

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

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

**DECEMBER 31, 2016 AND 2015**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders of  
Uniti Financial Corporation and Subsidiary

### *Report on Financial Statements*

We have audited the accompanying financial statements of Uniti Financial Corporation and Subsidiary, which are comprised of the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Uniti Financial Corporation and Subsidiary as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Vavrinek, Trine, Day & Co., LLP*  
Laguna Hills, California  
April 13, 2017

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015**

**ASSETS**

	2016	2015
Cash and Due from Banks	\$ 3,891,809	\$ 2,906,101
Federal Funds Sold and Other Cash Equivalents	48,762,165	46,382,732
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>52,653,974</b>	<b>49,288,833</b>
Time Deposits in Other Banks	-	1,344,000
Investment Securities Available for Sale	7,214,386	17,999,325
Loans Held For Sale	9,708,500	6,058,897
Loans:		
Real Estate	145,078,746	121,998,133
Commercial	45,496,319	32,349,643
Consumer and Other	35,822	254,500
<b>TOTAL LOANS</b>	<b>190,610,887</b>	<b>154,602,276</b>
Deferred Loan Costs, Net of Fees	593,037	378,497
Allowance for Loan Losses	( 3,696,986)	( 4,072,547)
<b>NET LOANS</b>	<b>187,506,938</b>	<b>150,908,226</b>
Federal Home Loan Bank Stock, at Cost	952,100	880,300
Premises and Equipment	491,476	520,164
Deferred Tax Assets	1,726,396	3,447,454
Accrued Interest and Other Assets	3,234,170	2,258,633
	<b>\$ 263,487,940</b>	<b>\$ 232,705,832</b>

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

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	2016	2015
Deposits:		
Noninterest-bearing Demand	\$ 108,706,154	\$ 80,816,277
Savings, NOW and Money Market Accounts	59,775,228	63,051,800
Time Deposits Under \$250,000	28,913,851	34,270,890
Time Deposits \$250,000 and Over	26,187,871	17,424,230
<b>TOTAL DEPOSITS</b>	223,583,104	195,563,197
 Accrued Interest and Other Liabilities	 1,341,653	 1,310,348
<b>TOTAL LIABILITIES</b>	224,924,757	196,873,545
 Commitments and Contingencies - Notes D and J		
Shareholders' Equity:		
Preferred Stock - 4,000,000 Authorized, None Outstanding	-	-
Common Stock - No par value, 40,000,000 Shares Authorized; Issued and Outstanding, 13,549,920 shares at December 31, 2016 and 13,465,757 shares at December 31, 2015	42,593,765	42,313,941
Accumulated Deficit	( 3,996,040)	( 6,388,308)
Accumulated Other Comprehensive Loss - Net Unrealized Loss on Available-for-Sale Securities, net of tax of \$21,234 and \$69,029 at December 31, 2016 and 2015, respectively	( 34,542)	( 93,346)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	38,563,183	35,832,287
	<b>\$ 263,487,940</b>	<b>\$ 232,705,832</b>

