2017

Consolidated Financial Report

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Pacific

Coast

Bankers'

Bancshares

and

Subsidiaries

Consolidated

Financial

Report

December 31,

2017

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RSM

Independent Auditor's Report

RSM US LLP

To the Board of Directors
Pacific Coast Bankers' Bancshares and Subsidiaries
Walnut Creek, California

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Pacific Coast Bankers' Bancshares and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016; the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

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

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pacific Coast Bankers' Bancshares and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

San Francisco, California
March 12, 2018

Consolidated

Financial

Statements

Consolidated Balance Sheets

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

	2017	2016
Assets		
Cash and due from banks	$ 10,176	$ 7,627
Federal funds sold	26,120	11,630
Interest-bearing deposits in other financial institutions	202,541	201,493
Restricted cash	10	10
Cash and cash equivalents	**238,847**	**220,760**
Securities available for sale	193,897	195,688
Time Deposits	1,129	- -
Federal Home Loan Bank stock, at cost	3,820	2,970
Federal Reserve Bank stock, at cost	1,482	1,482
Loans, net	314,842	273,956
Equipment and leasehold improvements, net	1,318	926
Cash surrender value of life insurance policies	7,766	7,595
Fair value of derivative contracts	54,281	56,376
Interest receivable and other assets	7,370	8,235
Total assets	**$ 824,752**	**$ 767,988**
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing	$ 455,225	$ 413,563
Interest-bearing	196,954	168,747
Total deposits	**652,179**	**582,310**
Federal funds purchased	37,635	53,985
FHLB advances	40,000	30,000
Trust preferred securities	19,589	19,589
Fair value of derivative contracts	15,798	21,669
Interest payable and other liabilities	7,675	9,484
Total liabilities	**772,876**	**717,037**
Commitments and Contingencies *(Note 10, 11, and 12)*		
Shareholders' Equity		
Preferred stock ($100 par value); authorized 10,000,000 shares; Series D, 49,500 shares issued and outstanding at December 31, 2017 and 2016	4,950	4,950
Common stock (no par value); authorized 10,000,000 shares; 1,084,372 shares and 1,112,188 shares issued and outstanding at December 31, 2017 and 2016, respectively	21,837	22,345
Retained earnings	26,926	24,900
Accumulated other comprehensive loss	(1,837)	(1,244)
Total shareholders' equity	**51,876**	**50,951**
Total liabilities and shareholders' equity	**$ 824,752**	**$ 767,988**

See notes to consolidated financial statements

Consolidated Statements of Income

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares and Subsidiaries
Years ended December 31, 2017 and 2016

	2017	2016
Interest and dividend income		
Interest and fees on loans	$ 13,235	$ 12,450
Interest on securities	5,065	3,456
Interest on federal funds sold	2,425	1,419
Other	47	59
Total interest and dividend income	**20,772**	**17,384**
Interest expense		
Interest on deposits	2,542	891
Interest on FHLB advances and other borrowings	882	378
Interest on trust preferred securities	657	557
Interest on federal funds purchased	348	187
Total interest expense	**4,429**	**2,013**
Net interest income	**16,343**	**15,371**
Provision for (reduction of provision for) loan losses	100	(250)
Net interest income after provision for (reduction of provision for) loan losses	**16,243**	**15,621**
Non-interest income		
Transaction, brokerage and service fees	14,574	17,227
Account analysis fees	6,423	6,888
Realized gain on derivative contract settlements	4,959	4,448
Net loss from change in fair value of derivatives	(4,020)	(4,190)
Net realized gain on sale of assets	1	87
Other non-interest income	3,510	3,595
Total non-interest income	**25,447**	**28,055**
Non-interest expense		
Salaries and employee benefits	17,792	18,445
Service charges	8,299	8,068
Occupancy and equipment	1,441	1,545
Other non-interest expense	6,134	5,546
Total non-interest expense	**33,666**	**33,604**
Income before income taxes	**8,024**	**10,072**
Income taxes	**4,150**	**3,965**
Net income	**$ 3,874**	**$ 6,107**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares and Subsidiaries
Years Ended December 31, 2017 and 2016

	2017	2016
Net income	$ 3,874	$ 6,107
Other comprehensive loss, net of tax:		
Unrealized losses on investment securities	(265)	(1,580)
Comprehensive income	**$ 3,609**	**$ 4,527**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(Dollars in Thousands, except per share amounts)

Pacific Coast Bankers' Bancshares and Subsidiaries
Year Ended December 31, 2017

	Shares of Common Stock	Shares of Preferred Stock	Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total
Balance at January 1, 2017	1,112,188	49,500	$ 22,345	$ 4,950	$ 24,900	$ (1,244)	$ 50,951
Net income					3,874		3,874
Other comprehensive loss						(265)	(265)
Reclassification of tax effects - ASU 2018-02					328	(328)	-
Cash dividends on preferred series D					(347)		(347)
Cash dividends on common stock ($1.25 per share)					(1,375)		(1,375)
Common stock repurchased	(30,546)		(626)		(454)		(1,080)
Common stock issued	2,730		118				118
Balance at December 31, 2017	**1,084,372**	**49,500**	**$ 21,837**	**$ 4,950**	**$ 26,926**	**$ (1,837)**	**$ 51,876**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity
(Dollars in Thousands, except per share amounts)

Pacific Coast Bankers' Bancshares and Subsidiaries
Year Ended December 31, 2016

	Shares of Common Stock	Shares of Preferred Stock	Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2016	1,112,608	49,500	$ 22,345	$ 4,950	$ 22,437	$ 336	$ 50,068
Net income					6,107		6,107
Other comprehensive loss						(1,580)	(1,580)
Reclassification of tax effects - ASU 2018-02							-
Cash dividends on preferred series D					(347)		(347)
Cash dividends on common stock ($2.95 per share)					(3,281)		(3,281)
Common stock repurchased	(420)				(16)		(16)
Balance at December 31, 2016	**1,112,188**	**49,500**	**$ 22,345**	**$ 4,950**	**$ 24,900**	**$ (1,244)**	**$ 50,951**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(Dollars in Thousands)

Pacific Coast Bankers' Bancshares and Subsidiaries
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Net income	$ 3,874	$ 6,107
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	591	748
Amortization of premiums on securities, net	1,903	1,443
Deferred tax provision (benefit)	1,366	(551)
Provision for (reduction of provision for) loan losses	100	(250)
Provision for unfunded commitments	(3)	8
Noncash fair value adjustment on derivatives	(3,777)	(8,160)
Deferred loan origination costs, net of amortization	153	(114)
Loss on disposal of intangible asset	55	- -
Changes in other assets and other liabilities	(457)	(161)
Net cash provided by (used in) operating activities	**3,805**	**(930)**
Cash Flows from Investing Activities		
Activity in securities available for sale:		
Maturities, prepayments and calls	37,821	29,728
Purchases	(38,377)	(155,932)
Purchases of FRB stock and FHLB stock	(850)	(956)
Net increase in loans	(41,139)	(5,901)
Purchase of equipment and leasehold improvements	(988)	(367)
Purchase of time deposits	(1,129)	- -
Net cash used in investing activities	**(44,662)**	**(133,428)**
Cash Flows from Financing Activities		
Net increase in deposits	69,869	63,775
Proceeds from FHLB advances	10,000	- -
Purchase of Fed Funds, net	(16,350)	53,985
Issuance of common stock	118	- -
Repurchases of common stock	(1,080)	(16)
Cash dividends on common stock	(3,266)	(2,737)
Cash dividends on preferred stock	(347)	(347)
Net cash provided by financing activities	**58,944**	**114,660**
Net increase (decrease) in cash and cash equivalents	**18,087**	**(19,698)**
Cash and Cash Equivalents		
Beginning of the year	220,760	240,458
End of the year	**$ 238,847**	**$ 220,760**

Consolidated Statements of Cash Flows (Cont.)

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares and Subsidiaries
Years Ended December 31, 2017 and 2016

	2017	2016
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 4,429	$ 1,988
Income taxes paid, net of refunds received	2,791	4,680
Supplemental Disclosures of Non-Cash Investing Activities		
Fair value adjustment of securities available for sale	(265)	(1,580)
Supplemental Disclosures of Non-Cash Financing Activities		
Dividends declared but not yet paid	-	1,891

See notes to consolidated financial statements.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Pacific Coast Bankers' Bancshares and Subsidiaries (the Company) consist of a bank holding company and one operating subsidiary: Pacific Coast Bankers' Bank (the Bank). The Bank has a wholly owned subsidiary, PCBB Capital Markets (the Broker-Dealer). PCBB Capital Markets was dissolved on February 5, 2018. The Company also owns the outstanding stock of PCBB Trust I and PCBB Trust II, which were organized for the purpose of issuing Company-obligated trust preferred securities. The Company is subject to regulations imposed by supervisory agencies and undergoes periodic examinations.

