



**SUNCREST BANK**

**FINANCIAL STATEMENTS**  
**WITH**  
**INDEPENDENT AUDITOR'S REPORT**

**DECEMBER 31, 2019 AND 2018**

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This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.



CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

The Board of Directors and Shareholders  
Suncrest Bank  
Visalia, California

### Report on the Financial Statements

We have audited the accompanying financial statements of Suncrest Bank, which comprise the statement of financial condition as of December 31, 2019, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Suncrest Bank as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements of Suncrest Bank as of and for the year ended December 31, 2018, were audited by Vavrinek, Trine, Day & Co. LLP, who joined Eide Bailly LLP on July 22, 2019, and whose report dated March 27, 2019, expressed an unmodified opinion on those statements.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the printed text of the firm's name and location.

Laguna Hills, California  
March 25, 2020

**SUNCREST BANK**

**STATEMENTS OF FINANCIAL CONDITION  
DECEMBER 31, 2019 AND 2018**

**ASSETS**

	2019	2018
Cash and Due from Banks	\$ 9,163,176	\$ 34,747,273
Federal Funds Sold	19,330,000	18,137,000
Interest-Bearing Deposits in Other Banks	23,999,812	20,000,000
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>52,492,988</b>	<b>72,884,273</b>
 Debt Securities Available for Sale	 195,799,866	 137,719,068
Loans:		
Real Estate - Other	524,711,894	479,188,736
Construction and Land Development	42,530,379	41,740,794
Commercial and Industrial	78,346,239	110,580,313
Municipal Leases	21,461,996	18,535,425
Consumer	185,556	261,082
<b>TOTAL LOANS</b>	<b>667,236,064</b>	<b>650,306,350</b>
Deferred Loan Costs, Net of Fees	242,929	( 159,936)
Allowance for Loan Losses	( 5,488,657)	( 4,372,547)
<b>NET LOANS</b>	<b>661,990,336</b>	<b>645,773,867</b>
 Federal Home Loan Bank and Other Bank Stock, at Cost	 5,471,141	 5,453,891
Premises and Equipment	6,613,709	6,014,471
Other Real Estate Owned	313,720	313,720
Bank Owned Life Insurance	8,492,003	8,284,240
Net Deferred Tax Assets	2,564,000	4,139,000
Goodwill	38,989,566	38,989,566
Core Deposit Intangible	3,194,010	3,974,505
Accrued Interest and Other Assets	8,976,800	5,130,273
	<b>\$ 984,898,139</b>	<b>\$ 928,676,874</b>

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

**SUNCREST BANK**

**STATEMENTS OF FINANCIAL CONDITION  
DECEMBER 31, 2019 AND 2018**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	2019	2018
Deposits:		
Noninterest-bearing Demand	\$ 328,439,703	\$ 292,174,413
Savings, NOW and Money Market Accounts	421,833,613	386,793,012
Time Deposits Under \$250,000	51,425,063	60,029,435
Time Deposits \$250,000 and Over	26,860,666	52,020,824
<b>TOTAL DEPOSITS</b>	828,559,045	791,017,684
Accrued Interest and Other Liabilities	8,160,798	4,622,643
<b>TOTAL LIABILITIES</b>	836,719,843	795,640,327
Commitments and Contingencies - Note L		
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, 12,442,800 in 2019 and 12,420,300 in 2018	119,816,864	119,643,464
Additional Paid-in Capital	2,920,953	2,441,948
Retained Earnings	24,061,588	12,152,740
Accumulated Other Comprehensive Income (Loss) - Net Unrealized Gain (Loss) on Securities Available for Sale, Net of Taxes of (\$579,761) in 2019 and \$505,220 in 2018	1,378,891	( 1,201,605)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	148,178,296	133,036,547
	<b>\$ 984,898,139</b>	<b>\$ 928,676,874</b>