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

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>INTEREST INCOME</b>		
Interest and Fees on Loans	\$ 9,034,552	\$ 7,503,085
Interest on Investment Securities	149,245	305,819
Interest on Interest-Bearing Deposits in Other Banks	259,777	180,678
<b>TOTAL INTEREST INCOME</b>	<b>9,443,574</b>	<b>7,989,582</b>
<b>INTEREST EXPENSE</b>		
Interest on Savings Deposits, NOW and Money Market Accounts	392,194	317,982
Interest on Time Deposits	491,587	590,487
<b>TOTAL INTEREST EXPENSE</b>	<b>883,781</b>	<b>908,469</b>
<b>NET INTEREST INCOME</b>	<b>8,559,793</b>	<b>7,081,113</b>
Negative Provision for Loan Losses	( 600,000)	( 1,830,000)
<b>NET INTEREST INCOME AFTER NEGATIVE PROVISION FOR LOAN LOSSES</b>	<b>9,159,793</b>	<b>8,911,113</b>
<b>NONINTEREST INCOME</b>		
Service Charges, Fees, and Other Income	740,857	674,846
Loan Servicing Income, net	599,225	497,419
Gain on the Sale of SBA Loans	2,694,072	2,139,596
Letters of Credit Related Fees	97,771	132,155
Gain on the Sale of Investment Securities	4,389	1,479
<b>TOTAL NONINTEREST INCOME</b>	<b>4,136,314</b>	<b>3,445,495</b>
<b>NONINTEREST EXPENSE</b>		
Salaries and Employee Benefits	5,994,124	5,348,638
Occupancy and Equipment Expenses	742,497	723,026
Other Expenses	2,405,518	2,186,816
<b>TOTAL NONINTEREST EXPENSE</b>	<b>9,142,139</b>	<b>8,258,480</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>4,153,968</b>	<b>4,098,128</b>
Provision for Income Taxes	1,761,700	1,734,404
<b>NET INCOME</b>	<b>\$ 2,392,268</b>	<b>\$ 2,363,724</b>
<b>NET INCOME PER SHARE - BASIC</b>	<b>\$ 0.18</b>	<b>\$ 0.18</b>
<b>NET INCOME PER SHARE - DILUTED</b>	<b>\$ 0.16</b>	<b>\$ 0.16</b>

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

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Net Income	\$ 2,392,268	\$ 2,363,724
<b>OTHER COMPREHENSIVE INCOME:</b>		
Unrealized Gain on Securities Available for Sale	110,988	187,525
Less Reclassification Adjustment for Net Realized Gain on Available-for-Sale Securities Included in Net Income	<u>( 4,389)</u>	<u>( 1,479)</u>
	106,599	186,046
Provision (Benefit) for Income Taxes:		
Change in Net Unrealized Gain	49,601	74,969
Reclassification of Net Gain Recognized in Net Income	<u>( 1,806)</u>	<u>( 608)</u>
	<u>47,795</u>	<u>74,361</u>
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<u>58,804</u>	<u>111,685</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>\$ 2,451,072</u>	<u>\$ 2,475,409</u>

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

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>Common Stock</u>		<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>			
<b>Balance at January 1, 2015</b>	13,465,757	\$ 42,191,594	\$( 8,752,032)	\$ (205,031)	\$ 33,234,531
Net Income			2,363,724		2,363,724
Stock-Based Compensation		122,347			122,347
Other Comprehensive Income, Net of Taxes				111,685	111,685
<b>Balance at December 31, 2015</b>	13,465,757	42,313,941	( 6,388,308)	( 93,346)	35,832,287
Net Income			2,392,268		2,392,268
Stock-Based Compensation		144,256			144,256
Exercise of Stock Options	64,163	113,568			113,568
Exercise of Stock Warrants	20,000	22,000			22,000
Other Comprehensive Income, Net of Taxes				58,804	58,804
<b>Balance at December 31, 2016</b>	<u>13,549,920</u>	<u>\$ 42,593,765</u>	<u>\$( 3,996,040)</u>	<u>\$( 34,542)</u>	<u>\$ 38,563,183</u>