The Bank is a state chartered bank and a Federal Reserve Bank (FRB) member. The Bank is defined by statute as a "bankers' bank," under which it is organized to transact business with other financial institutions and is primarily owned by financial entities. The Bank provides a full range of correspondent services to independent financial institutions throughout the United States, including cash management, consulting, hedging, cash letter settlement, lending, foreign exchange, and other services.

The Broker-Dealer was registered with and regulated by the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). Effective December 31, 2017, the Broker Dealer no longer provides securities and related services and is no longer registered with the SEC and FINRA.

Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and practices within the financial services industry. Preparation of consolidated financial statements in conformity with GAAP includes the use of certain estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the Company's results and its disclosure for the periods presented. Actual results could differ materially from those derived from estimates and assumptions. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the accounting for income taxes, the valuation of securities available for sale, and the valuation of derivative contracts.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany transactions and balances have been eliminated.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation, with no effect on previously reported shareholders' equity and net income.

Subsequent Events

Management has evaluated subsequent events through March 12, 2018, which is the date the consolidated financial statements were available to be issued. All material subsequent events that required recognition or disclosure are reflected in the consolidated financial statements for the year ended December 31, 2017.

Cash Equivalents and Cash Flows

Cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest-bearing deposits in other financial institutions that have an initial maturity of less than 90 days when acquired by the Bank. Generally, federal funds are sold for one-day periods. Cash flows from loans, federal funds purchased and deposits are reported net. The Company maintains its cash in accounts maintained in depository institutions that may, at times, exceed federally insured limits. The Company has not experienced losses from these accounts.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Preferred Series D Stock

The Board of Directors designated up to 100,000 shares for issuance and the Company has issued preferred D cumulative perpetual preferred stock, which pays dividends at a rate of 7.00 percent on a semi-annual basis on April 1 and October 1. The preferred D shares are redeemable by the Company at any time. Preferred D shares have no right to exchange or convert such shares into any other securities. In general, preferred D shares shall not have any voting rights, except as may be required by law or class voting rights on particular matters.

Interest-Bearing Deposits in Other Financial Institutions

Interest-bearing deposits consist of balances in financial institutions and deposits with the FRB, which are carried at cost.

Securities Available for Sale

Securities available for sale consist of debt securities that the Bank intends to hold for an indefinite period but not necessarily to maturity. Such securities may be sold to implement the Bank's asset/liability management strategies and in response to changes in interest rates and other factors. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported as a net amount in a separate component of shareholders' equity entitled *Accumulated Other Comprehensive Loss*. Realized gains and losses on securities available for sale, determined using the specific-identification method, are included in earnings. Amortization of premiums and accretion of discounts are recognized in interest income.

Management evaluates securities for other-than-temporary impairment (OTTI) when economic or market conditions warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near term prospects of the issuer, including an evaluation of credit ratings, asset quality and general market conditions; (3) the impact of changes in market interest rates; (4) the intent of the Company to sell a security; and (5) whether it is more likely than not that the Company will have to sell the security before recovery of its cost basis.

If the Company intends to sell an impaired security, an other-than-temporary loss is recognized for the difference between the fair value and the amortized cost. If a security that the Company does not intend to sell is determined to be subject to OTTI, loss recognition is limited solely to the extent of the credit portion in the estimated loss, with the remaining market portion of the loss recognized in other comprehensive income.

Time Deposits

Time deposits consist of financial term deposits in denominations under $250 thousand. These deposits are carried at cost and held till maturity.

Federal Home Loan Bank and Federal Reserve Bank Stocks

The Bank is required to hold non-marketable equity securities from the FRB and the Federal Home Loan Bank (FHLB) of San Francisco as a condition of membership. These securities do not have a readily determinable fair value as their ownership is restricted; there is no market for these securities.

The Company accounts for these securities in accordance with Accounting Standards Codification (ASC) 942-325-35, *Financial Services – Depository and Lending: Investments – Other*, under which stock is carried at cost and periodically evaluated for impairment. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating FRB and FHLB stocks for impairment, management considers the ultimate recoverability of the par value based on the ability of the issuer to perform its obligations. FHLB and FRB stocks were not considered impaired during the years

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Federal Home Loan Bank and Federal Reserve Bank Stocks (Cont.)

ended December 31, 2017 and 2016.

Loans Receivable and Allowance for Loan Losses

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 principal balances and adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan fees and certain direct loan origination costs are deferred and the net fee or cost is recognized as an adjustment to interest income using the interest method.

Because some loans may not be repaid in full, an allowance for loan losses is recorded. An allowance for loan losses is a valuation allowance for probable incurred loan losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance represents an amount, which, in management's judgment, will be adequate to absorb probable losses on existing loans that may become uncollectible.

Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, historical losses, loan concentrations, trends in past dues and non-accrual loans, loan risk ratings, economic conditions, market conditions and other internal and external factors that influence each portfolio segment and review of specific impaired loans. The combination of these results are compared monthly to the recorded allowance for loan losses for reasonableness and material differences are adjusted by increasing or decreasing the provision for loan losses.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a loan that management believes indicate the probability that a loss has been incurred. Loans are considered impaired when, based on current information and events, it is probable the Bank will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on an individual loan basis. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at present value of estimated cash flows using the loan's existing rate or fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or a portion thereof, are charged off when deemed uncollectible.

The ultimate recovery of all loans is susceptible to future market factors beyond the Bank's control. These factors may result in losses or recoveries differing significantly from those provided in the consolidated financial statements. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations. As a matter of policy, the Bank estimates a liability for possible losses associated with unfunded loan commitments. This estimate applies a percentage factor of the total unfunded loan commitments.

Interest income on loans is accrued over the term of the loans based on the principal outstanding. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, as well as when required by regulatory provisions. Past-due status is based on contractual terms of the loan. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments received on nonaccrual loans are applied as a reduction to principal. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Troubled Debt Restructuring

A troubled debt restructuring (TDR) is a concession provided by the Bank to a borrower with the expectation of receiving a greater benefit, such as more cash or other value, or of increasing the probability of receipt, by granting the concession than by not granting it. The concession is provided due to the borrower's financial difficulties provoked by economic or legal reasons. Modifications in loan terms under TDR include, but are not limited to, a reduction in interest rate, an extension of the maturity at an interest rate below market, a reduction in the face amount of debt, a reduction in accrued interest, or an extension, deferral, renewal or rewrite. The selection of the type and extent of concession granted to the borrower is based on expectations to obtain more cash or other value from the borrower, or to increase the probability of receipt by granting the concession than by not granting it.

The restructured loans may be classified as "special mention" or "substandard," depending on the severity of the modification, and are considered impaired. Loans that were paid current at the time of modification may be upgraded in their classification after a sustained period of repayment performance, usually six months or longer.

Past-due loans at the time of modification are classified as substandard and are considered impaired and placed on nonaccrual status. Those loans may be upgraded in their classification and placed on accrual status upon a sustained period of repayment performance during six months or longer and the achievement of reasonable assurance that repayment will continue, however such loans continue to be considered impaired. Consistent with regulatory guidance, a TDR loan that is subsequently modified in another restructuring agreement but has shown sustained performance and classification as a TDR will be removed from TDR status provided the modified terms were market based at the time of the modification.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at their cost less accumulated depreciation. Equipment is depreciated over the economic life of the asset using the straight-line method. Leasehold improvements are depreciated over the lesser of the lease term and the economic life. Gains or losses on dispositions are reflected in earnings.

Assets are reviewed for impairment when events indicate that their carrying value may not be recoverable. If management determines impairment exists, the carrying amount is adjusted and impairment loss is recognized.

Cash Surrender Value of Life Insurance Policies

Life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies, as well as insurance proceeds received, are reflected in non-interest income on the consolidated statement of income and are not subject to income taxes.

Account Analysis Fees

The Bank analyzes certain demand deposit accounts (Analyzed Accounts) for those customers who choose to maintain account balances to offset some or all of their account service charges. Account service charges include account activity fees charged by the Bank, as well as third-party service charges, including FRB charges passed on to customers. The Bank reduces account service charges by an earnings credit, based upon the average balances maintained each month in the Analyzed Accounts.

