PRESIDIO BANK

FINANCIAL STATEMENTS

December 31, 2016 and 2015

Presidio Bank

Financial Statements
Years Ended December 31, 2016 and 2015

Presidio Bank

Contents

INDEPENDENT AUDITOR'S REPORT

The Shareholders and Board of Directors
Presidio Bank
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of Presidio Bank, which comprise the balance sheet as of December 31, 2016 and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matter

The financial statements of Presidio Bank as of and for the year ended December 31, 2015, were audited by other auditors whose report dated March 18, 2016 expressed an unmodified opinion on those statements.

Crowe Horwath LLP

Crowe Horwath LLP

San Francisco, California
March 23, 2017

Financial Statements

Presidio Bank

Balance Sheets

December 31,		**2016**		2015
Assets				
Cash and due from banks		**156,194,325**		109,386,709
Available-for-sale investment securities, at fair value		**8,417,033**		10,626,905
Held-to-maturity investment securities, at amortized cost		**616,246**		631,450
Federal Reserve Bank stock, at cost		**1,884,200**		1,827,650
Federal Home Loan Bank stock, at cost		**2,331,300**		1,947,800
Loans, less allowance for loan losses of $6,867,658 in 2016 and $6,300,886 in 2015		**565,911,668**		517,513,593
Premises and equipment, net		**1,019,794**		1,230,695
Deferred tax assets, net		**4,382,463**		3,964,347
Accrued interest receivable and other assets		**6,745,620**		7,138,292
Total Assets	**$**	**747,502,649**	$	654,267,441
Liabilities and Shareholders' Equity				
Deposits:				
Non-interest bearing	**$**	**257,757,439**	$	210,998,103
Interest bearing		**405,726,109**		368,352,648
Total deposits		**663,483,548**		579,350,751
Subordinated debt, net		**9,661,563**		9,617,894
Accrued interest payable and other liabilities		**6,995,175**		7,745,752
Total Liabilities		**680,140,286**		596,714,397
Commitments and Contingencies (Note 10)				
Shareholders' Equity:				
Preferred stock, no par value; 10,000,000 shares authorized, none outstanding		**-**		-
Common stock, no par value; 30,000,000 shares authorized; 5,957,265 and 5,476,695 shares issued and outstanding in 2016 and 2015, respectively		**64,122,072**		58,795,777
Retained earnings (accumulated deficit)		**3,377,073**		(1,100,407)
Accumulated other comprehensive loss, net of tax		**(136,782)**		(142,326)
Total Shareholders' Equity		**67,362,363**		57,553,044
Total Liabilities and Shareholders' Equity	**$**	**747,502,649**	$	654,267,441

See accompanying notes to financial statements.

Presidio Bank

Statements of Income

Years Ended December 31,		**2016**		2015
Interest and Dividend Income:				
Interest and fees on loans	$	**24,884,410**	$	20,827,931
Interest on due from banks and other overnight deposits		**591,929**		291,630
Interest on investment securities		**143,115**		153,587
Dividend income		**373,464**		309,800
Total interest and dividend income		**25,992,918**		21,582,948
Interest Expense:				
Interest on deposits		**912,209**		818,458
Interest on subordinated debt		**843,669**		843,669
Interest on other borrowings		**19,148**		400
Total interest expense		**1,775,026**		1,662,527
Net interest income		**24,217,892**		19,920,421
Provision for loan losses		**566,772**		1,128,840
Net interest income after provision for loan losses		**23,651,120**		18,791,581
Non-Interest Income:				
Service charges and fees		**641,450**		599,397
Other non-interest income		**56,842**		101,744
Total non-interest income		**698,292**		701,141
Non-Interest Expenses:				
Salaries and employee benefits		**10,671,111**		9,667,905
Occupancy and equipment		**2,124,473**		1,764,787
Other		**4,135,225**		3,894,667
Total non-interest expenses		**16,930,809**		15,327,359
Income before income taxes		**7,418,603**		4,165,363
Provision for income taxes		**2,941,123**		1,623,343
Net Income	$	**4,477,480**	$	2,542,020
Basic Earnings Per Common Share	$	**0.78**	$	0.43
Diluted Earnings Per Common Share	$	**0.75**	$	0.41

See accompanying notes to financial statements.

Presidio Bank

Statements of Comprehensive Income

Years Ended December 31,		**2016**		2015
Net Income	**$**	4,477,480	$	2,542,020
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gain (loss) arising during the year		14,315		(85,748)
Tax effect		(8,771)		35,549
Other comprehensive income (loss)		5,544		(50,199)
Comprehensive Income	**$**	4,483,024	$	2,491,821

See accompanying notes to financial statements.

Presidio Bank

Statements of Changes in Shareholders' Equity
Years Ended December 31, 2016 and 2015

	Preferred Stock - Series A		Preferred Stock - Series B		Common Stock		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2014	6,544	$ 6,544,000	325	$ 325,000	4,203,391	$ 44,207,446	$(3,166,933)	$ (92,127)	$ 47,817,386
Preferred dividends	-	-	-	-	-	-	(475,494)	-	(475,494)
Redemption of preferred stock	(6,544)	(6,544,000)	(325)	(325,000)	-	-	-	-	(6,869,000)
Issuance of common stock, net of offering costs	-	-	-	-	1,000,000	11,657,977	-	-	11,657,977
Restricted stock awards granted	-	-	-	-	42,804	-	-	-	-
Stock options exercises	-	-	-	-	230,500	2,194,613	-	-	2,194,613
Share-based compensation expense	-	-	-	-	-	661,905	-	-	661,905
Tax benefits of stock options	-	-	-	-	-	73,836	-	-	73,836
Net income	-	-	-	-	-	-	2,542,020	-	2,542,020
Other comprehensive loss	-	-	-	-	-	-	-	(50,199)	(50,199)
Balance, December 31, 2015	-	-	-	-	5,476,695	58,795,777	(1,100,407)	(142,326)	57,553,044
Restricted stock awards granted	-	-	-	-	53,245	-	-	-	-
Stock options exercises	-	-	-	-	427,325	4,168,352	-	-	4,168,352
Share-based compensation expense	-	-	-	-	-	862,228	-	-	862,228
Tax benefits of stock options	-	-	-	-	-	295,715	-	-	295,715
Net income	-	-	-	-	-	-	4,477,480	-	4,477,480
Other comprehensive income	-	-	-	-	-	-	-	5,544	5,544
Balance, December 31, 2016	**-**	**$ -**	**-**	**$ -**	**5,957,265**	**$ 64,122,072**	**$ 3,377,073**	**$ (136,782)**	**$ 67,362,363**

See accompanying notes to financial statements.