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



**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net Income	\$ 2,392,268	\$ 2,363,724
Adjustments to Reconcile Net Income to Net Cash		
From Operating Activities:		
Depreciation and Amortization	216,146	176,112
Stock-Based Compensation	144,256	122,347
(Credit) Provision for Loan Losses	( 600,000)	( 1,830,000)
Deferred Income Taxes	1,673,265	1,698,263
Net Gain on Sale of Available-for-Sale Securities	( 4,389)	( 1,479)
Proceeds from Loans Sold	44,429,440	34,217,616
Originations of Loans Held for Sale	( 44,834,923)	( 32,661,565)
Gain on Sale of Loans	( 2,694,072)	( 2,139,596)
Other Items, net	377,592	638,963
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>1,099,583</b>	<b>2,584,385</b>
<b>INVESTING ACTIVITIES</b>		
Net Change in Time Deposits in Other Banks	1,344,000	4,998,000
Purchase of Available-for-Sale Securities	( 4,175,992)	( 4,000,000)
Proceeds From Matured, Called or Pay Down of Available-for-Sale Securities	15,039,494	5,323,449
Net Increase in Loans	( 37,838,161)	( 26,046,903)
Redemption (Purchase) of Federal Home Loan Bank Stock	( 71,800)	( 73,000)
Purchases of Premises and Equipment, net	( 187,458)	( 148,898)
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>( 25,889,917)</b>	<b>( 19,947,352)</b>
<b>FINANCING ACTIVITIES</b>		
Net Increase in Deposits	28,019,907	39,756,301
Proceeds from Exercise of Stock Options and Warrants	135,568	-
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>28,155,475</b>	<b>39,756,301</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,365,141</b>	<b>22,393,334</b>
Cash and Cash Equivalents at Beginning of Year	49,288,833	26,895,499
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 52,653,974</b>	<b>\$ 49,288,833</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest Paid	\$ 868,516	\$ 900,426
Taxes Paid	\$ 85,000	\$ 65,000
Loans Transferred to Loans Held for Sale	\$ -	\$ 2,935,018

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

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation

The financial statements include the accounts of Uniti Financial Corporation ("UFC") and its wholly owned subsidiary, Uniti Bank ("Bank"), collectively referred to herein as the "Company." All significant intercompany transactions have been eliminated.

UFC has no significant business activity other than its investment in Uniti Bank. Accordingly, no separate financial information on UFC is provided.

Nature of Operations

Uniti Bank, a state chartered bank, generates commercial and consumer loans and receives deposits from customers, who are predominately small and middle-market businesses and individuals located primarily in Los Angeles and Orange Counties, California. The Bank has three branches located in Buena Park, Garden Grove and Los Angeles, California. The accounting and reporting policies of the Bank are in accordance with accounting principles generally accepted in the United States of America and conform to practices within the banking industry.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through April 13, 2017, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, deposits with other financial institutions with maturities under ninety days and federal funds sold. Generally, federal funds are sold for one-day periods.

Cash and Due from Banks

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Company complied with the reserve requirement as of December 31, 2016.

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

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

Investment Securities

Bonds, notes, and debentures for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

Investments not classified as trading securities nor as held to maturity securities are classified as available-for-sale securities and recorded at fair value. Unrealized gains or losses on available-for-sale securities are excluded from net income and reported as an amount net of taxes as a separate component of other comprehensive income included in shareholders' equity. Premiums or discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method. Realized gains or losses on sales of held-to-maturity or available-for-sale securities are recorded using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell or it is more likely than not that it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are deferred and recognized in interest income using the level-yield method without anticipating prepayments. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

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

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

Allowance for Loan Losses

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

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

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

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

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

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

Allowance for Loan Losses - Continued

Portfolio segments identified by the Company include real estate, commercial and consumer loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to income, collateral type and loan-to-value ratios for consumer loans.

Federal Home Loan Bank ("FHLB") Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which ranges from three to seven years for furniture and equipment. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

Other Real Estate Owned

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value at the date of foreclosure, establishing a new cost basis by a charge to the allowance for loan losses, if necessary. Other real estate owned is carried at the lower of the Company's carrying value of the property or its fair value, less estimated carrying costs and costs of disposition. Fair value is based on current appraisals less estimated selling costs. Any subsequent write-downs are charged against operating expenses and recognized as a valuation allowance. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses.

Transfers of Financial Assets

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

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

Stock-Based Compensation

Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally defined as the vesting period.