Transaction, Brokerage and Service Fees

Transaction and service fee income includes brokerage fees for loans, domestic and international wires, as well as other transaction and services fees. Income is recognized on the trade date basis for brokerage fees and at the time service is provided for other services fees.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

As-Agent Fees

The Company executes daily transactions in federal funds and excess balance accounts at the FRB on an as-agent basis for its customers. Revenue is recorded based on maturity.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. The latter is deemed to occur when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange the assets it received and provides more than a modest benefit to the transferor; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loan receivables), the transfer must meet the definition of participating interest in order to account for the transfer as a sale, for which the following conditions must be met:

- Pro rata ownership in the entire financial asset.
- From the date of the transfer, all cash flows received from the entire financial assets are divided proportionately among the participating interest holders in an amount equal to their shares of ownership.
- The rights of each participating interest holder have the same priority and no participating interest holder's interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights.
- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to the pledge or exchange.

Foreclosed Real Estate

Real estate properties acquired through or in lieu of foreclosure are to be sold and are initially recorded at fair value, net of estimated selling expenses and disposal costs, determining the cost basis. At time of transfer, the cost basis is compared to fair value and write-downs are charged to the allowance for loan losses.

Foreclosed real estate is evaluated regularly by comparing the cost basis to current fair values. Reductions in carrying values and revenue and the disbursement of foreclosed properties related expenses are allocated to operations. At December 31, 2017 and 2016, the Company had no foreclosed real estate.

Income Taxes

Deferred income taxes reflect the effect of temporary differences between the tax basis of assets and liabilities and the reported amounts of those assets and liabilities for financial reporting purposes. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The respective tax benefits recognized in the consolidated financial statements are

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Income Taxes (Cont.)

measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes and accounting in interim periods. When applicable, the Company will recognize interest and penalties related to unrecognized tax benefits within the income tax expense line on the accompanying consolidated statements of income. Accrued interest and penalties will be included within the related tax liability line on the consolidated balance sheets, when applicable. During the years ended December 31, 2017 and 2016, no significant interest or penalties were accrued.

Derivatives and Hedging Activities

Credit Risk

The Bank is subject to risk of non-performance by counterparties in derivative agreements. The Bank manages counterparty credit risk through credit analyses and collateral requirements and by following the requirements of the Bank's risk management policies and credit guidelines. Based on the master netting arrangements, credit analyses and collateral requirements in place, management does not anticipate credit losses on its agreements, for which no allowance for losses is deemed necessary.

Intermediation

As a service to its customers, the Bank enters into offsetting interest rate exchange agreements, acting as an intermediary in offsetting derivatives transactions with customer banks and other counterparties. This intermediation allows customers indirect access to the derivatives market. The offsetting derivatives used in intermediary activities do not receive hedge accounting treatment in accordance with derivative topic of the Financial Accounting Standards Board (FASB) ASC and are separately marked to fair value through earnings.

See Note 16 for more information on derivatives provided as a service to customers.

Hedging

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated to specific assets and liabilities on the consolidated balance sheets or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair value of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when: (1) it is determined that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including forecasted transactions); (2) the derivative expires or is sold, terminated or exercised; (3) the derivative is designated as a hedge instrument because it is unlikely that a forecasted transaction will occur; or (4) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the consolidated balance sheets at its fair value and gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the consolidated balance sheets, with subsequent changes in its fair value recognized in current period earnings.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Fair Value of Financial Instruments

ASC 820, Fair Value Measurements and Disclosures establishes a framework for measuring fair value. The framework comprises a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; data other than observable quoted prices or derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Data unobservable and significant to the fair value measurement, including financial instruments whose value is determined using discounted cash flows, as well as instruments for which the determination of fair value requires significant judgment or estimation.

Provided fair value disclosures and balances, which pertain to the Company's consolidated financial statements do not represent the aggregate net fair value of the Company. Further, fair value estimates are based on various assumptions, methodologies and subjective considerations which vary widely among different financial institutions and which are subject to change.

The Company's fair value assessments are constructed based on the following methods and assumptions:

Securities Available for Sale

The fair value of securities is based on quoted market prices, where available. If quoted market prices are not available, fair value is based on quoted market prices for comparable instruments.

Off-Balance-Sheet Instruments

The fair value of commitments and guarantees to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms and the customers' creditworthiness. Since the majority of the Company's off-balance-sheet instruments consist of non-fee producing, variable-rate commitments, the Company has determined that they do not have a distinguishable fair value.

Derivative Contracts

The carrying amount of interest rate caps, interest rate floors, interest rate swaps, and prepayment agreements approximates fair value and is estimated using a discounted cash flow method based on current incremental rates for similar types of arrangements.

Recent Accounting Pronouncements

ASU 2014-09 "*Revenue from Contracts with Customers*" which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, "Revenue Recognition-Construction-Type and Production-Type Contracts." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under previous guidance. This may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for the Company beginning January 1, 2019 and, at that time the Company may adopt the new standard under the full retrospective approach or

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Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Recent Accounting Pronouncements (Cont.)

the modified retrospective approach. Early adoption is permitted. The Company has not evaluated the method and impact the adoption of ASU 2014-09 will have on the Company's consolidated financial statements and disclosures. The Company is currently evaluating to determine the potential impact the new standard will have on the Company's consolidated financial statements.

ASU 2016-1, "No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 will be effective on January 1, 2018 and is not expected to have a significant impact on our financial statements. The Company elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and, as such these disclosures are not included herein.

In February 2016, the FASB issued ASU No. 2016-02, *"Leases."* Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018; early adoption is permitted. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. They have the option to use certain relief; full retrospective application is prohibited. The Company is currently evaluating the provisions of ASU No. 2016-02 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Recent Accounting Pronouncements (Cont.)

In June 2016, the FASB issued ASU No. 2016-13, *"Measurement of Credit Losses on Financial Instruments."* This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, 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 annual reporting periods beginning after December 15, 2020; early adoption is permitted for annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is currently evaluating the provisions of ASU No. 2016-13 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, *"Classification of Certain Cash Receipts and Cash Payments."* Current GAAP is unclear or does not include specific guidance on how to classify certain transactions in the statement of cash flows. This ASU is intended to reduce diversity in practice in how eight particular transactions are classified in the statement of cash flows. ASU No. 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. Entities will be required to apply the guidance retrospectively. If it is impracticable to apply the guidance retrospectively for an issue, the amendments related to that issue would be applied prospectively. As this guidance only affects the classification within the statement of cash flows, ASU No. 2016-15 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230) - Restricted Cash." ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220) – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted Tax Cuts & Jobs Act. The amendments eliminate the stranded tax effects and improve the usefulness of information in the financial statements. The amount of the reclassification consists of the difference between the historical corporate

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December 31, 2017 and 2016

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Recent Accounting Pronouncements (Cont.)

income tax rates and the newly enacted 21% corporate income tax rate. The amendments are effective for all entities for annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company elected to early adopt the amendments of ASU 2018-02 which resulted in a reclassification of $328 thousand between AOCI and retained earnings.

Commitments and Contingencies

In accordance with applicable accounting guidance, the Company establishes reserves for legal expenses and disputes resolution when those matters represent contingencies that are both probable and the amount is estimable, including claims and legal actions arising in the ordinary course of business. These reserves are recorded as liabilities.

Note 2 - Agency Program

The Bank acts as an agent for selling overnight federal funds on behalf of respondent financial institutions. Participating institutions place trades daily and, simultaneously, the Bank makes the sales to preapproved purchasing banks. The Bank also maintains balances in excess balance accounts at the FRB on behalf of respondent banks. At December 31, 2017 and 2016, outstanding federal funds sold and excess balance accounts totaled $1.7 billion and $1.6 billion, respectively. As a result of this service, the Bank recorded as-agent fee income of $0.5 million for each of the years ended December 31, 2017 and 2016. The Bank is a preapproved purchasing bank in the overnight federal funds program and had $38 million and $54 million federal funds purchased at December 31, 2017 and 2016, respectively.

Note 3 - Cash and Cash Equivalents

Cash and due from banks includes balances with the FRB and other correspondent banks. These balances include pass-through reserve balances on behalf of respondent banks, as well as the Bank's reserve balance at the FRB. Reserve balances for the years ended December 31, 2017 and 2016, were approximately $216.2 million and $204.2 million, respectively.

The Bank also provides federal funds facilities to respondent banks. These uncommitted facilities are approved for up to one year and permitted usage is subject to terms and conditions as stipulated by the Bank. At December 31, 2017 and 2016, the Bank had provided federal funds facilities to 363 respondent banks for $2.5 billion and 371 respondent banks for $2.5 billion, respectively. Outstanding agreements represented $26.1 million and $11.6 million at December 31, 2017 and 2016, respectively.

Note 4 - Investment Securities

The amortized cost and estimated fair value of securities available for sale as of December 31 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2017				
Agency mortgage-backed securities	$ 196,414	$ 353	$ (2,870)	$ 193,897
December 31, 2016				
Agency mortgage-backed securities	$ 197,761	$ 615	$ (2,688)	$ 195,688

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 4 - Investment Securities (Cont.)