Presidio Bank
Statements of Cash Flows

Years Ended December 31,	**2016**	2015
Cash Flows from Operating Activities:		
Net income	$ **4,477,480**	$ 2,542,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums on investment securities, net	**23,656**	38,401
Amortization of debt issuance costs	**43,669**	43,669
Amortization of tax credit investment	**400,002**	177,615
Depreciation and amortization	**338,314**	365,519
Provision for loan losses	**566,772**	1,128,840
Deferred loan origination (costs) fees, net	**(45,183)**	281,637
Share-based compensation expense	**862,228**	661,905
Deferred income tax benefit	**(426,887)**	(515,610)
Increase in accrued interest receivable and other assets	**(7,330)**	(4,045,201)
(Decrease) Increase in accrued interest payable and other liabilities	**(41,712)**	4,502,174
Net Cash Provided by Operating Activities	**6,191,009**	5,003,354
Cash Flows from Investing Activities:		
Purchases of available-for-sale investment securities	**-**	(5,821,667)
Proceeds from principal payments on investment securities	**2,215,735**	5,743,929
Purchases of FRB stock	**(56,550)**	(449,250)
Purchases of FHLB stock	**(383,500)**	(238,900)
Net increase in loans	**(48,919,664)**	(108,355,484)
Cash invested in low income housing fund	**(708,865)**	(879,805)
Purchases of premises and equipment	**(127,413)**	(119,583)
Net Cash Used in Investing Activities	**(47,980,257)**	(110,120,760)
Cash Flows from Financing Activities:		
Net increase in demand, interest-bearing and savings Deposits	**77,839,021**	109,183,502
Net increase (decrease) in time deposits	**6,293,776**	(11,524,477)
Proceeds from FHLB advances	**53,500,000**	10,000
Repayment of FHLB advances	**(53,500,000)**	(10,000)
Redemption of Series A and B preferred stock	**-**	(6,869,000)
Payment of dividends on preferred stock	**-**	(475,494)
Proceeds from issuance of common stock, net of offering costs	**-**	11,657,977
Excess tax benefits from exercised stock options	**295,715**	73,836
Proceeds from the exercise of stock options	**4,168,352**	2,194,613
Net Cash Provided by Financing Activities	**88,596,864**	104,240,957
Increase (Decrease) in Cash and Cash Equivalents	**46,807,616**	(876,449)
Cash and Cash Equivalents at Beginning of Year	**109,386,709**	110,263,158
Cash and Cash Equivalents at End of Year	$ **156,194,325**	$ 109,386,709

Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest expense	$ **1,769,409**	$ 1,656,168
Cash paid for income taxes	$ **2,515,221**	$ 1,710,000

See accompanying notes to financial statements.

1. The Business of Presidio Bank

Presidio Bank (the "Bank") is a state-chartered bank and a member of the Federal Reserve System (the "Fed"). The Bank is subject to regulation by the Fed, the California Department of Business Oversight (the "DBO"), and the Federal Deposit Insurance Corporation (the "FDIC"). The Bank's deposits are insured by the FDIC up to applicable legal limits.

The Bank is headquartered in San Francisco, California and also has branch offices in Walnut Creek, San Rafael, San Mateo and Palo Alto, California. The Bank provides traditional commercial banking services to its target market throughout Northern California, consisting of small to medium sized businesses, along with the owners and executives of those firms.

2. Summary of Significant Accounting Policies

General

The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Subsequent Events

Management has reviewed all events occurring from December 31, 2016 through March 23, 2017, the date the financial statements were available to be issued.

Use of Estimates

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

Operating Segments

While the Bank's executive officers monitor the revenue streams of the Bank's various products and services, operations are managed and financial performance is evaluated on a Bank-wide basis. Operating results are not reviewed by senior management to make resource allocation or performance decisions. Accordingly, all of the Bank's financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications

Certain reclassifications have been made to the prior year's balances in order to conform to the classifications used in the current year. None of the reclassifications had an impact on the prior year's net income or shareholder's equity.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and due from banks as well as other overnight deposits. Net cash flows are reported for customer loan and deposit transactions.

Federal Reserve Bank Stock and Federal Home Loan Bank Stock

As a member of both the Federal Reserve Bank (the "FRB") and the Federal Home Loan Bank (the "FHLB"), the Bank is required to maintain a minimum level of investment in the capital stocks of the FRB and FHLB. These investments are considered restricted equity securities and are carried at par value. The Bank may request redemption at par value in excess of the amount required to be held. Stock redemptions are made at the discretion of the FRB and FHLB. Both cash and stock dividends are reported as income.

Investment Securities

Investment securities are classified into the following categories:

- Available-for-sale securities reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

- Held-to-maturity securities, which management has the positive intent and ability to hold, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. There were no transfers between categories during the years ended December 31, 2016 and 2015.

Gains or losses on the sale of investment securities are computed using the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

An investment security is impaired when its carrying value is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Bank to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security or it is more likely than not that the Bank will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that the Bank will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are recorded at the principal balances outstanding, net of deferred loan origination fees and costs and the allowance for loan losses. Interest is accrued daily based upon outstanding loan balances. However, when in the opinion of management, loans are considered to be impaired and the future collectibility of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectibility of principal is not in doubt, are applied first to earned but unpaid interest and then to principal. Generally, loans are placed on non-accrual status when they are 90 days past due. Past due status is based on the contractual terms of the loan. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Bank's policy for placing loans on nonaccrual status, recording payments received on nonaccrual loans resuming accrual of interest and determining past due or delinquency status does not differ by portfolio segment.

All loans are evaluated and considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (including both principal and interest) in accordance with the contractual terms of the loan agreement. The policy for recognizing interest on impaired loans is the same as the policy described above and does not differ by portfolio segment.

Substantially all loan origination and commitment fees, net of direct loan origination costs, and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

The Bank services loans that have been participated to other financial institutions totaling approximately $21,518,000 and $20,198,000 at December 31, 2016 and 2015, respectively.

Allowance for Loan Losses

The allowance for loan losses is an estimate of probable credit losses inherent in the Bank's loan portfolio that have been incurred as of the balance-sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The policy for charging off loans and recording recoveries on previously charged off loans does not differ by portfolio segment. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves related to loans that are not considered impaired.

Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Bank measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. The policy for measuring impaired loans does not differ by portfolio segment.

A restructuring of a debt constitutes a troubled debt restructuring ("TDR") if the Bank, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. TDR loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

The determination of the general reserve for loans that are not considered impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment experienced by the Bank since inception and a peer group for the trailing ten years, internal asset classifications, and qualitative factors to include economic trends in the Bank's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Bank's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

The Bank maintains a separate allowance for each loan type ("portfolio segment"). These portfolio segments include commercial, construction and land development, commercial real estate and consumer loans. The allowance for loan losses attributable to each portfolio segment, which includes both impaired loans and loans that are not impaired, is combined to determine the Bank's overall allowance, which is included on the balance sheet.

The Bank assigns a risk rating to all loans and periodically performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Bank and the Bank's regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass - A pass loan is a strong, satisfactory or acceptable credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention - A special mention loan has 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 Bank's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard - A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful- Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss- Loans classified as loss are considered uncollectible and charged off immediately.

The general reserve component of the allowance for loan losses also consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other qualitative factors. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below.