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

**SUNCREST BANK**

**STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>INTEREST INCOME</b>		
Interest and Fees on Loans	\$ 36,926,377	\$ 30,336,366
Interest on Debt Securities	4,586,944	2,899,825
Interest on Federal Funds Sold and Other	1,673,353	1,252,639
<b>TOTAL INTEREST INCOME</b>	<b>43,186,674</b>	<b>34,488,830</b>
<b>INTEREST EXPENSE</b>		
Interest on Savings Deposits, NOW and Money Market Accounts	3,590,402	1,412,820
Interest on Time Deposits	967,845	894,540
Interest on Other Borrowings	-	27,325
<b>TOTAL INTEREST EXPENSE</b>	<b>4,558,247</b>	<b>2,334,685</b>
<b>NET INTEREST INCOME</b>	<b>38,628,427</b>	<b>32,154,145</b>
Provision for Loan Losses	2,100,000	1,270,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>36,528,427</b>	<b>30,884,145</b>
<b>NONINTEREST INCOME</b>		
Service Charges and Fees on Deposit Accounts	432,326	434,317
Interchange Fees	456,429	383,169
Gain on Sale of Loans	50,012	332,288
Gain on Sale of Available-for-Sale Securities	29,536	-
Earnings on Bank Owned Life Insurance	207,763	189,620
Other Income	300,554	244,781
	<b>1,476,620</b>	<b>1,584,175</b>
<b>NONINTEREST EXPENSE</b>		
Salaries and Employee Benefits	11,398,002	9,297,693
Occupancy Expenses	1,658,939	1,361,207
Equipment Expenses	590,909	474,551
Other Expenses	7,819,249	7,726,814
	<b>21,467,099</b>	<b>18,860,265</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>16,537,948</b>	<b>13,608,055</b>
Income Taxes	4,629,100	3,750,800
<b>NET INCOME</b>	<b>\$ 11,908,848</b>	<b>\$ 9,857,255</b>
<b>NET INCOME PER SHARE - BASIC</b>	<b>\$ 0.96</b>	<b>\$ 0.95</b>
<b>NET INCOME PER SHARE - DILUTED</b>	<b>\$ 0.95</b>	<b>\$ 0.94</b>

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

**SUNCREST BANK**

**STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
	\$ 11,908,848	\$ 9,857,255
<b>OTHER COMPREHENSIVE GAIN (LOSS):</b>		
Unrealized Gain (Loss) on Securities Available for Sale	3,695,012	( 651,045)
Less Reclassification Adjustment for Net Realized Gain on Available-for-Sale Securities Included in Net Income	( 29,536)	-
	3,665,476	( 651,045)
Provision (Benefit) for Income Tax Expenses:		
Change in Net Unrealized Gain (Loss)	1,097,090	( 192,709)
Reclassification of Net Gain Recognized in Net Income	(12,110)	-
	1,084,980	( 192,709)
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>2,580,496</b>	<b>( 458,336)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 14,489,344</b>	<b>\$ 9,398,919</b>

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, 2019 AND 2018**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Number of Shares	Amount				
<b>Balance January 1, 2018</b>	7,007,594	\$ 57,279,494	\$ 1,985,398	\$ 2,295,485	\$ ( 743,269)	\$ 60,817,108
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 Acquisition 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)
<b>Balance at December 31, 2018</b>	<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>
Net Income				11,908,848		11,908,848
Stock-based Compensation			533,655			533,655
Stock Options Exercised	16,000	118,750				118,750
Issuance of Stock to Employees in Exchange for Services Rendered	6,500	54,650	( 54,650)			-
Other Comprehensive Income, Net of Taxes					2,580,496	2,580,496
<b>Balance at December 31, 2019</b>	<u>12,442,800</u>	<u>\$ 119,816,864</u>	<u>\$ 2,920,953</u>	<u>\$ 24,061,588</u>	<u>\$ 1,378,891</u>	<u>\$ 148,178,296</u>

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

**SUNCREST BANK**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net Income	\$ 11,908,848	\$ 9,857,255
Adjustments to Reconcile Net Income to Net Cash		
From Operating Activities:		
Depreciation and Amortization	629,639	549,799
Stock-based Compensation	533,655	582,281
Provision for Loan Losses	2,100,000	1,270,000
Deferred Tax Expense	490,000	1,453,000
Earnings on Bank Owned Life Insurance	( 207,763)	( 189,620)
Gain on Sale of Available-for-Sale Securities	( 29,536)	-
Gain on Sale of Loans	( 50,012)	( 332,288)
Loans Originated for Sale	( 737,937)	( 3,524,784)
Proceeds from Sale of Loans	798,595	4,311,200
Core Deposit Intangible Amortization	780,495	602,796
Net Accretion of Discount on Loans Acquired	( 1,269,111)	( 369,854)
Other Items	146,177	976,703
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>15,093,050</b>	<b>15,186,488</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of Available-for-Sale Securities	( 94,196,038)	( 44,006,079)
Maturities of Available-for-Sale Securities	14,885,413	7,952,901
Proceeds from Sale of Available-for-Sale Securities	24,536,089	52,606,407
Net Increase in Loans	( 17,058,005)	( 46,790,347)
Purchase of Federal Home Loan Bank Stock	( 17,250)	( 367,000)
Proceeds from Sale of Other Real Estate Owned	-	1,546,800
Cash Paid in Acquisition	-	( 22,601,769)
Purchase of Premises and Equipment	( 1,294,655)	( 337,127)
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>( 73,144,446)</b>	<b>( 51,996,214)</b>
<b>FINANCING ACTIVITIES</b>		
Net Increase in Demand Deposits and Savings Accounts	71,305,891	80,444,571
Net Change in Time Deposits	( 33,764,530)	( 17,634,784)
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	118,750	1,614,560
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>37,660,111</b>	<b>46,959,686</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>( 20,391,285)</b>	<b>10,149,960</b>
Cash and Cash Equivalents at Beginning of Year	72,884,273	62,734,313
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 52,492,988</b>	<b>\$ 72,884,273</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest Paid	\$ 4,575,000	\$ 2,144,600
Taxes Paid	\$ 4,090,000	\$ 1,830,000
Operating Lease Liabilities Arising from Obtaining ROU Assets	\$ 3,674,000	\$ -

