deferred assets in the amount of \$1.3 million, recorded as a result of the enactment of H.R.1 Tax Cuts and Jobs Act on December 31, 2017. The Act reduced corporate Federal tax rates from 34% to 21% effective January 1, 2018.

As of December 31, 2018, the Bank has net operating loss carryforwards of approximately \$5.1 million and \$7.0 million for Federal and California franchise tax purposes, respectively. The use of the net operating loss carryforwards is limited by Section 382 of the Internal Revenue Service Code. The net operating loss carryforwards have been reduced by the amount anticipated to expire unutilized under Section 382. Federal and California net operating loss carryforwards, to the extent not used will begin to expire in 2029.

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

	2018		2017	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	\$ 2,858,000	21.0%	\$ 2,760,000	34.0%
State Tax, Net of Federal Benefit	1,200,000	8.8%	573,000	7.1%
Change in Tax Rate	(185,000)	(1.4%)	1,304,000	16.1%
Tax-Exempt Interest Income	(250,000)	(1.8%)	-	-
Stock-based Compensation	39,000	0.3%	13,000	0.2%
Merger Expenses	35,000	0.3%	-	-
Other Items, Net	53,800	0.4%	82,503	1.0%
Actual Tax Expense	\$ 3,750,800	27.6%	\$ 4,732,503	58.4%

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE I - INCOME TAXES - Continued

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying statements of financial condition at December 31:

	<u>2018</u>	<u>2017</u>
Deferred Tax Assets:		
Pre-Opening Expenses	\$ 215,000	\$ 247,000
Allowance for Loan Losses Due to Tax Limitations	466,000	515,000
Other Real Estate Owned Differences	440,000	440,000
Operating Loss Carryforwards	1,673,000	1,347,000
Unrealized Loss on Available-for-Sale Securities	505,000	313,000
Stock-Based Compensation	248,000	296,000
Deferred Compensation	786,000	-
Nonaccrual Differences	69,000	125,000
Other Assets and Liabilities	<u>577,000</u>	<u>372,000</u>
	4,979,000	3,655,000
Deferred Tax Liabilities:		
Purchase Accounting Adjustments	(151,000)	32,000
Depreciation Differences	(233,000)	(49,000)
Other Assets and Liabilities	<u>(456,000)</u>	<u>(530,000)</u>
	<u>(840,000)</u>	<u>(547,000)</u>
Net Deferred Tax Assets	<u>\$ 4,139,000</u>	<u>\$ 3,108,000</u>

The Bank is subject to federal income tax and franchise tax of the state of California. Income tax returns for the years ending after December 31, 2014 are open to audit by the federal authorities and income tax returns for the years ending after December 31, 2013 are open to audit by state authorities. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

NOTE J - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to certain directors and the companies with which they are associated. The total outstanding principal and commitment of these loans at December 31, 2018 and 2017 was approximately \$10.8 million and \$5.5 million, respectively.

Also, in the ordinary course of business, certain executive officers, directors and companies with which they are associated have deposits with the Bank. The balances of these deposits at December 31, 2018 and 2017 amounted to approximately \$30.4 million and \$30.0 million, respectively.

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE K - COMMITMENTS

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

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

As of December 31, 2018 and 2017, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	<u>2018</u>	<u>2017</u>
Commitments to Extend Credit	<u>\$ 93,315,000</u>	<u>\$ 63,923,000</u>

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

NOTE L - STOCK-BASED COMPENSATION PLANS

The Bank's 2007 Stock Option Plan was approved by its shareholders in July 2008. Under the terms of the 2007 Stock Option Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and organizers, who are not also an officer or employee, may only be granted nonqualified stock options. This plan was replaced by the 2013 Omnibus Stock Incentive Plan.