Commercial- Commercial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Construction and land development- Construction and land development loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified cost and time lines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Commercial real estate - Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

Consumer and other- The consumer and other category includes primarily residential real estate and home equity lines of credit. The degree of risk in this portfolio segment depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators, the FRB and DBO as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Bank also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance-sheet commitments is included in accrued interest payable and other liabilities on the balance sheet.

Bank Premises and Equipment

Bank premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures and equipment are estimated to be 3 to 7 years. Leasehold improvements are amortized over the lesser of the respective lease term (including renewal periods that are reasonably assured) or their useful lives, which are generally 7 to 10 years.

Certain operating leases contain scheduled and specified rent increases or incentives in the form of tenant improvement allowances or credits. The scheduled rent increases are recognized on a straight-line basis over the lease term as an increase in the amount of rental expense recognized each period. Lease incentives are capitalized at the inception of the lease and amortized on a straight-line basis over the lease term as a reduction of rental expense. Amounts accrued in excess of amounts paid related to the scheduled rent increases are included in accrued interest payable and other liabilities on the balance sheet.

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

Income Taxes

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized.

At December 31, 2016 and 2015, the Bank did not have a material reserve for uncertain tax positions. The Bank uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that management believes the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the statement of operations. The Bank has not accrued for any interest or penalties as of December 31, 2016 or December 31, 2015 because it does not have any significant unrecognized tax benefits.

Earnings Per Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options using the treasury stock method.

Share-Based Compensation

The Bank has two share-based compensation plan, the Presidio Bank 2006 Stock Option Plan (the "2006 Plan") and the Presidio Bank 2016 Equity Incentive Plan (the “2016 Plan”), which have been approved by its shareholders and permit the grant of stock options and restricted stock for up to 1,625,000 and 500,000 shares of the Bank's common stock, respectively. The 2006 Plan expired on July 18, 2016. There were 409,548 shares available for future grant in the 2016 Plan at December 31, 2016. The Plans are designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. New shares are issued upon option exercise of stock options and vesting of restricted stock. The Plans do not provide for the settlement of awards in cash. The Plans require that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised.

The Bank has issued four types of awards under the plans: Organizer options, which were granted to founders and organizers and were fully vested upon the granting of the awards; service-based options, that generally vest over four or five year periods; restricted stock and restricted stock units, certain of which vest only if the Bank meets or exceeds certain pre-determined financial goals and objectives.

The Bank accounts for share-based compensation using a fair-value based method that requires that share-based compensation expense be recorded for all stock options and restricted stock awards and restricted stock units that are ultimately expected to vest as the requisite service is rendered.

Management estimates the fair value of each option award as of the date of grant using a Black-Scholes-Merton option pricing formula. Expected volatility is based on historical volatility of similar entities over a preceding period commensurate with the expected term of the option because the Bank's common stock has been publicly traded for a shorter period than the expected term for the options. The "simplified" method described in the Securities and Exchange Commission's Staff Accounting Bulletin No. 110 is used to determine the expected term of option awards. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield was not considered in the option pricing formula because the Bank has not paid dividends and has no current plans to do so in the future.

Option awards granted to employees and members of the Bank's board of directors are accounted for as stock compensation, whereby compensation expense is generally based on the grant date fair value of the option awards. Option awards granted to board advisory members are accounted for as equity-based payments to non-employees, whereby the fair value of the option awards is re-measured each reporting period and the expense recorded is ultimately based on the fair value of the option awards on the vesting date.

The fair values of restricted stock awards and restricted stock units are determined using the fair value of the underlying shares on the date of the grant. In addition to the assumptions discussed above, management makes estimates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the Plan.

Newly Issued Not Yet Effective Accounting Standards

In May 2014 the FASB amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that period. The amendments should be applied retrospectively to all periods presented or retrospectively with the cumulative effect recognized at the date of initial application. The Bank is currently evaluating the impact of this new accounting standard on the financial statements, but given the majority of the Bank's revenue is interest income which is generally not impacted by this newly issued accounting standard, management does not anticipate such adoption will be significant to the Bank's financial statements.

In January 2016, the FASB amended existing guidance that requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. It requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). It eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost. These amendments are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this standard is not expected to have a material effect on the Bank's operating results or financial condition, however the Bank is currently evaluating the impact to its disclosure of the fair value of financial instruments given the requirement to use the exit price notion described above.

In February 2016, the FASB amended existing guidance that requires lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date (1) a lease liability, which is the lessee's obligation to make payments arising from a lease, measured on a discounted basis; 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. Under the guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. These amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Bank is currently evaluating the impact of this new accounting standard on the financial statements, and expects most of its significant leases will be required to be presented as assets on the balance sheet with corresponding liabilities for the lease obligations.

In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to maturity debt securities, and reinsurance receivables It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively. Existing purchased credit impaired (PCI) assets WII grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the discount in interest income based on the yield of such assets as of the adoption date Subsequent changes in expected credit losses will be recorded through the allowance. For all other assets within the scope of CECL a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. These amendments are effective for public business entities that are not registered with the Securities and Exchange Commission for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. For calendar year-end companies such as the Bank, the standard is effective for March 31, 2021 interim financial statements. All entities may early adopt for fiscal years beginning after December 15, 2018, including interim periods in those fiscal years, which means that calendar year-end entities may adopt as early as the March 31, 2019 interim financial statements. The Bank is currently evaluating the impact of this new accounting standard on the financial statements and has not yet quantified an estimate of the expected impact.

In March 2016, the FASB amended existing guidance to simply the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; (c) classification on the statement of cash flows; and (d) policy election to estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any interim or annual period. An entity that elects early adoption must adopt all of the amendments in the same period. The Bank is currently evaluating the impact of this new accounting standard on the financial statements and does not expect the impact will be material, as management does not expect excess tax benefits will be significant to the Bank, nor does it anticipate electing to change the Bank's accounting policy for forfeitures.

3. Investment Securities

Available-for-Sale Investment Securities

The following table summarizes the amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2016 and 2015 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss:

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities-residential	$ 5,313,453	$ -	$ (163,556)	$ 5,149,897
Asset-backed securities-student loan	3,333,853	-	(66,717)	3,267,136
	$ 8,647,306	$ -	$ (230,273)	$ 8,417,033

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities-residential	$ 6,682,805	$ -	$ (116,702)	$ 6,566,103
Asset-backed securities-student loan	4,188,688	-	(127,886)	4,060,802
	$ 10,871,493	$ -	$ (244,588)	$ 10,626,905

Net unrealized losses on available-for-sale investment securities totaling $230,373 and $244,588 were recorded net of related tax benefits of $93,491 and $102,262 as accumulated other comprehensive loss at December 31, 2016 and 2015, respectively. There were no sales or transfers of available-for-sale investment securities during the years ended December 31, 2016 and 2015. Available-for-sale residential mortgage-based securities with an amortized cost of $4,671,956 and fair value of $4,518,087 mature in 2023. Available-for-sale residential mortgage-based securities with an amortized cost of $641,498 and fair value of $631,811 mature in 2028. Available-for-sale student loan asset-backed securities mature in 2035. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations.