The following shows the unrealized gross losses and fair value of securities in the securities available for sale portfolio at December 31 by length of time that individual securities in each category have been in a continuous loss position (in thousands):

	Less than 12 months		More than 12 months		Total Unrealized	
	Unrealized Gross Loss	Unrealized Fair Value	Unrealized Gross Loss	Unrealized Fair Value	Gross Loss	Fair Value
December 31, 2017						
Agency mortgage-backed securities	$ (68)	$ 15,937	$ (2,802)	$ 129,711	$ (2,870)	$ 145,648
December 31, 2016						
Agency mortgage-backed securities	$ (2,684)	$ 162,609	$ (4)	$ 350	$ (2,688)	$ 162,959

There were 20 securities that had been in an unrealized loss position for 12 months or more at December 31, 2017 and one security at December 31, 2016.

The amortized cost and estimated fair value of available for sale debt securities, by contractual maturity, at December 31, 2017, are shown below (in thousands). Actual and contractual maturities may differ due to issuers' right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in 1 year or less	$ 63	$ 63
Due from 1 to 5 years	790	792
Due from 5 to 10 years	25,029	25,165
Due after 10 years	170,532	167,877
Total	**$ 196,414**	**$ 193,897**

Securities with a fair value of $141 million and $32.4 million were pledged to secure borrowing arrangements as of December 31, 2017 and 2016, respectively.

Securities with a fair value of $6.2 million and $9.7 million were pledged to derivative counterparties as of December 31, 2017 and 2016, respectively.

The Company had no gross realized gains or losses on securities for the years ended December 31, 2017 and 2016. The unrealized losses on the Company's agency mortgage backed securities at December 31, 2017 were primarily attributable to increases in market interest rates subsequent to their purchase by the Company. The Company expects the fair value of these securities to recover as the securities approach their maturity dates or sooner if market yields for such securities decline. The Company does not believe that these securities are other than temporarily impaired because of their credit quality or related to any issuer or industry specific event. Based on management's evaluation and intent, the unrealized losses related to the investment securities in the above tables are considered temporary.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 5 - Loans and Allowance for Loan Losses

Loans at December 31 consist of the following (in thousands):

	2017	2016
Commercial construction	$ 15,864	$ 12,629
Commercial real estate	209,859	176,488
Multifamily real estate	43,950	44,192
1 to 4 family real estate	1,551	5,494
Agriculture	5,500	- -
Commercial and industrial	42,561	39,322
Loans before deferrals and allowance	**319,285**	**278,125**
Net deferred loan origination fees	241	394
Allowance for loan losses	(4,684)	(4,563)
Loans, net	**$ 314,842**	**$ 273,956**

The Bank facilitates the participation of loans on behalf of its respondent banks, generally retaining a portion in its portfolio.

As of December 31, 2017 and 2016, loans totaling $120 million and $128 million, respectively, were pledged to the FRB to secure a borrowing facility. There was no amount drawn on this facility as of December 31, 2017 and 2016. As of December 31, 2017 and 2016, loans totaling $183 million and $135 million, respectively were pledged to the FHLB to secure a borrowing facility.

Risk Management

The Company has lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management and the Board of Directors review and approve these policies and procedures on a regular basis. A reporting system supplements the internal review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. The Company also engages a third party to perform a credit review of the loan portfolio regularly.

As of December 31, 2017, approximately 87 percent of the Company's loans are for real estate and construction for both residential and commercial properties, of which construction represents approximately 5 percent of the total loan portfolio. As of December 31, 2017, approximately 13 percent of the Bank's loans are for general commercial uses, including professional, retail and small business. Generally, real estate loans are collateralized by real estate property, while commercial loans are collateralized by business assets.

Commercial real estate and multifamily real estate loan underwriting standards are governed by the loan policies in place at the time the loan is approved. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, the Company avoids financing single-purpose projects unless other underwriting factors are present to help

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 5 - Loans and Allowance for Loan Losses (Cont.)

Risk Management (Cont.)

mitigate risk. The Company has geographic concentrations in commercial real estate and multifamily loans. At December 31, 2017, 62 percent of commercial real estate loans were located in California, 7 percent in Washington, and 6 percent in Oregon. The remaining 25 percent of commercial real estate loans are distributed among 21 other states. The Company had 87 percent of the multifamily loan portfolio located in California. The remaining 13 percent of multifamily loans are distributed among 4 other states.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The actual cash flows from borrowers, however, may differ from projected amounts and the collateral securing these loans may fluctuate in value. Moreover, commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. At December 31, 2017, the Company owned $30.2 million in syndicated loans representing 71 percent of the outstanding commercial and industrial loans. As these are purchased portions of large syndicated loans, the Company has limited influence on their management. A secondary market exists for these credits, which improves the liquidity of these loans, which also introduces market risk. Loans for construction, 1 to 4 family residential properties and other loans do not make up a significant number of loans or outstanding balances to be considered material.

Loans for 1 to 4 family residential underwriting standards are governed by the loan policies in place at the time the loan is approved. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Loans to 1 to 4 family residential borrowers are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The actual cash flows from borrowers, however, may differ from projected amounts and the collateral securing these loans may fluctuate in value.

Agriculture loan underwriting standards are governed by the loan policies in place at the time the loan is approved. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Agriculture loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The actual cash flows from borrowers, however, may differ from projected amounts and the collateral securing these loans may fluctuate in value.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 5 - Loans and Allowance for Loan Losses (Cont.)

Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the due date. An age analysis of past due loans (including both accruing and non-accruing loans), segregated by class of loans, as of December 31, 2017 and 2016 was as follows (in thousands):

Age Analysis of Past Due Loans as of December 31, 2017

	31-89 Days Past Due	90 or More Days Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real Estate:						
Commercial construction	$ - -	$ - -	$ - -	$ 15,864	$ 15,864	$ - -
Commercial real estate	- -	213	213	209,646	209,859	- -
Multifamily real estate	- -	- -	- -	43,950	43,950	- -
1 to 4 Family real estate	- -	357	357	1,194	1,551	- -
Agriculture	- -	- -	- -	5,500	5,500	- -
Commercial and industrial	- -	- -	- -	42,561	42,561	- -
	$ -	**$ 570**	**$ 570**	**$ 318,715**	**$ 319,285**	$ - -

Age Analysis of Past Due Loans as of December 31, 2016

	31-89 Days Past Due	90 or More Days Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real Estate:						
Commercial construction	$ - -	$ - -	$ - -	$ 12,629	$ 12,629	$ - -
Commercial real estate	- -	282	282	176,206	176,488	- -
Multifamily real estate	- -	- -	- -	44,192	44,192	- -
1 to 4 Family real estate	- -	380	380	5,114	5,494	- -
Agriculture	- -	- -	- -	- -	- -	- -
Commercial and industrial	- -	- -	- -	39,322	39,322	- -
	$ -	**$ 662**	**$ 662**	**$ 277,463**	**$ 278,125**	**$ - -**

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 5 - Loans and Allowance for Loan Losses (Cont.)

Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses and impaired loans by portfolio segment for the years ended December 31, 2017 and 2016 (in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Allowance for Loan Losses
For the Year Ended December 31, 2017

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Agriculture	Commercial and Industrial	Other	Total
December 31, 2017								
Beginning balance	$ 340	$ 2,768	$ 540	$ 66	$ - -	$ 849	$ - -	$ 4,563
Charge-offs	- -	- -	- -	- -	- -	- -	- -	- -
Recoveries	- -	21	- -	- -	- -	- -	- -	21
Provisions	13	120	(53)	(50)	70	- -	- -	100
Ending balance	**$ 353**	**$ 2,909**	**$ 487**	**$ 16**	**$ 70**	**$ 849**	**$ - -**	**$ 4,684**
Collectively evaluated for impairment	$ 353	$ 2,909	$ 487	$ 16	$ 70	$ 849	$ - -	$ 4,684

Allowance for Loan Losses
For the Year Ended December 31, 2016

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Agriculture	Commercial and Industrial	Other	Total
December 31, 2016								
Beginning balance	$ 406	$ 2,763	$ 276	$ 119	$ - -	$ 913	$ 4	$ 4,481
Charge-offs	- -	- -	- -	- -	- -	- -	- -	- -
Recoveries	- -	26	230	- -	- -	76	- -	332
Provisions	(66)	(21)	34	(53)	- -	(140)	(4)	(250)
Ending balance	**$ 340**	**$ 2,768**	**$ 540**	**$ 66**	**$ - -**	**$ 849**	**$ - -**	**$ 4,563**
Collectively evaluated for impairment	$ 340	$ 2,768	$ 540	$ 66	$ - -	$ 849	$ - -	$ 4,563

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 5 - Loans and Allowance for Loan Losses (Cont.)