The Bank's 2013 Omnibus Stock Incentive Plan ("2013 Plan") was approved by its shareholders in May 2013. Under the terms of the 2013 Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and other consultants, who are not also an officer or employee, may only be granted nonqualified stock options. The 2013 Plan also permits the grant of stock appreciation rights ("SARs"), restricted shares, deferred shares, performance shares and performance unit awards. The 2013 Plan provides for the total number of awards of common stock that may be issued over the term of the plan not to exceed 1,152,512 shares, of which a maximum of 400,000 shares may be granted as incentive stock options. The aggregated number of awards that may be granted to an individual participant may not exceed 100,000 shares per year. Stock options and performance share and unit awards are granted at a price not less than 100% of the fair market value of the stock on the date of grant. The 2013 plan provides for accelerated vesting if there is a change of control as defined in the 2013 Plan. Equity awards generally vest over three to five years. Stock options expire no later than ten years from the date of grant.

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE L - STOCK-BASED COMPENSATION PLANS - Continued

The Bank recognized stock-based compensation cost of approximately \$582,000 and \$367,000 for the periods ended December 31, 2018 and 2017, respectively. The Bank also recognized income tax benefits related to stock-based compensation of approximately \$144,000 in 2018 and \$134,000 in 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 weighted-average assumptions presented below:

	2018	2017
Expected Volatility	20.63%	22.20%
Expected Term	6.25 Years	6.25 Years
Expected Dividends	None	None
Risk Free Rate	2.54%	1.93%
Grant Date Fair Value	\$ 3.02	\$ 2.61

Expected volatilities are based on historical volatilities of the Company's common stock. The expected term represents the estimated average period of time that the options remain outstanding. Since the Bank does not have sufficient historical data on the exercise of stock options, the expected terms is based on the "simplified" method that measures the expected term as the average of the vesting period and the contractual term. The risk free rate of return reflects the grant date interest rate offered for a comparable U.S. Treasury bonds over the expected term of the options.

A summary of the status of the Bank's stock options as of December 31, 2018 and changes during the year ended thereon is presented below:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	864,730	\$ 9.26		
Cancelled	-	\$ -		
Granted	301,000	\$ 11.15		
Exercised	(162,556)	\$ 9.93		
Forfeited	(23,124)	\$ 10.00		
Outstanding at End of Year	980,050	\$ 9.71	8.13	\$ 1,017,000
Options Exercisable	271,050	\$ 8.29	7.00	\$ 668,000

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE L - STOCK-BASED COMPENSATION PLANS – Continued

As of December 31, 2018, there was approximately \$1.8 million of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 2.28 years. The aggregate intrinsic value of stock options exercised during the year ended December 31, 2018 was approximately \$336,000.

During 2015 the Bank cancelled 90,000 options with a weighted-average exercise price of \$10.00 held by directors and granted 90,000 options that expire in ten years and vest over three years. This is treated as a modification and the incremental increase in the fair value was \$1.83 per option. Additional compensation expense of \$41,000 and \$55,000 was recognized in 2018 and 2017, respectively, as a result of the modification.

A summary of the status of the Bank's deferred share awards as of December 31, 2018 and changes during the year ended thereon is presented below:

	Shares	Weighted- Average Grant-Date Fair Value
Nonvested at January 1, 2018	28,134	\$ 8.55
New Deferred Share Awards	4,475	\$ 11.00
Shares Vested and Issued	(13,109)	\$ 9.59
Shares Forfeited	-	\$ -
Nonvested at December 31, 2018	<u>19,500</u>	<u>\$ 8.41</u>

As of December 31, 2018 there was approximately \$164,000 of unrecognized compensation cost related to the restricted stock grants that will be recognized over a weighted-average period of 2.4 years. The fair value of shares issued in 2018 and 2017 was approximately \$152,000 and \$291,000, respectively.