At December 31, 2016 and 2015, the residential mortgage-backed securities held by the Bank were issued by a U.S. government-sponsored entities, Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. At December 31, 2016, the student loan asset-backed security held by the Bank was guaranteed by eligible guarantee agencies and reinsured by the U.S. Department of Education for at least 97% of defaulted principal and accrued interest. The structure of this security also incorporates other forms of credit enhancement. Because management believes the declines in the fair values of its residential mortgage-backed securities and student loan asset backed security are attributable to changes in interest rates and not credit quality, and because the Bank does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Bank does not consider these securities to be other-than-temporarily impaired at December 31, 2016 and 2015.

At December 31, 2016, the Bank held available-for-sale asset backed securities with net unrealized losses of $66,717 which had been in a continuous net unrealized loss position for more than 12 months. At December 31, 2015, the Bank held available-for-sale asset-backed securities with net unrealized losses of $127,886 which had been in a continuous net unrealized loss position for more than 12 months. At December 31, 2016, the Bank held available-for-sale mortgage-backed securities with net unrealized losses of $163,556 which had been in a continuous net unrealized loss position for less than 12 months. At December 31, 2015, the Bank held available-for-sale mortgage-backed securities with net unrealized losses of $116,702 which had been in a continuous net unrealized loss position for less than 12 months.

Held-to-Maturity Investment Securities

The Bank held at amortized cost $616,246 and $631,450 of mortgage-backed held-to-maturity investment securities at December 31, 2016 and 2015, respectively, with estimated fair values substantially equivalent to amortized cost.

Held-to-maturity investment securities are recorded at amortized cost, adjusted for the amortization of premiums or accretion of discounts. There were no sales, calls or transfers of held-to-maturity investment securities for the years ended December 31, 2016 and 2015. Held-to-maturity investment securities mature in 2019.

4. Loans

Outstanding loans at December 31, 2016 and 2015 are summarized below:

December 31,	**2016**	2015
Commercial	**$ 180,412,055**	$ 153,852,972
Construction and land development	**12,297,957**	42,492,983
Commercial real estate	**263,462,889**	224,219,589
Consumer and other	**117,454,659**	104,142,352
	573,627,560	524,707,896
Deferred loan origination fees, net	**(848,234)**	(893,417)
Allowance for loan losses	**(6,867,658)**	(6,300,886)
	$ 565,911,668	$ 517,513,593

Salaries and employee benefits totaling $680,682 and $706,887 were deferred as loan origination costs for the years ended December 31, 2016 and 2015, respectively.

As of December 31, 2016, the Bank had a recorded investment in a troubled debt restructuring of $1,054,850, and had allocated $85,694 of specific reserves for that loan and had not committed to lend additional amounts on that loan. There were no loans modified as troubled debt restructurings during the year ended December 31, 2016.

As of December 31, 2015, the Bank had a recorded investment in a troubled debt restructuring of $1,113,546, with no allocated of specific reserves for that loan and had not committed to lend additional amounts on that loan. The modification occurred during the year ended December 31, 2015 and included an extension of the maturity date and reduced payments in the near term, but did not change the Bank's recorded investment in the loan or impact the allowance or provision for loan losses because the loan was already considered impaired before it was modified and the specific allowance did not change as a result of the modification.

5. Loans and Allowance for Loan Losses

The following table shows the allocation of the allowance for loan losses for the years ended December 31, 2016 and 2015 by portfolio segment and the allocation of the allowance for loan losses at December 31, 2016 and 2015 by portfolio segment and impairment methodology:

Allowance for Loan Losses 2016	Commercial	Construction and Land Development	Commercial Real Estate	Consumer and Other	Unallocated	Total
Beginning balance allocated to portfolio segments	$ 2,315,101	$ 658,397	$ 2,116,518	$ 1,210,870	$ -	$ 6,300,886
Provision for loan losses	524,920	(460,757)	356,065	146,544	-	566,772
Losses charged to allowance	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Ending balance allocated to portfolio segments	$ 2,840,021	$ 197,640	$ 2,472,583	$ 1,357,414	$ -	$ 6,867,658
Ending balance: individually evaluated for impairment	$ 85,694	$ -	$ -	$ -	$ -	$ 85,694
Ending balance: collectively evaluated for impairment	$ 2,754,327	$ 197,640	$ 2,472,583	$ 1,357,414	$ -	$ 6,781,964

Allowance for Loan Losses 2015	Commercial	Construction and Land Development	Commercial Real Estate	Consumer and Other	Unallocated	Total
Beginning balance allocated to portfolio segments	$ 1,822,090	$ 246,959	$ 2,034,729	$ 868,268	$ 200,000	$ 5,172,046
Provision for loan losses	493,011	411,438	81,789	342,602	(200,000)	1,128,840
Losses charged to allowance	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Ending balance allocated to portfolio segments	$ 2,315,101	$ 658,397	$ 2,116,518	$ 1,210,870	$ -	$ 6,300,886
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 2,315,101	$ 658,397	$ 2,315,101	$ 1,210,870	$ -	$ 6,300,886

The following table shows the loan portfolio at December 31, 2015 and 2013 by portfolio segment and impairment methodology:

Loans 2016	Commercial	Construction and Land Development	Commercial Real Estate	Consumer and Other	Total
Ending balance	$ 180,412,055	$ 12,297,957	$ 263,462,889	$ 117,454,659	$ 573,627,560
Ending balance: individually evaluated for impairment	$ 1,054,850	$ -	$ -	$ -	$ 1,054,850
Ending balance: collectively evaluated for impairment	$ 179,357,205	$ 12,297,957	$ 263,462,889	$ 117,454,659	$ 572,572,710

Loans 2015	Commercial	Construction and Land Development	Commercial Real Estate	Consumer and Other	Total
Ending balance	$ 153,852,972	$ 42,492,983	$ 224,219,589	$ 104,142,352	$ 524,707,896
Ending balance: individually evaluated for impairment	$ 1,213,353	$ -	$ -	$ -	$ 1,213,353
Ending balance: collectively evaluated for impairment	$ 152,639,619	$ 42,492,983	$ 224,219,589	$ 104,142,352	$ 523,494,543

As of December 31, 2016 the Bank had an impaired commercial loan of $1,054,850 with $85,694 of related allowance. As of December 31, 2015 the Bank had impaired commercial loans totaling $1,213,353 with no related allowance. The average recorded investment in impaired loans totaled $1,083,185 and $1,262,596 for the years ended December 31, 2016 and 2015, respectively, and there was no interest income recognized on impaired loans for the years then ended.