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

## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### 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 25, 2020, which is the date the financial statements were available to be issued. Subsequent to year-end, the Bank has loan customers who are expected to be negatively impacted by the effects of the world-wide coronavirus pandemic. The Bank is closely monitoring its loan portfolio, operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Bank's financial position is not known.

##### 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, 2019.

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 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### Debt Securities - Continued

Debt 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 debt securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For 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.

##### 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 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### 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 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### 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 \$50,000 at December 31, 2019 and \$45,000 at December 31, 2018, and is included in other liabilities on the balance sheet.

## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### 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 \$3.9 million and \$3.8 million as of December 31, 2019 and 2018, respectively. The Bank’s investment in The Independent BankersBank (“TIB”) stock was approximately \$1.2 million as of December 31, 2019 and 2018. The Bank’s investment in Pacific Coast Bankers Bank (“PCBB”) stock was approximately \$400,000 as of December 31, 2019 and 2018.

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, 2019 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, 2019 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, 2019.

##### Bank Owned Life Insurance

Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the statement of financial condition date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

##### 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 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### Leases

The Bank determines if an arrangement contains a lease at contract inception and recognizes right-of-use ("ROU") assets and operating lease liabilities based on the present value of lease payments over the lease term. While operating leases may include options to extend the term, the Bank does not take into account the options in calculating the ROU asset and lease liability unless it is reasonably certain such options will be reasonably exercised. The present value of lease payments is determined based on the Bank's incremental borrowing rate and other information available at lease commencement. Leases with an initial term of 12 months or less are not recorded in the consolidated balance sheets. Lease expense is recognized on a straight-line basis over the lease term. The Bank has elected to account for lease agreements with lease and non-lease components as a single lease component. Refer to - Accounting Standards Adopted in 2019 below and Note F. Leases for further discussion on the Bank's leasing arrangements and related accounting.

##### 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 was approximately \$780,000 and \$603,000 in 2019 and 2018, respectively. Future amortization expense for the next five years is approximately \$494,000 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.



## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### 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 Topic 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 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.

## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### Revenue Recognition – Noninterest Income - Continued

###### 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.

##### 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 \$30,000 and \$0 for 2019 and 2018, respectively. The related tax effect for the reclassification was approximately \$12,000 and \$0 for 2019 and 2018, respectively.

## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

##### 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 L. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

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

## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### Recently Adopted Accounting Guidance

The Bank adopted ASU 2016-02, Leases (Topic 842) and ASU 2018-11, Leases (Topic 842): Targeted Improvements, referred to herein as Topic 842, effective January 1, 2019. The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. Entities are required to recognize ROU assets and lease liabilities that arise from leases in the balance sheet and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. Under the amendments in ASU 2018-11, entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard.

Upon adoption, the Bank elected to use the modified retrospective transition approach and recorded ROU assets of \$4.2 million and lease liabilities of \$4.3 million at the date of adoption with no adjustment to opening equity. The Bank elected to apply the package of practical expedients which permits entities to not reassess: (i) whether any expired or existing contracts contain a lease; (ii) lease classification for any expired or existing leases; and (iii) whether initial direct costs for any existing leases qualify for capitalization under the amended guidance. The Company/Bank also elected not to include short-term leases (leases with initial terms of twelve months or less) on the consolidated balance sheets.

##### Recent Accounting Guidance Not Yet Effective

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326). This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. 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, 2022 for all entities, other than SEC filers that do not qualify as a Smaller Reporting Company as defined by the SEC. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Bank is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its financial statements and disclosures.

## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

##### Recent Accounting Guidance Not Yet Effective - Continued

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  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**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	\$ -	\$ 250,422

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  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**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>
<b>ASSETS ACQUIRED</b>			
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
<b>Total Assets Acquired</b>	<u>\$ 333,324</u>	<u>\$ 1,852</u>	<u>\$ 335,176</u>
<b>LIABILITIES ASSUMED</b>			
Deposits	\$ 260,588	\$ 719	\$ 261,307
Other Liabilities	43,052	( 485)	42,567
<b>Total Liabilities Assumed</b>	303,640	234	<u>303,874</u>
Excess of Assets Acquired Over Liabilities Assumed	<u>29,684</u>	<u>1,618</u>	31,302
	<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 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE B - ACQUISITIONS - Continued

##### *Supplemental pro forma disclosures*

The following supplemental pro forma information presents the financial results for the year ended December 31, 2018 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, 2018. 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 (dollar amounts in thousands).

	Year ended	
	<u>December 31, 2018</u>	
Net interest income and noninterest income	\$	39,056
Net income	\$	8,260
Net income per share:		
Basic	\$	0.66
Diluted	\$	0.65



**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**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
<b><u>December 31, 2019</u></b>				
<b>Available-for-Sale Securities:</b>				
U.S. Treasury Notes	\$ 3,994,853	\$ 3,287	\$ -	\$ 3,998,140
U.S. Government and Agency Securities	7,464,286	3	( 9,043)	7,455,246
Mortgaged-Backed Securities	162,246,071	2,635,271	( 527,295)	164,354,047
Corporate Debt	3,000,000	94,596	-	3,094,596
Obligations of State and Political Subdivisions	16,393,790	96,236	( 377,055)	16,112,971
Other Investments	742,215	42,651	-	784,866
	<u>\$ 193,841,215</u>	<u>\$ 2,872,044</u>	<u>\$( 913,393)</u>	<u>\$ 195,799,866</u>
<b><u>December 31, 2018</u></b>				
<b>Available-for-Sale Securities:</b>				
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	3,000,000	44,337	-	3,044,337
Obligations of State and Political Subdivisions	11,647,288	-	( 267,942)	11,379,346
	<u>\$ 139,425,893</u>	<u>\$ 471,219</u>	<u>\$( 2,178,044)</u>	<u>\$ 137,719,068</u>

The amortized cost and estimated fair value of all debt securities as of December 31, 2019 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	\$ 11,459,138	\$ 11,453,386
Due from One Year to Five Years	108,731,096	109,921,871
Due from Five to Ten Years	60,939,458	61,864,483
Due after Ten Years	12,711,523	12,560,126
	<u>\$ 193,841,215</u>	<u>\$ 195,799,866</u>

**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**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, 2019 and 2018, are as follows:

	Less than Twelve Months		Over Twelve Months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<b>December 31, 2019</b>						
U.S. Government and Agency Securities	\$ -	\$ -	\$( 26,649)	\$ 8,955,777	\$( 26,649)	\$ 8,955,777
Mortgaged-Backed Securities	( 243,408)	40,846,115	( 266,280)	18,928,200	( 509,688)	59,774,315
Obligations of State and Political Subdivisions	( 377,055)	13,749,911	-	-	( 377,055)	13,749,911
	<u>\$ (620,463)</u>	<u>\$ 54,596,026</u>	<u>\$ (292,929)</u>	<u>\$ 27,883,977</u>	<u>\$ (913,392)</u>	<u>\$ 82,480,003</u>
<b>December 31, 2018</b>						
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>

As of December 31, 2019, the Bank has 7 U.S. government agency securities and 23 mortgage-backed 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 \$1.4 million were pledged to secure public funds.

Gross realized gains and losses on sales of available-for-sale securities in 2019 were approximately \$129,000 and (\$99,000), respectively. There were no realized gains or losses on sales of available-for-sale securities in 2018.

## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### 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>2019</u>	<u>2018</u>
Balance at Beginning of Year	\$ 4,372,547	\$ 3,412,669
Additions to the Allowance Charged to Expense	2,100,000	1,270,000
Recoveries on Loans Charged-Off	<u>16,110</u>	<u>9,400</u>
	6,488,657	4,692,069
Less Loans Charged-Off	<u>( 1,000,000)</u>	<u>( 319,522)</u>
	<u>\$ 5,488,657</u>	<u>\$ 4,372,547</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 \$39.8 million and \$43.0 million in loans previously sold to others as of December 31, 2019 and 2018, respectively.