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE M - EARNINGS PER SHARE

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

	2018		2017	
	Income	Shares	Income	Shares
Net Income as Reported	\$ 9,857,255		\$ 3,385,527	
Shares Outstanding at Year-End		12,420,300		7,007,594
Impact of Weighting Shares				
Issued During the Year		(2,040,785)		(8,950)
Used in Basic EPS	9,857,255	10,379,515	3,385,527	6,998,644
Dilutive Effect of Stock Options		87,721		46,166
Dilutive Effect of Outstanding				
Deferred Shares		10,761		12,363
Used in Dilutive EPS	<u>\$ 9,857,255</u>	<u>10,477,997</u>	<u>\$ 3,385,527</u>	<u>7,057,173</u>

As of December 31, 2018 and 2017 there were 301,000 and 500,000, respectively, stock options that could potentially dilute earnings per share in the future that were not included in the computation of diluted earnings per shares because to do so would have been antidilutive.

NOTE N - FAIR VALUE MEASUREMENT

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

Securities:

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

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE N - FAIR VALUE MEASUREMENT - Continued

Collateral-Dependent Impaired Loans:

The Bank does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs, through charge-offs or specific reserve allowances, that are based on the current appraised or market-quoted value of the underlying collateral. The fair value estimates for collateral-dependent impaired loans are generally based on recent real estate appraisals or broker opinions, obtained from independent third parties, which are frequently adjusted by management to reflect current conditions and estimated selling costs (Level 3).

OREO:

Nonrecurring adjustments to certain commercial and residential real estate properties classified as OREO are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals or broker opinions, which are frequently adjusted by management to reflect current conditions and estimated selling costs, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Appraisals for other real estate owned are performed by certified general appraisers whose qualifications and licenses have been reviewed and verified by the Bank. Once received, a member of the loan department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value. The Bank also determines what additional adjustments, if any, should be made to the appraisal values on any remaining other real estate owned to arrive at fair value. No significant adjustments to appraised values have been made as a result of this process as of December 31, 2018.

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE N - FAIR VALUE MEASUREMENT - Continued

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

	Fair Value Measurements Using:			Total	Total Losses
	Level 1	Level 2	Level 3		
<u>December 31, 2018</u>					
Assets measured at fair value on a recurring basis					
Securities Available for Sale	\$ 3,944,064	\$ 133,775,004	\$ -	\$ 137,719,068	\$ -
Assets measured at fair value on a Non-recurring basis					
Collateral Dependent Impaired					
Loans, Net of Specific Reserves	\$ -	\$ -	\$ 783,940	\$ 783,940	\$ -
Other Real Estate Owned, Net	\$ -	\$ -	\$ 313,720	\$ 313,720	\$ -
<u>December 31, 2017</u>					
Assets measured at fair value on a recurring basis					
Securities Available for Sale	\$ -	\$ 90,368,057	\$ -	\$ 90,368,057	\$ -
Assets measured at fair value on a Non-recurring basis					
Collateral Dependent Impaired					
Loans, Net of Specific Reserves	\$ -	\$ -	\$ 199,262	\$ 199,262	\$ 245,572
Other Real Estate Owned, Net	\$ -	\$ -	\$ 313,720	\$ 313,720	\$ -

Quantitative information about the Bank's nonrecurring Level 3 fair value measurements as of December 31 is as follows:

	Fair Value Amount	Valuation Technique	Unobservable Input	Range
<u>December 31, 2018</u>				
Collateral Dependent Impaired				
Loans, Net	\$ 783,940	Third Party Appraisals	Liquidation and Selling Costs	8% to 20%
Other Real Estate Owned	\$ 313,720	Third Party Appraisals	Liquidation and Selling Costs	8% to 50%
<u>December 31, 2017</u>				
Collateral Dependent Impaired				
Loans, Net	\$ 199,262	Third Party Appraisals	Liquidation and Selling Costs	8% to 20%
Other Real Estate Owned	\$ 313,720	Third Party Appraisals	Liquidation and Selling Costs	8% to 50%

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate the fair values of those assets due to the short-term nature of the assets.