The following table shows the loan portfolio allocated by management's internal risk ratings at December 31, 2016 and 2015:

Loans 2016	Credit Risk Profile by Internally Assigned Grade Commercial	Construction and Land Development	Commercial Real Estate	Consumer and Other	Total
Grade:					
Pass	$ 176,356,388	$ 12,297,957	$ 263,133,728	$ 115,845,534	$ 567,633,607
Special Mention	300,000	-	329,161	994,125	1,623,286
Substandard	3,755,666	-	-	615,000	4,370,666
Total	$ 180,412,055	$ 12,297,957	$ 263,462,889	$ 117,454,659	$ 573,627,560

Loans 2015	Credit Risk Profile by Internally Assigned Grade Commercial	Construction and Land Development	Commercial Real Estate	Consumer and Other	Total
Grade:					
Pass	$ 149,218,371	$ 42,492,983	$ 221,914,707	$ 101,879,636	$ 515,505,637
Special Mention	550,000	-	2,304,882	2,262,715	5,117,598
Substandard	4,084,601	-	-	-	4,084,601
Total	$ 153,852,972	$ 42,492,983	$ 224,219,589	$ 104,142,352	$ 524,707,836

The following table shows an aging analysis of the loan portfolio by the time past due at December 31, 2016 and 2015:

2016	30-89 Days Past Due	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial:					
Commercial	$ -	$ 1,054,850	$ 1,054,850	$ 179,357,205	$ 180,412,055
Construction and land-development	-	-	-	12,297,957	12,297,957
Commercial real estate	-	-	-	263,462,889	263,462,889
Consumer and other	-	-	-	117,454,659	117,454,659
Total	$ -	$ 1,054,850	$ 1,054,850	$ 572,572,710	$ 573,627,560

2015	30-89 Days Past Due	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial:					
Commercial	$ -	$ 1,213,353	$ 1,213,353	$ 152,639,619	$ 153,852,972
Construction and land-development	-	-	-	42,492,983	42,492,983
Commercial real estate	-	-	-	224,219,589	224,219,589
Consumer and other	-	-	-	104,142,352	104,142,352
Total	$ -	$ 1,213,353	$ 1,213,353	$ 523,494,543	$ 524,707,896

6. Premises and Equipment

Premises and equipment consisted of the following:

December 31,	**2016**	2015
Furniture, fixtures and equipment6.	**$ 2,859,548**	$ 2,774,660
Leasehold improvements	**1,408,855**	1,408,855
	4,268,403	4,183,515
Less accumulated depreciation and amortization	**(3,248,609)**	(2,952,820)
	$ 1,019,794	$ 1,230,695

Depreciation and amortization included in occupancy and equipment expense totaled $338,314 and $335,271 for the years ended December 31, 2016 and 2015.

7. Interest Bearing Deposits

Interest-bearing deposits consisted of the following:

December 31,	**2016**	2015
Savings	**$ 3,074,276**	$ 2,747,814
Money market	**256,636,447**	247,127,554
Interest-bearing demand accounts	**99,603,659**	78,359,329
Time, $100,000 or more	**44,515,341**	37,814,199
Other time	**1,896,386**	2,303,752
	$ 405,726,109	$ 368,352,648

Time deposits issued in denominations greater than or equal to $250,000 totaled $37,998,740 and $31,897,164 at December 31, 2016 and 2015, respectively.

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2017	$ 39,957,114
2018	1,997,593
2019	3,170,989
2020	723,380
2021	562,651
	$ 46,411,727

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2016 and 2015 consisted of the following:

December 31,	**2016**	2015
Savings	**$ 3,732**	$ 2,726
Money market	**540,692**	450,094
Interest-bearing demand accounts	**172,795**	152,468
Time, $100,000 or more	**160,865**	100,011
Other time	**34,125**	113,159
	$ 912,209	$ 818,458

8. Income Taxes

Income taxes for the years ended December 31, 2016 and 2015 consisted of the following:

2016	Federal	State	Total
Current	$ 2,473,882	$ 894,128	$ 3,368,010
Deferred	(339,249)	(87,638)	(426,887)
Income tax expense	$ 2,134,633	$ 806,490	$ 2,941,123

2015	Federal	State	Total
Current	$ 1,533,412	$ 605,541	$ 2,138,953
Deferred	(375,258)	(140,352)	(515,610)
Income tax expense	$ 1,158,154	$ 465,189	$ 1,623,343

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rate to income before income taxes. The items comprising these differences consisted of the following for the years ended December 31, 2016 and 2015:

	2016		2015	
	Amount	Rate	Amount	Rate
Federal income tax expense at statutory rate	$ 2,522,325	34.0%	$ 1,425,267	34.0%
State franchise tax, net of Federal benefit	532,203	7.2%	307,025	7.3%
Stock options	25,764	0.3%	(94,364)	(2.2%)
Low-income housing investments	(88,184)	(1.2%)	(49,090)	(1.2%)
Other	(50,985)	(0.7%)	34,505	0.8%
Income tax expense	$ 2,941,123	39.6%	$ 1,623,343	38.7%

Deferred tax assets (liabilities) at December 31, 2016 and 2015 consisted of the following:

	2016	2015
Deferred tax assets:		
Organizational costs	$ **170,229**	$ 208,057
Allowance for loan losses	**2,938,342**	2,684,509
Share-based compensation	**218,896**	251,188
Accrued expenses	**783,846**	776,749
Other	**736,526**	519,155
Total deferred tax assets	**4,847,839**	4,439,658
Deferred tax liabilities:		
FHLB stock dividends	**(4,874)**	(4,874)
Prepaid expenses	**(3,596)**	(4,824)
Fixed assets	**(35,741)**	(72,724)
Deferred loan costs	**(421,165)**	(392,889)
Total deferred tax liabilities	**(465,376)**	(475,311)
Net deferred tax assets	$ **4,382,463**	$ 3,964,347

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Based upon its analysis of available evidence, including recent profitability and the ability to realize net operating losses in the near term, management has determined that it is "more likely than not" that the Bank's deferred income tax assets as of December 31, 2016 were be fully realized and therefore no valuation allowance was recorded.

At December 31, 2016, the Bank had no Federal or State net operating loss carryforwards. The Bank files income tax returns in the United States and California jurisdictions. Federal and California tax returns are currently open for examination for tax years since 2011 and 2010, respectively. The total amount of unrecognized tax benefits, including interest and penalties, at December 31, 2016 was not material. The amount of tax benefits that would impact the effective rate, if recognized, is not expected to be material. The Bank does not anticipate any significant changes with respect to unrecognized tax benefits within the next 12 months.

9. Borrowing Arrangements

Lines of Credit

The Bank has unsecured Federal funds lines of credit with two of its correspondent banks under which it can borrow up to an aggregate of $10,000,000. There were no borrowings outstanding under these arrangements at December 31, 2016 or 2015.

Federal Reserve Bank

The Bank has a borrowing arrangement with the Federal Reserve Bank of San Francisco secured by certain of the Bank's loans. At December 31, 2016, the amounts pledged and borrowing capacity under this arrangement totaled $60,691,985 and $49,681,047, respectively. At December 31, 2015, the amounts pledged and borrowing capacity under this arrangement totaled $143,449,672 and $117,072,179, respectively. There were no borrowings outstanding under this arrangement at December 31, 2016 or 2015.