Allowance for Loan Losses (Cont.)

The following is a summary of information pertaining to impaired loans as of December 31, 2017 and 2016 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2017					
With no related allowance recorded:					
Commercial real estate	$ 213	$ 213	$ -	$ 609	$ -
1 to 4 family real estate	357	357	- -	365	- -
With an allowance recorded:					
None	- -	- -	- -	- -	- -
	$ 570	**$ 570**	**$ - -**	**$ 974**	**$ - -**
December 31, 2016					
With no related allowance recorded:					
Commercial real estate	$ 282	$ 282	$ -	$ 314	$ -
1 to 4 family real estate	380	380	- -	396	- -
With an allowance recorded:					
None	- -	- -	- -	- -	- -
	$ 662	**$ 662**	**$ - -**	**$ 710**	**$ - -**

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 5 - Loans and Allowance for Loan Losses (Cont.)

There were no commitments to lend additional funds to borrowers whose loans had been modified for the years ended December 31, 2017 and 2016.

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) risk grade by loan type, (ii) level, (iii) delinquency status (iv) net charge-offs, (v) non-performing status and (vi) general economic conditions.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 10. A description of the general characteristics of the risk grades is as follows:

Grades 1 to 5 - These grades reflect various levels of acceptable credit risk where grade 1 represents the highest credit quality and lowest risk of default and grade 5 represents moderate credit risk based upon mitigating factors.

Grade 6 - This grade represents existing loans with a higher than average credit risk but are currently within the Company's credit risk tolerance for a passing loan. A loan will be downgraded to a grade 6 if it warrants greater than routine attention by bank personnel due to conditions affecting the borrower, the borrower's industry, or the economic environment. This risk grade is utilized on a temporary basis for a pass grade.

Grade 7 - This grade reflects loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date.

Grade 8 - This grade reflects loans that are insufficiently protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if applicable. Under this risk grade, a loan has defined weaknesses that make payment default or principal exposure likely, but not yet certain. Generally, the Company ceases the accrual of interest on these loans, although circumstances may exist where the continuation of the interest accrual is supported.

Grade 9 - This grade includes loans with a high probability of loss, but because of certain important and reasonably specific pending factors, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Grade 10 - This grade includes loans classified as loss which are considered uncollectible and of low value for which the continuation as a bankable asset is not warranted. While this classification results in the prompt charge-off of the loan, it is not intended to imply that the loan or some portion of it will never be collected, nor does it in any way imply that there has been a forgiveness of debt.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 5 - Loans and Allowance for Loan Losses (Cont.)

The following is a summary of the credit risk profile by internally assigned grades as of December 31, 2017 and 2016 (in thousands):

Credit Quality Indicators
As of December 31, 2017

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Agriculture	Commercial and Industrial	Total
Grade							
Grades 1 - 6	$ 15,864	$ 206,735	$ 43,950	$ 1,194	$ 5,500	$ 42,561	$ 315,804
Grade 7	- -	2,127	- -	- -	- -	- -	2,127
Grade 8	- -	997	- -	357	- -	- -	1,354
Grade 9	- -	- -	- -	- -	- -	- -	- -
Grade 10	- -	- -	- -	- -	- -	- -	- -
	$ 15,864	**$ 209,859**	**$ 43,950**	**$ 1,551**	**$ 5,500**	**$ 42,561**	**$ 319,285**
Nonaccrual	$ - -	$ 213	$ - -	$ 357	$ - -	$ - -	$ 570

Credit Quality Indicators
As of December 31, 2016

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Agriculture	Commercial and Industrial	Total
Grade							
Grades 1 - 6	$ 12,629	$ 174,297	$ 44,192	$ 5,114	$ - -	$ 39,322	$ 275,554
Grade 7	- -	8	- -	- -	- -	- -	8
Grade 8	- -	2,183	- -	380	- -	- -	2,563
Grade 9	- -	- -	- -	- -	- -	- -	- -
Grade 10	- -	- -	- -	- -	- -	- -	- -
	$ 12,629	**$ 176,488**	**$ 44,192**	**$ 5,494**	**$ - -**	**$ 39,322**	**$ 278,125**
Nonaccrual	$ - -	$ 282	$ - -	$ 380	$ - -	$ - -	$ 662

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Note 5 - Loans and Allowance for Loan Losses (Cont.)

A risk grade may be changed at any time, based upon the assessment of the current financial information available from the borrower. Loans with passing risk grades 1 through 5 are reviewed at least annually for any risk grade changes. Loans with risk grades of 6 through 9 are reviewed at least quarterly in order to monitor the trends in the financial strength of the borrowers, reassess the credit risk and determine a more current estimate of losses. Once it is determined that a loan is a loss it receives a grade 10 and is charged off at that time.

Loans are placed on non-accrual status when the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, the Company considers the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to the Company's collateral position. Regulatory provisions would typically require the placement of a loan on non-accrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection, or (ii) full payment of principal and interest is not expected. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments received on non-accrual loans are applied to principal. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

Modifications

A modification of a loan constitutes a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Company offers and participates in various types of concessions when modifying a loan, although forgiveness of principal is rarely granted. Commercial real estate and construction loans modified in a TDR often involve dividing a note to reduce the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs for a period of time, normally two years. During that time, the borrower's entire monthly payment is applied to principal. After the lowered monthly payment period ends, the borrower resumes to paying principal and interest per the original terms with an adjusted maturity date.

Loans modified in a TDR are typically on non-accrual status prior to the restructuring and may have been subjected to partial charge-offs in some cases. As a result, loans modified in a TDR for the Company may have the financial effect of increasing the specific allowance associated with the loan. An allowance for impaired consumer and commercial loans that have been modified in a TDR is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent.

There were no TDRs affected in 2017 and 2016 and there were no amounts of loans that defaulted under their modified terms in 2017 and 2016.

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Note 6 - Equipment and Leasehold Improvements

Equipment and leasehold improvements stated at cost, less accumulated depreciation and amortization, at December 31 are as follows (in thousands):

	2017	2016
Equipment and furniture	$ 2,009	$ 2,372
Internally developed software	887	1,403
Leasehold improvements	207	182
Develop software and hardware in process	505	- -
Cost	**3,608**	**3,957**
Less accumulated depreciation and amortization	(2,290)	(3,031)
Net book value	**$ 1,318**	**$ 926**

Note 7 - Interest-Bearing Deposits

At December 31, 2017, interest-bearing deposits included money market deposits totaling $155.1 million, brokered demand deposits totaling $20 thousand, and time certificates totaling $41.9 million, with $41.8 million maturing in 2018 and $130 thousand in 2019. At December 31, 2016, interest-bearing deposits included money market deposits totaling $95.6 million, brokered demand deposits totaling $8.5 million, and time certificates totaling $64.7 million, with $62.1 million maturing in 2017 and $2.6 million in 2018.

At December 31, 2017 and 2016, the Bank had time deposits of $250 thousand or greater totaling $3.6 million and $18.2 million, respectively, and had brokered deposits of $26.4 million and $29.5 million, respectively.

Note 8 - Other Borrowings

Borrowings from the FHLB of San Francisco may include overnight advances as well as loans with terms of up to 30 years. As of December 31, 2017, the Bank had a credit facility with the FHLB of San Francisco for up to approximately $252.3 million, which is secured by pledged securities with a fair value of $141 million and pledged loans with a fair value of $166.2 million. The total outstanding under this facility was $40 million and $30 million as of December 31, 2017 and 2016, respectively, with weighted average interest rates of 1.32% and 0.82%, respectively. The outstanding FHLB borrowing of $40 million matures in 2018.

The Bank has a borrowing facility in the amount of $74 million with the FRB, secured by $119.5 million of the Bank's loans. There were no amounts outstanding on this facility as of December 31, 2017 and 2016.

Information concerning federal funds purchased for the years ended December 31 is as follows (in thousands):

	2017	2016
Average balance during the year	$ 34,984	$ 37,829
Average interest rate during the year	1.00%	0.49%
Interest rate at year-end	1.41%	0.66%
Federal funds purchased outstanding at year-end	$ 37,635	$ 53,985

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Note 9 - Trust Preferred Securities

On November 13, 2003, the Company's wholly owned special-purpose trust subsidiary, PCBB Trust I, issued $7.2 million in cumulative Trust Preferred Securities. The securities bear a variable rate of interest, indexed to the three-month LIBOR plus 2.85 percent (4.23 percent at December 31, 2017). Interest is payable quarterly.