**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE D - LOANS - Continued**

The following table presents the activity in the allowance for loan losses for the year 2019 and 2018 and the recorded investment in loans and impairment method as of December 31, 2019 and 2018 by portfolio segment:

	Real Estate - Other	Construction and Land Development	Commercial and Industrial	Municipal Leases/ Consumer	Total
<b>December 31, 2019</b>					
Allowance for Loan Losses:					
Beginning of Year	\$ 3,171,032	\$ 127,074	\$ 1,068,308	\$ 6,133	\$ 4,372,547
Provisions	895,617	152,718	1,011,963	39,702	2,100,000
Charge-offs	-	-	( 1,000,000)	-	( 1,000,000)
Recoveries	-	16,110	-	-	16,110
	<u>\$ 4,066,649</u>	<u>\$ 295,902</u>	<u>\$ 1,080,271</u>	<u>\$ 45,835</u>	<u>\$ 5,488,657</u>
End of Year Reserves:					
Specific	\$ 273,941	\$ -	\$ 230,059	\$ -	\$ 504,000
General	3,792,708	295,902	850,212	45,835	4,984,657
	<u>\$ 4,066,649</u>	<u>\$ 295,902</u>	<u>\$ 1,080,271</u>	<u>\$ 45,835</u>	<u>\$ 5,488,657</u>
Loans Evaluated for Impairment:					
Individually	\$ 2,546,232	\$ 123,949	\$ 2,515,541	\$ -	\$ 5,185,722
Collectively	522,165,662	42,406,430	75,830,698	21,647,552	662,050,342
	<u>\$ 524,711,894</u>	<u>\$ 42,530,379</u>	<u>\$ 78,346,239</u>	<u>\$ 21,647,552</u>	<u>\$ 667,236,064</u>
<b>December 31, 2018</b>					
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>

As of December 31, 2019 and 2018, the Bank had unaccreted discount of \$2.2 million and \$3.5 million on acquired loans, respectively.

**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**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, 2019:

<b><u>December 31, 2019</u></b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Impaired</b>	<b>Total</b>
Real Estate Other:					
Commercial	\$ 285,636,811	\$ 2,078,461	\$ 1,697,323	\$ 154,021	\$ 289,566,616
Farmland	140,308,214	-	1,096,855	2,392,211	143,797,280
1-4 Family Residential	44,378,455	-	-	-	44,378,455
Multifamily Residential	46,969,544	-	-	-	46,969,544
Construction and Land Development	42,406,430	-	-	123,949	42,530,379
Commercial and Industrial	74,391,591	989,935	449,171	2,515,541	78,346,238
Consumer	21,647,552	-	-	-	21,647,552
	<u>\$ 655,738,597</u>	<u>\$ 3,068,396</u>	<u>\$ 3,243,349</u>	<u>\$ 5,185,722</u>	<u>\$ 667,236,064</u>

**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE D - LOANS - Continued**

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

<b><u>December 31, 2018</u></b>	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>

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2019 and 2018:

<b><u>December 31, 2019</u></b>	Still Accruing			Nonaccrual
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	
Real Estate Other:				
Commercial	\$ -	\$ -	\$ -	\$ 154,021
Farmland	227,805	-	-	2,392,211
1-4 Family Residential	-	-	-	-
Multifamily Residential	-	-	-	-
Construction and Land Development	-	-	-	123,949
Commercial and Industrial	825,146	-	-	2,515,541
Municipal Leases	-	-	-	-
Consumer	-	-	-	-
	<u>\$ 1,052,951</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,185,722</u>

<b><u>December 31, 2018</u></b>				
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>

**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE D - LOANS - Continued**

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2019 and 2018:

	Unpaid Principal Balance	Recorded Investment	Impaired Loans		Related Allowance	Average Recorded Investment	Interest Income Recognized
			Without Specific Allowance	With Specific Allowance			
<b><u>December 31, 2019</u></b>							
Real Estate Other:							
Commercial	\$ 157,827	\$ 154,021	\$ -	\$ 154,021	\$ 16,567	\$ 157,113	\$ -
Farmland	2,393,165	2,392,211	-	2,392,211	257,306	2,392,688	-
1-4 Family Residential	-	-	-	-	-	-	-
Multifamily Residential	-	-	-	-	-	-	-
Construction and Land Development	142,562	123,949	123,949	-	-	125,300	-
Commercial and Industrial	3,540,909	2,515,541	376,020	2,139,521	230,127	3,306,266	-
Municipal Leases	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
	<u>\$ 6,234,463</u>	<u>\$ 5,185,722</u>	<u>\$ 499,969</u>	<u>\$ 4,685,753</u>	<u>\$ 504,000</u>	<u>\$ 5,981,367</u>	<u>\$ -</u>
<b><u>December 31, 2018</u></b>							
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>