Federal Home Loan Bank

The Bank has a borrowing arrangement with FHLB under which short-term and long term advances are secured by the Bank's loan portfolio. The Bank's credit limit varies according to the amount and composition of loans pledged as collateral. At December 31, 2016, the loans pledged and borrowing capacity under such limits were approximately $265,234,123 and $160,873,200, respectively. At December 31, 2015, the loans pledged and borrowing capacity under such limits were approximately $83,180,995 and $69,332,802, respectively. There were no borrowings outstanding under this arrangement at December 31, 2016 and 2015. Of the borrowing capacity at December 31, 2016 and 2015, $22,000,000 was pledged as collateral in the form of a letter of credit to secure public deposits.

Subordinated Debt

During 2014 the Bank issued $10,000,000 of subordinated debentures in a private placement to accredited investors. The subordinated debentures mature on September 30, 2024. The subordinated debentures are redeemable in whole or in part, from time to time, upon the occurrence of specific events defined within the notes. The subordinated debentures are also redeemable in whole or in part, on or after the fifth anniversary of the effective date of issuance, at prices ranging from 101% to 103% of the principal amount outstanding. Debt issuance costs totaling $436,696 were recorded as a discount to par value and are being amortized over the term of the debt as additional interest expense. The subordinated debentures may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures have a fixed rate of interest equal to 8% and require quarterly interest-only payments until maturity.

10. Commitments and Contingencies

Operating Leases

The Bank leases its San Francisco headquarters, branch offices in Walnut Creek, San Rafael, San Mateo and Palo Alto, and an office in Santa Rosa under non-cancelable operating leases. The leases expire on March 31, 2021, March 31, 2017, August 21, 2017, January 31, 2020, August 31, 2024 and May 31, 2019 respectively. The leases include annual rent adjustments for San Francisco, San Rafael, San Mateo, Palo Alto and Santa Rosa of approximately 3.0%, 3.0%, 3.0%, 3.0% and 2.6%, respectively, each year during the lease terms. The San Francisco, San Rafael, San Mateo and Palo Alto leases each have one five-year renewal option.

Approximate future minimum lease payments are as follows:

Year Ending December 31,	
2017	$ 1,475,073
2018	1,485,331
2019	1,503,162
2020	1,185,325
2021	631,063
Thereafter	877,343
	$ 7,157,297

Rental expense included in occupancy and equipment expense totaled $1,646,121 and $1,318,147 for years ended December 31, 2016 and 2015, respectively.

Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance- sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of the following at December 31, 2016 and 2015:

	2016	2015
Commitments to extend credit	**$ 276,883,000**	$ 236,729,000
Standby letters of credit	**$ 8,982,000**	$ 11,405,000

The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for loans included on the balance sheet.

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. Since some of the commitments are expected to expire without being drawn upon, the 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 borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued to guarantee the performance of a client to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2016. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

Commercial loan commitments represent approximately 63% of total commitments and are generally unsecured or secured by collateral other than real estate and have variable interest rates. Consumer loan commitments represent approximately 5% of total commitments and are generally unsecured or secured by collateral other than real estate and have variable interest rates. Real estate loan commitments represent approximately 16% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 75%. The majority of real estate commitments also have variable interest rates. Letters of credit represent 3% of total commitments. Home equity lines of credit represent the remaining 13% of total commitments and are generally secured by residential real estate and have both variable and fixed interest rates.

Concentrations of Credit Risk

The Bank grants real estate mortgage, real estate construction and commercial loans to customers in San Francisco and surrounding counties. A substantial portion of its portfolio is secured by commercial and residential real estate at December 31, 2016 and 2015.

In management's judgment, a concentration of loans exists in real estate related loans with approximately 63% of the Bank's loans being real estate related. Although management believes the loans within this concentration have no more than the normal risk of collectibility, a substantial decline in the performance of the economy in general or a decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on the collectibility of these loans. Personal and business income represent the primary source of repayment for a majority of these loans.

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Bank balances totaling approximately $433,232 and $572,848 exceeded FDIC insurance limits as of December 31, 2016 and 2015, respectively.

11. Share-Based Compensation

The Bank grants stock options, restricted stock and restricted stock units to employees, directors and advisory board members in exchange for services, pursuant to the shareholder approved 2006 Stock Option Plan and 2016 Equity Incentive Plan. During the year ended December 31, 2016 the 2006 Stock Option Plan expired and has no shares available for future grant. The 2016 Equity Incentive Plan provides for 500,000 authorized shares and at December 31, 2016 had 409,548 shares available for future grant.

Stock Option Awards

Stock option grants are granted with an exercise price equal to the fair market value of the related common stock on the grant date. Stock option grants generally become exercisable in equal annual installments over a four-year period with each installment vesting on the anniversary date of the grant. Each grant has a maximum ten-year term.

Stock option activity for the years ended December 31, 2016 and 2015 is summarized as follows:

	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2014	1,176,300	$ 9.35	4.3 years
Granted	200,500	12.28	
Exercised	(230,500)	9.52	
Cancelled or expired	(28,500)	9.27	
Outstanding at December 31, 2015	1,117,800	9.85	4.6 years
Granted	36,000	13.61	
Exercised	(427,325)	9.75	
Cancelled or expired	(14,900)	11.00	
Outstanding at December 31, 2016	711,575	10.07	5.6 years
Exercisable at December 31, 2016	455,450	9.12	4.3 years
Additional options expected to vest	221,160	$ 11.71	8.0 years

At December 31, 2016, the aggregate intrinsic value of stock options outstanding was $3,792,797, the aggregate intrinsic value of options exercisable was $2,942,774 and the aggregate intrinsic value of additional options expected to vest was $816,993. The aggregate intrinsic value of options exercised during the years ended December 31, 2016 and 2015 totaled $1,633,099 and $837,252, respectively.

During the years ended December 31, 2016 and 2015, the Bank received $4,168,352 and $2,194,613 of cash from the exercise of stock options and realized tax benefits of $94,657 and $150,436, respectively.

The unrecognized compensation cost related to non-vested service-based options totaled $1,179,220 as of December 31, 2016. That cost is expected to be amortized on an accelerated basis over a weighted average period of 2.7 years and will be adjusted for subsequent changes in estimated forfeitures.

The following weighted average assumptions were used in the option pricing to value stock options granted in the periods indicated:

	2016	2015
Grant date fair value per share of options granted	$ 5.03	$ 4.34
Significant fair value assumptions:		
Expected term in years	8.1 years	8.3 years
Expected annual volatility	29.4%	29.4%
Expected annual dividend yield	0%	0%
Risk-free interest rate	1.85%	1.85%

The total compensation cost included in operating expenses was $458,270 and $362,052 for the years ended December 31, 2016 and 2015, respectively.

Restricted Stock Awards

The following restricted stock information is for the years ended December 31, 2016 and 2015.

	2016		2015	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested, beginning of year	9,500	$ 12.40	2,250	$ 10.50
Granted	40,500	13.60	19,000	12.40
Vested	(9,500)	12.40	(11,750)	12.04
Forfeited	-	-	-	-
Nonvested, end of year	40,500	$ 13.60	9,500	$ 12.40

Restricted Stock Units

The following restricted stock unit information is for the year ended December 31, 2016 and 2015.