Loan Sales and Servicing of Financial Assets

The Company originates SBA loans for sale in the secondary market. Servicing rights are recognized separately when they are acquired through sale of loans. Servicing rights are initially recorded at fair value with the income statement effect recorded in gain on sale of loans. Fair value is based on a valuation model that calculates the present value of estimated future cash flows from the servicing assets. The valuation model uses assumptions that market participants would use in estimating cash flows from servicing assets, such as the cost to service, discount rates and prepayment speeds. The Company compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. For purposes of measuring impairment, the Company has identified each servicing asset with the underlying loan being serviced. A valuation allowance is recorded where the fair value is below the carrying amount of the asset. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase in income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayments speeds and changes in the discount rates.

Servicing fee income which is reported on the income statement as loan servicing income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and recorded as income when earned. The amortization of servicing rights and changes in the valuation allowance are netted against loan servicing income.

Income Taxes

Deferred income taxes are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods.

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

Income Taxes - Continued

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

Earnings per Share ("EPS")

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

Comprehensive Income

The change in unrealized gains and losses on available-for-sale securities is the only component of accumulated other comprehensive income for the Company. The amount reclassified out of other accumulated comprehensive income relating to realized gains on securities available for sale was \$4,389 and \$1,479 for 2016 and 2015 with the related tax effect of \$1,806 and \$608, respectively.

Financial Instruments

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

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

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

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

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

Fair Value Measurement - Continued

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

Reclassifications

Certain reclassifications have been made in the 2015 financial statements to conform to the presentation used in 2016. These reclassifications had no impact of the Company's previously reported financial statements.

Recent Accounting Guidance Not Yet Effective

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This Update requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. These amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and one year later for nonpublic business entities. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that period. The Company is currently evaluating the effects of ASU 2014-09 on its consolidated financial statements and disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. Changes made to the current measurement model primarily affect the accounting for equity securities and readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is generally effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and one year later for nonpublic business entities. The Company is currently evaluating the effects of ASU 2016-01 on its consolidated financial statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2018 for public business entities and one year later for all other entities. The Company is currently evaluating the effects of ASU 2016-02 on its consolidated financial statements and disclosures.



**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

Recent Accounting Guidance Not Yet Effective

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting (Topic 718)*. ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Under ASU 2016-09, excess tax benefits and certain tax deficiencies will no longer be recorded in additional paid-in capital (“APIC”). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. In addition, the guidance requires excess tax benefits be presented as an operating activity on the statement of cash flows rather than as a financing activity. ASU 2016-09 also permits an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. This guidance is effective for public business entities for interim and annual reporting periods beginning after December 15, 2016 and for nonpublic business entities annual reporting periods beginning after December 15, 2017 and interim periods within the reporting periods beginning after December 15, 2018. Early adoption is permitted, but all of the guidance must be adopted in the same period. The Company is currently evaluating the provisions of ASU 2016-09 to determine the potential impact on its consolidated financial statements and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren’t measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today’s guidance delays recognition of credit losses. The standard will replace today’s “incurred loss” approach with an “expected loss” model. The new model, referred to as the current expected credit loss (“CECL”) model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale (“AFS”) debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity’s assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019 for SEC filers, one year later for non SEC filing public business entities and annual reporting periods beginning after December 15, 2020 for nonpublic business entities and interim periods within the reporting periods beginning after December 15, 2021. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its consolidated financial statements and disclosures.

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE B - INVESTMENT SECURITIES**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2016</b>				
<b>Available-for-Sale Securities:</b>				
U.S. Government-Sponsored Enterprise Securities	\$ 3,998,631	\$ -	\$( 33,511)	\$ 3,965,120
SBA-Guaranteed Development Corporation Participation Certificates	1,264,003	-	( 10,041)	1,253,961
Collateralized Mortgage Obligations	<u>2,007,528</u>	<u>-</u>	<u>( 12,224)</u>	<u>1,995,304</u>
	<u>\$ 7,270,161</u>	<u>\$ -</u>	<u>\$( 55,776)</u>	<u>\$ 7,214,386</u>
<b>December 31, 2015</b>				
<b>Available-for-Sale Securities:</b>				
U.S. Government-Sponsored Enterprise Securities	\$ 14,993,406	\$ 902	\$( 149,988)	\$ 14,844,320
SBA-Guaranteed Development Corporation Participation Certificates	1,752,243	-	( 13,743)	1,738,500
Collateralized Mortgage Obligations	<u>1,416,051</u>	<u>454</u>	<u>-</u>	<u>1,416,505</u>
	<u>\$ 18,161,700</u>	<u>\$ 1,356</u>	<u>\$( 163,731)</u>	<u>\$ 17,999,325</u>