**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE E - PREMISES AND EQUIPMENT**

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

	<u>2019</u>	<u>2018</u>
Land	\$ 600,000	\$ 600,000
Building	4,681,527	4,291,115
Leasehold Improvements	1,092,251	631,574
Furniture, Fixtures, and Equipment	2,546,687	2,236,353
Construction in Progress	<u>22,839</u>	<u>21,163</u>
	8,943,304	7,780,205
Less Accumulated Depreciation and Amortization	<u>( 2,329,595)</u>	<u>( 1,765,734)</u>
	<u>\$ 6,613,709</u>	<u>\$ 6,014,471</u>

**NOTE F – LEASES**

ASU 2016-02, Leases (Topic 842), and related amendments were adopted on January 1, 2019, using the modified retrospective transition method whereby comparative periods were not restated. No cumulative effect adjustment to the opening balance of retained earnings was required. The Bank elected the package of practical expedients permitted under the new standard, which allowed carry forward historical lease classifications, account for lease and nonlease components as a single lease component, and not to recognize a ROU asset and lease liability for short-term leases.

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 \$859,000 and \$644,000 for the years ended December 31, 2019 and 2018, respectively.

Substantially all leases are operating leases for corporate offices, branch locations and loan production offices. The amount of the lease liability and ROU asset is impacted by the lease term and the discount rate applied to determine the present value of future lease payments. The remaining terms of operating leases will expire at various dates through January 2044.

Most leases include one or more options to renew, with renewal terms that can extend the lease term by varying amounts. The exercise of renewal options is at the sole discretion of the Bank. Renewal option periods were not included in the measurement of ROU assets and lease liabilities as they are not considered reasonably certain of exercise.



**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE F – LEASES - Continued**

Upon adoption of this standard, ROU assets of \$4.2 million and lease liabilities of \$4.3 million were recognized. The balance of ROU assets and lease liabilities are included in other assets and other liabilities on the balance sheet. The balance sheet and supplemental information at December 31, 2019 are shown below.

	<b>2019</b>
Operating Lease Right-of-Use Assets Classified as Accrued Interest and Other Assets	\$ 3,614,400
Operating Lease Liabilities Classified as Accrued Interest and Other Liabilities	\$ 3,673,600
Weighted Average Remaining Lease Term, in Years	13.12
Weighted Average Discount Rate	5.50%

The Bank elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component. Variable lease cost primarily represents variable payments such as common area maintenance and utilities. The following table represents lease costs and other lease information for the year ended December 31, 2019:

**Lease Costs:**

	<b>2019</b>
Operating Lease Cost	\$ 859,000

**Other Information - Operating Leases:**

Cash Paid for Amounts Included in the Measurement of Lease Liabilities	\$ 818,300
Right-of-Use Assets Obtained in Exchange for Lease Obligations	\$ 3,614,400

## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE F – LEASES – Continued

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2019 are as follows:

<u>Year Ending</u>	<u>Operating Leases</u>
2020	\$ 791,100
2021	552,400
2022	383,200
2023	381,100
2024	385,000
Thereafter	<u>2,754,900</u>
Total Lease Payments	5,247,700
Less Imputed Interest	<u>(1,574,100)</u>
Present Value of Net Future Minimum Lease Payments	<u><u>\$ 3,673,600</u></u>

#### NOTE G - DEPOSITS

At December 31, 2019, the scheduled maturities of time deposits are as follows:

2020	\$ 44,389,421
2021	19,009,311
2022	3,347,525
2023	3,712,008
2024	<u>7,827,464</u>
	<u><u>\$ 78,285,729</u></u>

#### NOTE H - OTHER BORROWINGS

The Bank may borrow up to \$40.0 million overnight on an unsecured basis from its correspondent banks. As of December 31, 2019, the Bank has no amounts outstanding under these arrangements.

In addition, the Bank is also a member of the Federal Home Loan Bank 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 \$220.9 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 \$460.4 million of loans as collateral for this line. As of December 31, 2019 the Bank had a \$58.0 million outstanding Letter of Credit under this arrangement to secure public monies.

## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE I - OTHER EXPENSES

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

	<u>2019</u>	<u>2018</u>
Professional Fees	\$ 1,935,844	\$ 2,037,307
Data Processing	2,190,410	2,820,954
Office Expenses	767,967	488,328
Marketing and Business Promotion	882,015	634,831
Insurance	79,411	90,261
Regulatory Assessments	153,652	338,114
Core Deposit Intangible Amortization	780,495	602,796
Other Expenses	1,029,455	714,223
	<u>\$ 7,819,249</u>	<u>\$ 7,726,814</u>

#### NOTE J - INCOME TAXES

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

	<u>2019</u>	<u>2018</u>
Current:		
Federal	\$ 2,556,100	\$ 1,387,646
State	1,583,000	910,154
	<u>4,139,100</u>	<u>2,297,800</u>
Deferred	490,000	1,453,000
	<u>\$ 4,629,100</u>	<u>\$ 3,750,800</u>

As of December 31, 2019, the Bank has net operating loss carryforwards of approximately \$3.2 million and \$5.6 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.