	2016		2015	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested, beginning of year	**16,996**	**$ 12.43**	19,046	$ 10.50
Granted	**14,952**	**13.37**	18,303	12.43
Incremental performance shares	**0**		4,758	12.43
Vested	**(12,745)**	**12.43**	(23,804)	10.50
Forfeited	**(4,251)**	**12.43**	(1,307)	12.40
Nonvested, end of year	**14,952**	**$ 13.37**	16,996	$ 12.43

Restricted stock units granted during 2016 and 2015 were earned as of December 31, 2016 and December 31, 2015, respectively, but are payable in shares to the holders as of May 15, 2016 and May 15, 2015, respectively. Units granted with these terms are, therefore, fully expensed as of the year-end but not reflected in shares outstanding until the payout date.

Compensation cost associated with the restricted stock awards and restricted stock units totaled $403,958 and $299,853 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 the unrecognized compensation cost related to the nonvested restricted stock and restricted stock units totaled approximately $117,800. The unrecognized compensation cost at December 31, 2016 is expected to be amortized on a straight-line basis over a weighted average period of one year and will be adjusted for subsequent changes in estimated forfeitures.

12. Shareholders' Equity

Preferred Stock

On November 20, 2009, the Bank entered into a Letter Agreement (the "Purchase Agreement") with the United States Department of the Treasury (the "Treasury"), pursuant to which the Bank issued and sold (i) 10,800 shares of Fixed Rate Non-cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") for a purchase price of $10,800,000 and (ii) a warrant to purchase 325 shares of Fixed Rate Non-cumulative Perpetual Preferred Stock, Series B stock, (the "Warrant Preferred") for $0.01 per share for an aggregate exercise price of $3.25. The Treasury exercised the warrant immediately upon issuance. On December 11, 2012, the Treasury sold at auction all 10,800 shares of the Series A Preferred and all 325 shares of the Series B Preferred to private investors.

The Series A Preferred Stock qualifies as Tier 1 capital and pays non-cumulative dividends quarterly at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Warrant Preferred pays non-cumulative dividends at a rate of 9% per annum until redemption. Either series may be redeemed by the Bank after three years; however, the Warrant Preferred may not be redeemed until after all the Series A Preferred Stock has been redeemed.

The Series A Preferred Stock and the Warrant Preferred were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. Neither the Series A Preferred Stock nor the Warrant Preferred will be subject to any contractual restrictions on transfer, except that the Treasury and its transferees shall not affect any transfer of the Series A or Series B Preferred Stock which would require the bank to become subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act.

The Series A Preferred and Warrant Preferred shall be non-voting, other than class voting rights on (i) any authorization or issuance of shares ranking senior to the Series A Preferred and Warrant Preferred, (ii) any amendment to the rights of the Series A Preferred and Warrant Preferred, or (iii) any merger, exchange or similar transaction which would adversely affect the rights of the Series A Preferred and Warrant Preferred. If dividends on the Series A Preferred and Warrant Preferred are not paid in full for six dividend periods, whether or not consecutive, the holders of the Series A Preferred and Warrant Preferred will have the right to elect 2 directors. The right to elect directors will end when full dividends have been paid for all prior dividend periods.

Furthermore, for as long as any Series A Preferred Stock or Warrant Preferred is outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking pari passu with the Series A Preferred Stock or Warrant Preferred, or common shares (other than in the case of pari passu preferred shares or dividends on a pro rata basis with the Series A Preferred Stock or Warrant Preferred), nor may the Bank repurchase or redeem any junior preferred shares, preferred shares ranking pari passu with the Series A Preferred Stock or Warrant Preferred, unless the full dividend for the latest completed dividend period has been declared and paid in full.

The Bank recorded a discount on the Series A Preferred Stock at approximately the liquidation preference of the Series B Preferred. The discount recorded on the Series A Preferred Stock was amortized on the level-yield method over five years.

On June 24, 2015, the Bank completed a 1,000,000 share common rights offering at a price of $12.00 per share, before offering costs with the intention to use the proceeds from the offering for general corporate purposes. Net of offering costs, the Bank received $11,657,977 of proceeds from the offering.

On September 30, 2015, the Bank repurchased all of its remaining 6,544 shares of Series A Preferred Stock and 325 shares of Series B Preferred Stock at par value of $6,869,000 from private investors.

Dividends

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of (1) the bank's retained earnings or (2) the Bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2016, $3,377,073 was free of such restrictions.

Regulatory Capital

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2016 is 0.625%. The net unrealized gain or loss on available for sale securities not included in computing regulatory capital. Management believes as of December 31, 2016, the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2016 and 2015, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank’s category.

	2016		2015	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Presidio Bank	$ 67,499,000	9.1%	$ 57,696,000	9.0%
Minimum requirement for “Well-Capitalized” institution	36,915,000	5.0%	31,923,000	5.0%
Minimum regulatory requirement	29,532,000	4.0%	25,539,000	4.0%
Common Equity Tier 1 Risk-Based Capital Ratio				
Presidio Bank	$ 67,499,000	10.1%	57,696,000	9.4%
Minimum requirement for “Well-Capitalized” institution	43,368,000	6.5%	39,867,000	6.5%
Minimum regulatory requirement	30,024,000	4.5%	27,600,000	4.5%
Tier 1 Risk-Based Capital Ratio				
Presidio Bank	$ 67,499,000	10.1%	$ 57,696,000	9.4%
Minimum requirement for “Well-Capitalized” institution	53,376,000	8.0%	49,067,000	8.0%
Minimum regulatory requirement	40,032,000	6.0%	36,801,000	6.0%
Total Risk-Based Capital Ratio				
Presidio Bank	$ 84,594,000	12.7%	$ 74,533,000	12.2%
Minimum requirement for “Well-Capitalized” institution	66,720,000	10.0%	61,334,000	10.0%
Minimum regulatory requirement	53,376,000	8.0%	49,067,000	8.0%

Earnings Per Share

The factors used in the earnings per share computation for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Basic:		
Net income	$ 4,477,480	$ 2,542,020
Dividends on preferred stock	-	(475,494)
Less: Undistributed earnings allocated to participating securities	(19,653)	-
Net income available to common shareholders	$ 4,457,827	$ 2,066,526
Weighted average common shares O/S including Participating securities	5,773,075	4,772,540
Less: Participating securities	(25,340)	-
Average shares	5,747,735	4,772,540
Basic earnings per common share	$ 0.78	$ 0.43

	2,016	2015
Diluted:		
Net income available to common shareholders	$ 4,457,827	$ 2,066,526
Weighted average common shares outstanding for basic earnings per common share	5,747,735	4,772,540
Add: Dilutive effects of assumed exercises of stock options	199,616	249,678
Average shares and dilutive potential common shares	5,947,351	5,022,218
Diluted earnings per common share	$ 0.75	$ 0.41

Stock options to purchase shares totaling 226,466 and 180,227 for the years ended December 31, 2016 and 2015 were excluded from the calculation of diluted earnings per share because they were considered anti-dilutive in that the assumed proceeds from exercise price, tax benefits and average future compensation were greater than the average price of the Bank's common stock, but such stock options could become dilutive in the future.