Concurrent with the issuance of the Trust Preferred Securities, the trust used the proceeds from the Trust Debentures. The Junior Subordinated Debentures are the sole assets of the trust. The Company will pay interest on the Junior Subordinated Debentures to the trust, which represents the sole revenue and source of dividend distributions to the holders of the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payment of interest on the Junior Subordinated Debentures, at any time, for a period not to exceed twenty consecutive quarters. The Trust Preferred Securities will mature November 8, 2033 and can be redeemed at any time, at par. The obligations of the trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

On September 28, 2006, the Company's wholly owned special-purpose trust subsidiary, PCBB Trust II, issued $12.4 million in cumulative Trust Preferred Securities. The securities bear a variable rate of interest, indexed to the three-month LIBOR plus 1.70 percent (3.29 percent at December 31, 2017), payable quarterly. Concurrent with the issuance of the Trust Preferred Securities, the trust used the proceeds from the Trust Preferred Securities offering to purchase a like amount of the Company's Junior Subordinated Debentures. The Junior Subordinated Debentures are the sole assets of the trust. The Company will pay interest on the Junior Subordinated Debentures to the trust, which represents the sole revenue and source of dividend distributions to the holders of the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payment of interest on the Junior Subordinated Debentures, at any time, for a period not to exceed twenty consecutive quarters. The Trust Preferred Securities will mature December 15, 2036, and can be redeemed at any time, at par. The obligations of the trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

Of the $19.6 million received by the Company from the trust upon issuance of the Junior Subordinated Debentures, contributions of $15.0 million were distributed to the Bank to increase its capital. The balance was retained by the Company for general corporate purposes. Issuance costs of $140 thousand related to the Trust Preferred Securities have been deferred and are being amortized over the life of the securities. Interest expense on the Trust Preferred Securities totaled $657 thousand and $557 thousand for the years ended December 31, 2017 and 2016, respectively, including the impact of designated interest rate hedges in connection with these securities. Amortization expense was minimal for both periods.

Note 10 - Salary Continuation Agreements

The Bank has established salary continuation agreements for certain executive officers that provide benefits substantially equivalent to those available under single premium life insurance policies purchased by the Bank on the lives of its executives. The estimated present value of these future benefits is accrued over the period from the effective dates of the plans until the executives' expected retirement dates. During the year ended December 31, 2017, the expense of these agreements was $146 thousand and the accrued liability was $2.7 million. During the year ended December 31, 2016, the expense of these agreements was $158 thousand and the accrued liability was $2.6 million. The accrued liability is included in interest payable and other liabilities on the consolidated balance sheets.

The Company has purchased single premium life insurance policies to be used to satisfy the salary continuation liabilities. The cash surrender value of the single premium life insurance policies totaled $7.8 and $7.6 million as of December 31, 2017 and 2016, respectively. Payments made on agreements to former executives totaled $135 thousand and $133 thousand for the years ended December 31, 2017 and 2016, respectively.

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Note 11 - Commitments and Contingencies

Operating Leases

The Company leases its facilities under non-cancellable operating leases expiring in 2020. Minimum rental commitments under these leases for future years ending December 31 are as follows (in thousands):

2018	549
2019	529
2020	114
2021	34
2022	14
Total minimum lease obligations	**$ 1,240**

Rent expense totaled $560 thousand and $556 thousand in 2017 and 2016, respectively.

Transactions with Clearing Organization

The Broker-Dealer had an agreement with National Financial Services whereby NFS cleared all securities transactions, carries all customer accounts and performs certain other services. As a part of this agreement, the Broker-Dealer is required to maintain deposits with the clearing organization. The amount of such balances for the years ended December 31, 2017 and 2016 totaled $300 thousand and is included in cash and due from banks on the consolidated balance sheets. The Broker-Dealer switched to US Bank in November 2017 whereby USB cleared all securities transactions, carries all customer accounts and performs certain other services.

Employment Agreements

The Company and the Bank have employment and change in control agreements with executives, which provide for incentive compensation and severance provisions that include compensation and noncompetition agreements. The agreements provide that employment is at-will and, therefore, may be terminated by either party.

Management Incentive Compensation Plan

The Company offers a management incentive plan to reward executive management for productivity, performance, and implementing the business plan of the Company. Members of executive management are eligible to participate in the plan. The plan provides executive management with both current and deferred cash incentives that are paid over three years. For the years ended December 31, 2017 and 2016, the expense recognized by the Company was $1.1 million and $1.9 million, respectively. The amounts paid to executive management under the plan during the years 2017 and 2016 were $1.6 million and $1.1 million, respectively. The accrued liability associated with this plan was $1.7 million and $2.2 million for the years ended December 31, 2017 and 2016, respectively. The incentive compensation is also subject to a "clawback" provision. The plan is effective through 2018 and the liability is included in interest payable and other liabilities on the consolidated balance sheets.

Note 12 - Risks and Uncertainties

The Company's direct exposure to credit risk is concentrated in any cash deposits in excess of applicable insurance limits. The Company reduces its exposure to this risk by maintaining cash deposits with only high-quality financial institutions.

Additionally, in the normal course of business, the Company enters into financial transactions involving the execution and settlement of transactions for the benefit of its clients. These activities may expose the Company to indirect credit risk, representing interest foregone, in the event a client or a third party is

Pacific Coast Bankers' Bancshares and Subsidiaries
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Note 12 - Risks and Uncertainties (Cont.)

unable to fulfill its contractual obligation.

Because of the nature of its activities, the Company is subject to pending and threatened legal actions which arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the financial position of the Company.

Note 13 - Stock Compensation Plans

Stock Options Awards

In August 2008, the Company adopted the 2008 Equity Plan (the Plan). Under the Plan, equity awards may be granted to certain key employees and directors. The Plan authorizes the grant of equity awards as long as the number of shares of common stock granted under the Plan does not exceed 276,860 shares. The Plan became effective August 31, 2008, and terminates 10 years after its effective date.

No equity awards were granted to Company employees or directors during the years ended December 31, 2017 and 2016.

In 2016, 3,490 vested options were forfeited and in 2017, 32,670 vested stock options were forfeited. During 2016 and 2017, no stock options were exercised.

The stock options outstanding and vested at December 31, 2017 and 2016 were 5,000 and 37,670, respectively.

The Company has 246,020 options/shares available to grant at December 31, 2017.

Restricted Stock Awards

The restricted stock grants are valued at fair market value at date of grant. The restricted stock grants vest over a period of three to five years and expense is recognized using the straight-line method in the accompanying consolidated financial statements. There were no non-vested restricted stock grants as of December 31, 2017.

There was no stock-based compensation expense recognized for the years ended December 31, 2017 and 2016, and no tax benefit was realized.

No compensation expense remains to be recognized for stock-based awards that have been awarded.

Note 14 - Other Non-Interest Expense

Other non-interest expense at December 31 comprises the following (in thousands):

	2017	2016
Professional service fees	$ 2,305	$ 1,629
Data processing and software maintenance	908	862
Advertising and business development	714	593
Meals, travel and entertainment	692	580
Director fees and expenses	583	448
FDIC assessment	188	267
Insurance	200	207
Broker fees	125	126
Supplies and postage	100	95
Other	319	739
Total	**$ 6,134**	**$ 5,546**

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Note 15 - Income Taxes

The provision for income taxes for the years ended December 31 consists of the following (in thousands):

	2017	2016
Current:		
Federal	$ 2,227	$ 3,574
State	557	942
Total current provision	**2,784**	**4,516**
Deferred:		
Federal	1,111	(512)
State	255	(39)
Total deferred provision	**1,366**	**(551)**
Total income tax provision	**$ 4,150**	**$ 3,965**

The reconciliation between the statutory federal income tax rate of 34 percent and the Company's effective tax rate for the years ended December 31 (in thousands):

	2017		2016	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Income tax at statutory rates	$ 2,722	34%	$ 3,424	34%
Remeasurement of deferred tax asset	1,151	14%	- -	- -
Other	277	3%	541	5%
Total income tax expense	**$ 4,150**	**52%**	**$ 3,965**	**39%**

On December 22, 2017, the Tax Cuts and Jobs Act was signed into legislation. As a result of the changes to the federal income tax rates, included in the 2017 tax provision is $1,151 thousand due to a re-measurement of deferred tax assets and liabilities.

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Note 15 - Income Taxes (Cont.)