**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE J - INCOME TAXES - Continued**

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

	2019		2018	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	\$ 3,473,100	21.0%	\$ 2,858,000	21.0%
State Tax, Net of Federal Benefit	1,402,000	8.5%	1,200,000	8.8%
Change in Tax Rate	-		( 185,000)	( 1.4%)
Tax-Exempt Interest Income	( 187,000)	( 1.1%)	( 250,000)	( 1.8%)
Stock-based Compensation	12,000	( 0.1%)	39,000	0.3%
Merger Expenses	-	-	35,000	0.3%
Other Items, Net	(71,000)	( 0.4%)	53,800	0.4%
Actual Tax Expense	<u>\$ 4,629,100</u>	<u>27.9%</u>	<u>\$ 3,750,800</u>	<u>27.6%</u>

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:

	2019	2018
Deferred Tax Assets:		
Pre-Opening Expenses	\$ 157,000	\$ 215,000
Allowance for Loan Losses Due to Tax Limitations	980,000	466,000
Other Real Estate Owned Differences	440,000	440,000
Operating Loss Carryforwards	1,162,000	1,673,000
Unrealized Loss on Available-for-Sale Securities	-	505,000
Stock-Based Compensation	350,000	248,000
Deferred Compensation	730,000	786,000
Nonaccrual Differences	123,000	69,000
Other Assets and Liabilities	1,858,000	577,000
	<u>5,800,000</u>	<u>4,979,000</u>
Deferred Tax Liabilities:		
Unrealized Gain on Available-for-Sale Securities	( 580,000)	-
Purchase Accounting Adjustments	( 306,000)	( 151,000)
Depreciation Differences	( 401,000)	( 233,000)
Other Assets and Liabilities	( 1,949,000)	( 456,000)
	<u>( 3,236,000)</u>	<u>( 840,000)</u>
Net Deferred Tax Assets	<u>\$ 2,564,000</u>	<u>\$ 4,139,000</u>

## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE J - INCOME TAXES - Continued

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, 2015 are open to audit by the federal authorities and income tax returns for the years ending after December 31, 2014 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 K - 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, 2019 and 2018 was approximately \$20.6 million and \$10.8 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, 2019 and 2018 amounted to approximately \$19.9 million and \$30.4 million, respectively.

#### NOTE L - 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, 2019 and 2018, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2019	2018
Commitments to Extend Credit	<u>\$ 93,337,000</u>	<u>\$ 93,315,000</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.

## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE M - 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.

The Bank recognized stock-based compensation cost of approximately \$534,000 and \$582,000 for the periods ended December 31, 2019 and 2018, respectively. The Bank also recognized income tax benefits related to stock-based compensation of approximately \$133,000 in 2019 and \$144,000 in 2018, respectively.

For 2018, 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. There were no option grants issued in 2019.

	<u>2018</u>
Expected Volatility	20.63%
Expected Term	6.25 Years
Expected Dividends	None
Risk Free Rate	2.54%
Grant Date Fair Value	\$ 3.02

Expected volatilities are based on historical volatilities of the Company's common stock. The company uses historical data to estimate option exercise and post-vesting termination behavior. Employee and management options are tracked separately. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE M - STOCK-BASED COMPENSATION PLANS - Continued**

A summary of the status of the Bank's stock options as of December 31, 2019 and changes during the year ended thereon is presented below:

	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at Beginning of Year	980,050	\$ 9.71		
Cancelled	-	\$ -		
Granted	-	\$ -		
Exercised	( 16,000)	\$ 7.42		
Forfeited	( 13,000)	\$ 10.00		
Outstanding at End of Year	<u>951,050</u>	<u>\$ 9.75</u>	<u>7.15</u>	<u>\$ 1,834,000</u>
Options Exercisable	<u>433,250</u>	<u>\$ 9.06</u>	<u>6.60</u>	<u>\$ 1,134,000</u>

As of December 31, 2019, there was approximately \$1.3 million of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 1.77 years. The aggregate intrinsic values of stock options exercised during the years ended December 31, 2019 and 2018 were approximately \$119,000 and \$336,000, respectively.