At December 31, 2016 and 2015, securities with a market value of \$0 and \$2,962,490 were pledged to the State of California for its Time Deposit program.

During 2016, gross realized gains and losses were \$4,389 and \$0, respectively. During 2015, gross realized gains and losses were \$1,479 and \$0, respectively.

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE B - INVESTMENT SECURITIES - Continued**

The amortized cost and estimated fair value of all investment securities as of December 31, 2016 by contractual maturities are shown below. Contractual maturities may differ from expected maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Available-for-Sale Securities</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due from One to Five Years	\$ 4,197,859	\$ 4,172,525
Due from Five to Ten Years	998,631	988,370
After Ten Years	<u>2,073,672</u>	<u>2,053,491</u>
	<u>\$ 7,270,161</u>	<u>\$ 7,214,386</u>

The gross unrealized losses and related estimated fair value of investment securities that have been in a continuous loss position for less than twelve months and over twelve months at December 31, 2016 and 2015 are as follows:

	<u>Less than Twelve Months</u>		<u>Twelve Months or More</u>		<u>Total</u>	
	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>
<b>December 31, 2016</b>						
U.S. Government-Sponsored Enterprise Securities	\$( 33,511)	\$ 3,965,120	\$ -	\$ -	\$( 33,511)	\$ 3,965,120
SBA-Guaranteed Development Corporation Participation Certificates	-	-	( 10,041)	1,253,961	( 10,041)	1,253,961
Collateralized Mortgage Obligations	<u>( 12,224)</u>	<u>1,995,304</u>	<u>-</u>	<u>-</u>	<u>( 12,224)</u>	<u>1,995,304</u>
	<u>\$( 45,734)</u>	<u>\$ 5,960,424</u>	<u>\$( 10,041)</u>	<u>\$ 1,253,961</u>	<u>\$( 55,776)</u>	<u>\$ 7,214,386</u>
<b>December 31, 2015</b>						
U.S. Government-Sponsored Enterprise Securities	\$( 45,589)	\$ 5,952,000	\$( 104,399)	\$ 4,891,750	\$( 149,988)	\$10,843,750
SBA-Guaranteed Development Corporation Participation Certificates	-	-	( 13,743)	1,738,500	( 13,743)	1,738,500
	<u>\$( 45,589)</u>	<u>\$ 5,952,000</u>	<u>\$( 118,142)</u>	<u>\$ 6,630,250</u>	<u>\$( 163,731)</u>	<u>\$12,582,250</u>

Management evaluates investment securities for other-than-temporary impairment taking into consideration the extent and length of time the fair value has been less than cost, the financial condition of the issuer and whether the Company has the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2016, no declines in value are deemed to be other-than-temporary.

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE C - LOANS**

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

The Company also originates SBA loans either for sale to institutional investors or for retention in the loan portfolio. Loans identified as held for sale are carried at lower of origination cost or market value and separately designated as such in the financial statements. A portion of the Company's revenues are from origination of loans guaranteed by the Small Business Administration under its various programs and sale of the guaranteed portions of the loans. Funding for these loans depends on annual appropriations by the U.S. Congress. The Company was servicing approximately \$110,639,000 and \$86,486,000 in SBA loans previously sold as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the carrying value of loans pledged to the Federal Home Loan Bank of San Francisco as collateral for borrowing arrangements was approximately \$103.6 million and \$96.9 million, respectively. See Note F for more information on borrowing arrangements.