Components of the Company's net deferred tax assets (liabilities) at December 31 are as follows (in thousands):

	2017	2016
Deferred Tax Assets		
Allowance for loan losses	$ 1,278	$ 1,987
Salary continuation plans	928	1,776
Unrealized loss on securities available for sale	702	829
Other	237	137
Total deferred tax assets	**3,145**	**4,729**
Deferred Tax Liabilities		
Depreciation	(51)	(465)
Deferred loan costs	(66)	(171)
Prepaid expenses	(158)	(70)
Other	(196)	(184)
Total deferred tax liabilities	**(471)**	**(890)**
Net deferred tax assets	**$ 2,674**	**$ 3,839**

Net deferred tax assets are included in interest receivable and other assets. Management has assessed the likelihood that the deferred tax assets will be realized and believes it is more likely than not that all deferred tax assets will be realized in the normal course of business. The Company recognizes penalties' and interest related to unrecognized tax benefits in the provision for income taxes. The Company recognized no significant penalties or interest during the years ended December 31, 2016 and 2017. No liability related to uncertain tax positions was recorded during the years ended December 31, 2016 and 2017. Federal tax returns for the year 2014 through 2017 remain subject to examination. State returns for the year 2013 through 2017 also remain subject to examination.

Note 16 - Derivatives

Derivatives Provided as a Service to Customers

Derivatives in which the Company is an intermediary arise when the Company enters into derivatives with customer banks and offsetting derivatives with other counterparties to meet the needs of its customers. The notional principal of interest rate exchange agreements arising from the Company entering into derivatives with customers and offsetting derivatives with other counterparties was approximately $4.3 billion at December 31, 2017 and $3.9 billion at December 31, 2016.

The contractual or notional amounts of interest rate exchange agreements reflect the extent of the Bank's involvement in particular classes of financial instruments. The notional amount does not represent the exposure to credit loss. The amount potentially subject to credit loss is the estimated cost of replacing an interest rate exchange agreement that has a net positive market value if the counterparty defaults; this amount is substantially less than the notional amount.

Maximum credit risk is defined as the estimated cost of replacing all interest rate exchange agreements the Bank has transacted with counterparties where the Bank is in a net favorable position (has a net unrealized gain) if the counterparties all defaulted and the related collateral proved to be of no value to the Bank. At December 31, 2017 and 2016, the Bank's maximum credit risk, as defined above, was estimated at approximately $54.3 million and $56.4 million, respectively. The legal right to offset assets and liabilities by a counterparty (under which amounts recognized for individual transactions may be offset against amounts recognized for other transactions with the same counterparty) is considered in

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Note 16 – Derivatives (Cont.)

Derivatives Provided as a Service to Customers (Cont.)

determining the maximum credit risk. The Bank's primary source of collateral for customer derivative transactions is commercial real estate interest in the form of first trust deeds. The Bank also held cash, time deposits, and investment grade securities valued at approximately $26.4 million and $15.7 million as collateral from counterparties as of December 31, 2017 and 2016, respectively. No collateral held at the Bank from counterparties was re-pledged to other counterparties at December 31, 2017 and 2016. A significant number of the Bank's interest rate exchange agreements are transacted with financial institutions such as major banks and broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell and distribute consolidated obligations.

The Company has policies and procedures in place that are designed to manage the derivatives provided as a service to customers to an acceptable level of risk. Management and the Board of Directors review and approve these policies and procedures on a regular basis. The commercial real estate properties securing the Company's derivatives provided as a service to customers are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry.

The fair values of derivative contracts are located separately on the consolidated balance sheets. Net gains from the change in fair value of derivatives and realized gains on derivative contract settlements are separately located on the consolidated statements of income.

Derivatives not designated as hedging instruments are as follows at December 31, 2017 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate swaps	$ 2,934,723	$ 54,281	$ 1,412,220	$ (15,798)
Written options	- -	- -	- -	- -
Purchased options	- -	- -	- -	- -
Total derivative financial instruments not designated as hedging instruments	**$ 2,934,723**	**$ 54,281**	**$ 1,412,220**	**$ (15,798)**

Derivatives not designated as hedging instruments are as follows at December 31, 2016 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate swaps	$ 2,661,944	$ 56,376	$ 1,272,465	$ (21,669)
Written options	- -	- -	526	- -
Purchased options	526	- -	- -	- -
Total derivative financial instruments not designated as hedging instruments	**$ 2,662,470**	**$ 56,376**	**$ 1,272,991**	**$ (21,669)**

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Note 16 - Derivatives (Cont.)

Derivatives as Hedging Instruments

For the years ended December 31, 2017 and 2016, the Company recognized no net income or loss resulting from ineffectiveness of cash flow hedges. For the years ended December 31, 2017 and 2016, the Company recognized no net gain and net gain of $192 thousand, respectively (reported in net change in fair value of derivatives on the consolidated statements of income), which represented the ineffective portion of all fair value hedges. There was no hedge position at the end of December 31, 2017.

There were no derivatives designated as hedging instruments at December 31, 2017 and 2016.

Derivatives Summary

The gross positive and negative fair values of derivatives are as follows (in thousands):

	2017		2016	
	Notional Amount	**Estimated Fair Value**	**Notional Amount**	**Estimated Fair Value**
Interest Rate Swap Agreements				
Gross positive fair value	$ 2,809,963	$ 71,538	$ 2,418,584	$ 75,868
Gross negative fair value	1,536,980	(33,055)	1,515,825	(41,162)
Purchased Options				
Gross positive fair value	- -	- -	526	- -
Written Options				
Gross negative fair value	- -	- -	526	- -

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Note 16 - Derivatives (Cont.)

Balance Sheet Offsetting

The Company is party to master netting arrangements with certain financial institution counterparties. The master netting arrangements provide for a single net settlement of derivative agreements, as well as collateral, in the event of a default on, or termination of, any one contract. Collateral, usually in the form of marketable securities or deposit accounts, is posted by the counterparty, with net liability positions in accordance with contract thresholds.

The following table presents the assets and liabilities:

Subject to an Enforceable Master Netting Arrangement as of December 31

Description	Gross Amounts of Recognized Assets or Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets or Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet	Net Amount
December 31, 2017					
Derivatives assets at fair value	$ 44,028	$ (9,231)	$ 34,797	$ 19,484	$ 54,281
Derivatives liabilities at fair value	(11,932)	9,231	(2,701)	(13,097)	(15,798)
December 31, 2016					
Derivatives assets at fair value	$ 39,588	$ (12,688)	$ 26,900	$ 29,476	$ 56,376
Derivatives liabilities at fair value	(22,764)	12,688	(10,076)	(11,593)	(21,669)

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Note 17 - Financial Instruments and Fair Value

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of those instruments and is usually limited to amounts funded or drawn. The contract or notional amounts of these agreements, which are not included on the consolidated balance sheets, are an indicator of the Bank's credit exposure. Commitments to extend credit generally carry variable interest rates and are subject to the same credit standards used in the lending process for on-balance-sheet instruments. Additionally, the Bank periodically reassesses the customer's creditworthiness through ongoing credit reviews. The Bank generally requires collateral or other security to support commitments to extend credit. A summary of the Bank's commitments at December 31 is as follows (in thousands):

	2017	2016
Financial instruments whose contract amounts represent credit risk:		
Undisbursed loan commitments	$ 26,052	$ 19,636
Letters of credit	- -	150
Total commitments to extend credit	**$ 26,052**	**$ 19,786**

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial and residential properties.

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Note 17 - Financial Instruments and Fair Value (Cont.)

Assets and Liabilities Measured at Fair Value

The following are assets and liabilities measured at fair value on a recurring basis (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2017				
Assets at fair value:				
Securities available for sale:				
U.S. government agency mortgage-backed securities	$ --	$ 193,897	$ --	$ 193,897
Interest rate swaps	--	53,152	--	53,152
Synthetic interest rate swaps	--	1,129	--	1,129
Total	**$ --**	**$ 248,178**	**$ --**	**$ 248,178**
Liabilities at fair value				
Interest rate swaps	$ --	$ 15,798	$ --	$ 15,798

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2016				
Assets at fair value:				
Securities available for sale:				
U.S. government agency mortgage-backed securities	$ --	$ 195,688	$ --	$ 195,688
Interest rate swaps	--	53,865	--	53,865
Synthetic interest rate swaps	--	2,511	--	2,511
Total	**$ --**	**$ 252,064**	**$ --**	**$ 252,064**
Liabilities at fair value				
Interest rate swaps	$ --	$ 21,669	$ --	$ 21,669

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Note 17 - Financial Instruments and Fair Value (Cont.)

Assets and Liabilities Measured at Fair Value (Cont.)

Securities available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Derivatives are reported at fair value utilizing Level 2 inputs. The Company utilizes internal valuation models with observable market data inputs to estimate fair values of interest rate swaps. The Company also obtains dealer quotations for these derivatives for comparative purposes to assess the reasonableness of the model valuations.