13. Related Party Transactions

The Bank has entered into transactions with related parties, including Directors, executive officers and affiliates. The following is a summary of the aggregate activity involving related party borrowers during the years ended December 31, 2016 and 2015:

	2016	2015
Beginning balance	$ 1,180,000	$ 923,000
Disbursements	9,133,000	4,812,000
Amounts repaid	(8,893,000)	(5,105,000)
Ending balance	$ 1,420,000	$ 1,180,000
Undisbursed commitments to related parties	$ 2,236,000	$ 1,714,000

14. Employee Benefit Plans

Profit Sharing Plan

In 2006, the Bank adopted the Presidio Bank 401 (k) Profit Sharing Plan and Trust. All employees 21 years of age or older are eligible to participate in the plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. The Bank may make additional contributions to the plan at the discretion of the Board of Directors. Employees vest into the plan at a rate of 20% annually. The Bank made contributions to the Plan totaling approximately $308,000 and $295,000 for the years ended December 31, 2016 and 2015, respectively.

15. Other Expenses

Other expenses for the years ended December 31, 2016 and 2015 consisted of the following:

	2016	2015
Data processing	$ 1,286,728	$ 1,151,711
Regulatory and insurance	488,730	433,505
Professional fees	538,875	531,426
Advertising and promotions	277,050	258,124
Stationery and supplies	154,835	168,012
Travel and entertainment	255,436	262,529
Correspondent bank charges	121,753	166,761
Directors fees and share-based compensation	411,532	342,480
Telephone	185,638	177,979
Other	414,648	402,140
	$ 4,135,225	$ 3,894,667

16. Fair Value Measurements

Fair Value Hierarchy

The Bank groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 - Quoted market prices for identical instruments traded in active exchange markets.

Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 - Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Bank's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Bank's financial instruments at December 31, 2016 and 2015 were as follows:

		Fair Value Measurements at December 31, 2016 Using:			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 156,194,325	$ 156,194,325	$ -	$ -	$ 156,194,325
Securities available-for-sale	8,417,033		8,417,033	-	8,417,033
Securities held-to-maturity	616,246	-	-	616,246	616,246
FRB and FHLB stock	4,215,500	N/A	N/A	N/A	N/A
Loans, net	565,911,668	-	-	566,887,402	566,887,402
Accrued interest receivable	1,394,971	-	18,324	1,376,647	1,394,971
Financial liabilities					
Deposits	663,438,548	617,071,821	46,491,927	-	663,563,748
Subordinated debt, net	9,661,563	-	-	10,115,483	10,115,483
Accrued interest payable	20,787	7	20,780	-	20,787

Fair Value Measurements at December 31, 2015 Using:

	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 109,386,709	$ 109,386,709	$ -	$ -	$ 109,386,709
Securities available-for-sale	10,626,905		10,626,905	-	10,626,905
Securities held-to-maturity	631,450	-	-	631,450	631,450
FRB and FHLB stock	3,775,450	N/A	N/A	N/A	3,775,450
Loans, net	517,513,593	-	-	517,513,593	517,513,593
Accrued interest receivable	1,281,758	-	18,589	1,263,169	1,281,758
Financial liabilities					
Deposits	579,350,751	539,232,800	40,155,236	-	579,388,036
Subordinated debt, net	9,617,894	-	-	10,192,905	10,192,905
Accrued interest payable	15,170	17	15,153	-	15,170

These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The methods and assumptions used to estimate the fair values of financial instruments are described as follows:

a) *Cash and Cash Equivalents* - The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

b) *FRB and FHLB Stock - It is not practical to determine the fair value of FRB and FHLB stock due to restrictions placed on their transferability.*

c) *Investment Securities - The fair value of investment securities available-for-sale is based on quoted market prices for similar securities in active markets resulting in a Level 2 classification. The fair value for investment securities held-to-maturity is based on a discounted cash flow model resulting in a Level 3 classification.*

d) *Loans - Fair values of loans are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Certain impaired loans are valued at the lower of cost or fair value of collateral. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.*

e) *Deposits - The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.*

f) Subordinated Debt - The fair values for subordinated debt are estimated using a discounted cash flows calculation using a discount rate approximating the rate applicable at the balance sheet date for debt issued to institutions of similar credit worthiness resulting in a Level 3 classification.

g) Accrued Interest Receivable/Payable - The carrying amounts of accrued interest approximate fair value resulting in Level 2 for accrued interest receivable on investment securities, Level 3 for accrued interest receivable on loans Level 1 for accrued interest payable on money market deposits and Level 2 for accrued interest payable on certificates of deposit.

h) Off-balance Sheet Instruments - Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

Assets Recorded at Fair Value

The following tables present information about the Bank's assets measured at fair value on a recurring and nonrecurring basis. There were no liabilities measured at fair value on a recurring or nonrecurring basis.

Recurring Basis

The Bank is required or permitted to record the following assets at fair value on a recurring basis at December 31, 2016 and 2015:

	December 31, 2016			
	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities				
Debt securities:				
Mortgage backed securities Residential	$ 5,149,897	$ -	$ 5,149,897	$ -
Asset backed securities Student loans	3,267,136	-	3,267,136	-
Total assets measured at fair value on a recurring basis	$ 8,417,033	$ -	$ 8,417,033	$ -

	December 31, 2015			
	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities				
Debt securities:				
Mortgage backed securities				
Residential	$ 6,566,103	$ -	$ 6,566,103	$ -
Asset backed securities				
Student loans	4,060,802	-	4,060,802	-
Total assets measured at fair value on a recurring basis	$ 10,626,905	$ -	$ 10,626,905	$ -

During the years ended December 31, 2016 and 2015, there were no transfers in or out of Level 1 or Level 2 categories.

Non-recurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date. Assets measured at fair value on a non-recurring basis at December 31, 2016 were as follows:

	December 31, 2016			
	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Commercial	$ 969,156	$ -	$ -	$ 969,156
Total assets measured at fair value on a non-recurring basis	$ 969,156	$ -	$ -	$ 969,156

The fair value of impaired loans included above is based on the fair value of the collateral less costs to sell. Impaired loans were categorized as Level 3 with unobservable inputs and assumptions in fair value measurements. Losses of $85,694 were recognized as increases in specific reserves on the above impaired commercial loans during the year ended December 31, 2016.

The following table presents quantitative information about level 3 fair value measurements for assets measured at fair value on a non-recurring basis at December 31, 2016 and 2015:

	December 31, 2016			
	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range (Weighted Average)
Impaired loan - commercial	$ 969,156	Sales Comparison Approach	Adjustments for differences between the comparable sales	(50)% - 80% (3%)

There were no assets measured at fair value on a nonrecurring basis at December 31, 2015.