Debt Securities

The fair values of debt securities are determined by quoted market prices, if available (Level 1). If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and model-based valuation techniques for which all significant assumptions are observable and are classified as Level 2. Assets for which the fair value cannot be determined by using observable inputs or measures, such as market prices or models, are classified as Level 3 and reflect the reporting entity's own assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Loans

Fair values of loans, excluding loans held for sale, are based on the exit price notion set forth by ASU 2016-01 effective January 1, 2018 and estimated using discounted cash flow analyses. The estimation of fair values of loans results in a Level 3 classification as it requires various assumptions and considerable judgement to incorporate factors relevant when selling loans to market participants, such as funding costs, return requirements of likely buyers and performance expectations of the loans given the current market environment and quality of loans. Estimated fair value of loans carried at cost at December 31, 2018 were based on an entry price notion.

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Federal Home Loan Bank Stock and Other Bank Stock

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

Noninterest-Bearing and Interest Bearing Demand Deposits

The fair values for noninterest-bearing deposits and interest-bearing demand deposits are equal to the amount payable on demand at the reporting date, which is the carrying amount.

Interest-Bearing Time Deposits

The fair values for fixed rate certificates of deposits are estimated using a cash flow analysis, discounted at interest rates being offered at each reporting date by the Bank for certificates with similar remaining maturities.

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 fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2018 and 2017 are summarized as follows (dollar amounts in thousands):

	Fair Value Hierarchy	2018		2017	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Cash and Cash Equivalents	Level 1	\$ 72,884	\$ 72,884	\$ 62,734	\$ 62,734
Debt Securities - US Treasury	Level 1	3,944	3,944	-	-
Debt Securities	Level 2	133,775	133,775	90,368	90,368
Loans, net	Level 2	645,774	644,030	349,956	348,982
FHLB and Other Bank Stock		5,454	N/A	3,153	N/A
Financial Liabilities:					
Noninterest-Bearing and Interest-Bearing					
Demand Deposits	Level 1	678,967	678,967	397,648	397,648
Interest-Bearing Time Deposits	Level 2	112,050	109,565	69,253	68,480

SUNCREST BANK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE P - EMPLOYEE BENEFIT PLAN

The Bank adopted a 401(k) Plan for its employees in 2008. Under the plan, eligible employees may defer a portion of their salaries. The plan also provides for a non-elective discretionary contribution by the Bank. The Bank made approximately \$252,000 in contributions for 2018 and approximately \$117,000 in contributions for 2017.

NOTE Q - REGULATORY MATTERS

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

In July, 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules). The new rules, Basel III, became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in at the rate of 0.625% per year from 0.0% in 2015 to 2.5% by January 1, 2019. The capital conservation buffer for 2018 is 1.875%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and CET1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2018 and 2017, that the Bank meets all capital adequacy requirements.

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 (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well capitalized, the Bank must maintain minimum ratios as set forth in the table below.

SUNCREST BANK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE Q - REGULATORY MATTERS - Continued

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

	Actual		Amount of Capital Required			
			For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>As of December 31, 2018:</u>						
Total Capital (to Risk-Weighted Assets)	\$94,997	13.1%	\$57,855	8.0%	\$72,319	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$90,579	12.5%	\$43,391	6.0%	\$57,855	8.0%
CET1 Capital (to Risk-Weighted Assets)	\$90,579	12.5%	\$32,543	4.5%	\$47,007	6.5%
Tier 1 Capital (to Average Assets)	\$90,579	10.6%	\$34,289	4.0%	\$42,862	5.0%
<u>As of December 31, 2017:</u>						
Total Capital (to Risk-Weighted Assets)	\$59,213	14.5%	\$32,729	8.0%	\$40,912	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$55,775	13.6%	\$24,547	6.0%	\$32,729	8.0%
CET1 Capital (to Risk-Weighted Assets)	\$55,775	13.6%	\$18,410	4.5%	\$26,593	6.5%
Tier 1 Capital (to Average Assets)	\$55,775	10.6%	\$21,082	4.0%	\$26,353	5.0%

The California Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of the bank's undivided profits or the bank's net income for its last three fiscal years less the amount of any distribution made to the bank's shareholders during the same period.