For purposes of potential valuation adjustments to its derivative positions, the Company evaluates the credit risk of its counterparties as well as that of the Company. Accordingly, the Company has considered factors such as the likelihood of default by the Company and its counterparties, its net exposures and remaining contractual life, among other things, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by netting positions that are subject to master netting arrangements, as well as considering the amount of collateral securing the position. The Company reviews its counterparty exposure on a regular basis and, when necessary, appropriate business actions are taken to adjust the exposure. The Company also utilizes this approach to estimate its own credit risk on derivative liability positions. To date, the Company has not realized any significant losses due to counterparty's inability to pay any net uncollateralized position. The change in value of derivative assets and derivative liabilities attributable to credit risk was not significant during the reported periods.

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following presents such assets carried on the consolidated balance sheets by caption and by level within the fair value hierarchy (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2017				
Impaired loans	$ --	$ --	$ 570	$ 570
Total	**$ --**	**$ --**	**$ 570**	**$ 570**
December 31, 2016				
Impaired loans	$ --	$ --	$ 662	$ 662
Total	**$ --**	**$ --**	**$ 662**	**$ 662**

Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. Under ASC 310, Receivables, certain impaired loans are reported at fair value of the underlying collateral less costs to sell if repayment is based solely from collateral.

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Note 18 - Regulatory Matters

The Bank and the Company are subject to various regulatory capital requirements administered by the federal and state 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 in the Company's consolidated financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Bank and the Company must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's 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.

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 common equity Tier 1 (as defined in the regulations), total capital, and Tier 1 capital (as defined) to risk-weighted assets (as defined) and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2017, the Bank and the Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2017, the most recent notification from the FRB categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification which management believes have changed the Bank's category.

The Bank's and the Company's actual capital amounts and ratios are also presented as follows (in thousands, except for ratio inputs).

In early July 2013, the Federal Reserve Board and the FDIC issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The final rules revise the regulatory capital elements, add a new common equity Tier I capital ratio, and increase the minimum Tier I capital ratio requirement. The rules also permit certain banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income and implement a new capital conservation buffer. The final rules took effect for community banks on January 1, 2015, subject to a transition period for certain parts of the rules. The complex final rules require careful review and analysis, but management believes the Company and the Bank will remain well-capitalized.

The Basel III Capital Rules, a comprehensive capital framework for U.S. banking organizations, became effective for the Company on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

The Company's Common Equity Tier 1 capital includes common stock and related paid-in capital, and retained earnings. In connection with the adoption of the Basel III Capital Rules, we elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1. Common Equity Tier 1 for the Company is reduced by, goodwill and other intangible assets, net of associated deferred tax liabilities, and subject to transition provisions.

Total capital includes Tier 1 capital and Tier 2 capital. Tier 2 capital for the Company includes a permissible portion of the allowance for loan losses. Tier 2 capital for the Company also includes trust preferred securities that were excluded from Tier 1 capital.

Pacific Coast Bankers' Bancshares and Subsidiaries
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Note 18 - Regulatory Matters (Cont.)

The Common Equity Tier 1, Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weight assets are calculated based on the regulatory requirements and include total assets, with certain exclusions, allocated by risk weight category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets, among other things.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Company to maintain (i) a minimum ratio of Common Equity Tier I capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% Common Equity Tier I capital ratio as that buffer is phased in, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

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Note 18 - Regulatory Matters (Cont.)

	Actual		Minimum Capital Phase-In Schedule		Minimum Capital Fully Phased-In		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017								
Tier 1 common equity (to risk-weighted assets):								
Consolidated	$ 48,719	11.85%	$ 23,642	5.75%	$ 28,782	7.00%	N/A	N/A
Bank	69,801	17.01%	23,597	5.75%	28,727	7.00%	$ 26,675	6.50%
Tier 1 capital (to average assets):								
Consolidated	71,528	8.34%	34,321	4.00%	34,321	4.00%	N/A	N/A
Bank	69,801	8.14%	34,292	4.00%	34,292	4.00%	42,865	5.00%
Tier 1 capital (to risk-weighted assets):								
Consolidated	71,528	17.40%	29,810	7.25%	34,949	8.50%	N/A	N/A
Bank	69,801	17.01%	29,753	7.25%	34,883	8.50%	32,831	8.00%
Total capital (to risk-weighted assets):								
Consolidated	77,379	18.82%	38,033	9.25%	43,173	10.50%	N/A	N/A
Bank	74,512	18.16%	37,961	9.25%	43,091	10.50%	41,039	10.00%
December 31, 2016								
Tier 1 common equity (to risk-weighted assets):								
Consolidated	$ 46,001	12.70%	$ 19,043	5.125%	$ 26,010	7.00%	N/A	N/A
Bank	68,757	18.53%	19,018	5.125%	25,976	7.00%	$ 24,121	6.50%
Tier 1 capital (to average assets):								
Consolidated	69,473	8.38%	33,160	4.00%	33,160	4.00%	N/A	N/A
Bank	68,757	8.30%	33,143	4.00%	33,143	4.00%	41,429	5.00%
Tier 1 capital (to risk-weighted assets):								
Consolidated	69,473	18.70%	24,616	6.625%	31,583	8.50%	N/A	N/A
Bank	68,757	18.53%	24,585	6.625%	31,543	8.50%	29,687	8.00%
Total capital (to risk-weighted assets):								
Consolidated	75,731	20.38%	32,048	8.625%	39,015	10.50%	N/A	N/A
Bank	73,344	19.76%	32,006	8.625%	38,964	10.50%	37,109	10.00%

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Note 19 - Other Comprehensive Income (Loss)

The components of comprehensive income (loss) as it relates to securities available for sale are as follows (in thousands):

	Before-Tax Amount	Income Tax	Net-of-Tax Amount
Year Ended December 31, 2017			
Beginning of year balance	$ (2,074)	$ 830	$ (1,244)
Net unrealized holding gain arising during the year	(443)	178	(265)
Net unrealized gain (loss)	**(2,517)**	**1,008**	**(1,509)**
Reclassification of tax effects - ASU 2018-02	-	(328)	(328)
Balance	**$ (2,517)**	**$ 680**	**$ (1,837)**
Year Ended December 31, 2016			
Beginning of year balance	$ 560	$ (224)	$ 336
Net unrealized holding gain arising during the year	(2,634)	1,054	(1,580)
Net unrealized gain (loss)	**(2,074)**	**830**	**(1,244)**
Reclassification of tax effects - ASU 2018-02	-	-	-
Balance	**$ (2,074)**	**$ 830**	**$ (1,244)**

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Note 20 - Condensed Financial Information - Parent Company Only

Condensed Balance Sheets - December 31 (in thousands)

	2017	2016
Assets		
Cash	$ 2,469	$ 4,246
Investment in Bank	68,008	67,564
Investment in PCBB Trust I & II	589	589
Other assets	552	178
Total assets	**$ 71,618**	**$ 72,577**
Liabilities and Shareholders' Equity		
Liabilities		
Trust preferred securities	$ 19,589	$ 19,589
Accrued interest payable and other liabilities	153	2,037
Total liabilities	**19,742**	**21,626**
Shareholders' Equity	**51,876**	**50,951**
Total liabilities and shareholders' equity	**$ 71,618**	**$ 72,577**

Condensed Statements of Income - December 31 (in thousands)

	2017	2016
Income	$ 3,820	$ 4,732
Expenses	1,023	1,010
Net income	**2,797**	**3,722**
Income tax benefit	(367)	(310)
Income before undistributed income of subsidiaries	**3,164**	**4,032**
Equity in undistributed income (loss) of subsidiaries	710	2,075
Net income	**$ 3,874**	**$ 6,107**

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2017 and 2016

Note 20 - Condensed Financial Information - Parent Company Only (Cont.)

Condensed Statements of Cash Flows - Years Ended December 31 (in thousands)

	2017	**2016**
Net income	$ 3,874	$ 6,107
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in income of the Bank	(4,510)	(6,575)
Other (net)	(366)	(161)
Net cash used in operating activities	**(1,002)**	**(629)**
Cash Flows from Investing Activities		
Loans funded, net	- -	228
Net cash provided by investing activities	**- -**	**228**
Cash Flows from Financing Activities		
Capital distribution from subsidiaries	3,800	4,500
Issuance of common stock	118	- -
Repurchase of common stock	(1,080)	(16)
Cash dividends paid on common stock	(3,266)	(2,737)
Cash dividends paid on preferred stock	(347)	(347)
Net cash provided by (used in) financing activities	**(775)**	**1,400**
Net increase (decrease) in cash	**(1,777)**	**999**
Cash		
Beginning of the year	4,246	3,247
End of the year	**$ 2,469**	**$ 4,246**

Note 21 – Subsequent Events

On January 16, 2018, the Company declared a common dividend in the amount of $1.25 per share or $1.4 million to shareholders of record as of January 16, 2018. The dividend was paid on January 31, 2018.

PACIFIC COAST BANKERS' BANCSHARES

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