**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE M - STOCK-BASED COMPENSATION PLANS - Continued**

A summary of the status of the Bank's deferred share awards as of December 31, 2019 and changes during the year ended thereon is presented below:

	<u>Shares</u>	<u>Weighted- Average Grant-Date Fair Value</u>
Nonvested at January 1, 2019	19,500	\$ -
New Deferred Share Awards	-	\$ -
Shares Vested and Issued	( 6,500)	\$ 8.41
Shares Forfeited	-	\$ -
Nonvested at December 31, 2019	<u>13,000</u>	<u>\$ 8.41</u>

As of December 31, 2019 there was approximately \$109,000 of unrecognized compensation cost related to the restricted stock grants that will be recognized over a weighted-average period of 1.9 years. The fair value of shares issued in 2019 and 2018 was approximately \$74,200 and \$152,000, respectively.

**NOTE N - 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:

	<u>2019</u>		<u>2018</u>	
	<u>Income</u>	<u>Shares</u>	<u>Income</u>	<u>Shares</u>
Net Income as Reported	\$ 11,908,848		\$ 9,857,255	
Shares Outstanding at Year-End		12,442,800		12,420,300
Impact of Weighting Shares Issued During the Year		( 12,949)		( 2,040,785)
Used in Basic EPS	<u>11,908,848</u>	<u>12,429,851</u>	<u>9,857,255</u>	<u>10,379,515</u>
Dilutive Effect of Stock Options		30,788		87,721
Dilutive Effect of Outstanding Deferred Shares		10,581		10,761
Used in Dilutive EPS	<u>\$ 11,908,848</u>	<u>12,471,220</u>	<u>\$ 9,857,255</u>	<u>10,477,997</u>

As of December 31, 2019 and 2018 there were 291,000 and 301,000, 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.



**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE O - 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).

*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, 2019.

**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE O - 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		
<b><u>December 31, 2019</u></b>					
<b>Assets measured at fair value on a recurring basis</b>					
Securities Available for Sale	\$ 3,998,140	\$ 191,801,726	\$ -	\$ 195,799,866	\$ -
<b>Assets measured at fair value on a Non-recurring basis</b>					
Collateral Dependent Impaired					
Loans, Net of Specific Reserves	\$ -	\$ -	\$ 3,573,803	\$ 3,573,803	\$ -
Other Real Estate Owned, Net	\$ -	\$ -	\$ 313,720	\$ 313,720	\$ -
<b><u>December 31, 2018</u></b>					
<b>Assets measured at fair value on a recurring basis</b>					
Securities Available for Sale	\$ 3,944,064	\$ 133,775,004	\$ -	\$ 137,719,068	\$ -
<b>Assets measured at fair value on a Non-recurring basis</b>					
Collateral Dependent Impaired					
Loans, Net of Specific Reserves	\$ -	\$ -	\$ 783,940	\$ 783,940	\$ -
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
	<b><u>December 31, 2019</u></b>			
Collateral Dependent Impaired				
Loans, Net	\$ 3,573,803	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%
<b><u>December 31, 2018</u></b>				
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%

**SUNCREST BANK**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

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

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

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

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2019 and 2018 are summarized as follows (dollar amounts in thousands):

	Fair Value Hierarchy	2019		2018	
		Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets:</b>					
Cash and Cash Equivalents	Level 1	\$ 52,493	\$ 52,493	\$ 72,884	\$ 72,884
Debt Securities - US Treasury	Level 1	3,998	3,998	3,944	3,944
Debt Securities	Level 2	191,802	191,802	133,775	133,775
Loans, net	Level 2	661,990	660,953	645,774	644,030
FHLB and Other Bank Stock		5,471	N/A	5,454	N/A
<b>Financial Liabilities:</b>					
Noninterest-Bearing and Interest-Bearing					
Demand Deposits	Level 1	750,273	750,273	678,967	678,967
Interest-Bearing Time Deposits	Level 2	78,286	77,800	112,050	109,565

## SUNCREST BANK

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

#### NOTE Q - 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 \$360,000 in contributions for 2019 and approximately \$252,000 in contributions for 2018.

#### NOTE R - 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 2019 is 2.5%. 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, 2019 and 2018, that the Bank meets all capital adequacy requirements.

As of December 31, 2019 and 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  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE R - 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
<b><u>As of December 31, 2019:</u></b>						
Total Capital (to Risk-Weighted Assets)	\$109,426	14.8%	\$59,280	8.0%	\$74,100	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$103,887	14.0%	\$44,460	6.0%	\$59,280	8.0%
CET1 Capital (to Risk-Weighted Assets)	\$103,887	14.0%	\$33,345	4.5%	\$48,165	6.5%
Tier 1 Capital (to Average Assets)	\$103,887	10.9%	\$38,100	4.0%	\$47,625	5.0%
<b><u>As of December 31, 2018:</u></b>						
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%

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.