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

	<u>2016</u>	<u>2015</u>
Balance at Beginning of Year	\$ 4,072,547	\$ 5,556,947
Additions to the Allowance (Credited)/Charged to Expense	( 600,000)	( 1,830,000)
Recoveries on Loans Charged Off	<u>224,439</u>	<u>825,333</u>
	3,696,986	4,552,280
Less Loans Charged Off	<u>-</u>	<u>479,733</u>
Balance at End of Year	<u>\$ 3,696,986</u>	<u>\$ 4,072,547</u>

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE C - LOANS - Continued**

The following table presents the activity in the allowance for loan losses for the years 2016 and 2015 and the recorded investment in loans and impairment evaluation by loan portfolio segment as of December 31:

	<u>Real Estate</u>	<u>Commercial</u>	<u>Consumer and Other</u>	<u>Total</u>
<b><u>December 31, 2016</u></b>				
Allowance for Loan Losses:				
Beginning of Year	\$ 3,581,389	\$ 491,158	\$ -	\$ 4,072,547
Provisions	( 750,892)	150,892	-	( 600,000)
Charge-offs	-	-	-	-
Recoveries	<u>163,007</u>	<u>61,432</u>	<u>-</u>	<u>224,439</u>
End of Year	<u>\$ 2,993,504</u>	<u>\$ 703,482</u>	<u>\$ -</u>	<u>\$ 3,696,986</u>
Reserves:				
Specific	\$ -	\$ -	\$ -	\$ -
General	<u>2,993,504</u>	<u>703,482</u>	<u>-</u>	<u>3,696,986</u>
	<u>\$ 2,993,504</u>	<u>\$ 703,482</u>	<u>\$ -</u>	<u>\$ 3,696,986</u>
Loans Evaluated for Impairment:				
Individually	\$ 725,528	\$ -	\$ -	\$ 725,528
Collectively	<u>144,353,218</u>	<u>45,496,319</u>	<u>35,822</u>	<u>189,885,359</u>
	<u>\$ 145,078,746</u>	<u>\$ 45,496,319</u>	<u>\$ 35,822</u>	<u>\$ 190,610,887</u>
<b><u>December 31, 2015</u></b>				
Allowance for Loan Losses:				
Beginning of Year	\$ 4,908,483	\$ 648,464	\$ -	\$ 5,556,947
Provisions	( 1,245,490)	( 578,895)	(5,615)	( 1,830,000)
Charge-offs	( 479,733)	-	-	( 479,733)
Recoveries	<u>398,129</u>	<u>421,589</u>	<u>5,615</u>	<u>825,333</u>
End of Year	<u>\$ 3,581,389</u>	<u>\$ 491,158</u>	<u>\$ -</u>	<u>\$ 4,072,547</u>
Reserves:				
Specific	\$ -	\$ 16	\$ -	\$ 16
General	<u>3,581,389</u>	<u>491,142</u>	<u>-</u>	<u>4,072,531</u>
	<u>\$ 3,581,389</u>	<u>\$ 491,158</u>	<u>\$ -</u>	<u>\$ 4,072,547</u>
Loans Evaluated for Impairment:				
Individually	\$ 1,325,527	\$ 1,386	\$ -	\$ 1,326,913
Collectively	<u>120,672,606</u>	<u>32,295,040</u>	<u>254,500</u>	<u>153,222,146</u>
	<u>\$ 121,998,133</u>	<u>\$ 32,349,643</u>	<u>\$ 254,500</u>	<u>\$ 154,602,276</u>

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE C - LOANS - Continued**

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

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

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

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

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

The risk category of loans by class of loans was as follows as of December 31, 2016 and 2015:

	Pass	Special Mention	Substandard	Impaired	Total
<b><u>December 31, 2016</u></b>					
Real Estate	\$ 142,083,097	\$ 754,464	\$ 1,515,657	\$ 725,528	\$ 145,078,746
Commercial	44,368,486	467,713	660,120	-	45,496,319
Consumer and Other	35,822	-	-	-	35,822
	<u>\$ 186,487,405</u>	<u>\$ 1,222,177</u>	<u>\$ 2,175,777</u>	<u>\$ 725,528</u>	<u>\$ 190,610,887</u>
<b><u>December 31, 2015</u></b>					
Real Estate	\$ 119,423,366	\$ -	\$ 1,249,240	\$ 1,325,527	\$ 121,998,133
Commercial	32,125,470	-	222,787	1,386	32,349,643
Consumer and Other	254,500	-	-	-	254,500
	<u>\$ 151,803,336</u>	<u>\$ -</u>	<u>\$ 1,472,027</u>	<u>\$ 1,326,913</u>	<u>\$ 154,602,276</u>

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE C - LOANS - Continued**

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2016 and 2015:

	Still Accruing			Nonaccrual
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	
<b><u>December 31, 2016</u></b>				
Real Estate	\$ -	\$ -	\$ -	\$ 725,528
Commercial	-	-	-	-
Consumer and Other	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 725,528</u>
<b><u>December 31, 2015</u></b>				
Real Estate	\$ -	\$ -	\$ -	\$ 1,177,146
Commercial	-	-	-	-
Consumer and Other	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,177,146</u>

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2016 and 2015:

	Unpaid Principal Balance	Recorded Investment	Impaired Loans			Average Recorded Investment	Interest Income Recognized
			Without Specific Allowance	With Specific Allowance	Related Allowance		
<b><u>December 31, 2016</u></b>							
Real Estate	\$ 1,696,896	\$ 725,528	\$ 725,528	\$ -	\$ -	\$ 1,038,026	\$ 385,559
Commercial	-	-	-	-	-	-	-
Consumer and Other	-	-	-	-	-	-	-
	<u>\$ 1,696,896</u>	<u>\$ 725,528</u>	<u>\$ 725,528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,038,026</u>	<u>\$ 385,559</u>
<b><u>December 31, 2015</u></b>							
Real Estate	\$ 4,578,014	\$ 1,325,527	\$ 1,325,527	\$ -	\$ -	\$ 1,773,600	\$ 2,392
Commercial	1,386	1,386	-	1,386	16	10,196	1,196
Consumer and Other	-	-	-	-	-	-	-
	<u>\$ 4,579,400</u>	<u>\$ 1,326,913</u>	<u>\$ 1,325,527</u>	<u>\$ 1,386</u>	<u>\$ 16</u>	<u>\$ 1,783,796</u>	<u>\$ 3,588</u>

The Company has allocated \$0 and \$16 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2016 and 2015. The Company has committed to lend no additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2016 and 2015.

There were no loans modified as troubled debt restructurings during 2016 and 2015.

There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ended December 31, 2016 and 2015. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE D - PREMISES AND EQUIPMENT**

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

	<u>2016</u>	<u>2015</u>
Furniture, Fixtures, and Equipment	\$ 2,015,451	\$ 1,887,482
Leasehold Improvements	<u>1,419,312</u>	<u>1,405,316</u>
	3,434,763	3,292,798
Less Accumulated Depreciation and Amortization	<u>( 2,943,287)</u>	<u>( 2,772,634)</u>
	<u>\$ 491,476</u>	<u>\$ 520,164</u>

The Company has entered into leases for its branches and administrative facility, which will expire between 2019 and 2022. These leases include provision for periodic rent increases as well as payment by the lessee of certain operating expenses. The rental expense relating to these leases was \$440,801 and \$451,330 for the years ended December 31, 2016 and 2015, respectively.

At December 31, 2016, the future lease rental payable under non-cancellable operating lease commitments for the Company's branches and administrative office was as follows:

2017	\$ 388,678
2018	495,133
2019	552,823
2020	538,599
2021	528,341
Thereafter	<u>21,686</u>
	<u>\$ 2,525,260</u>

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

**NOTE E - DEPOSITS**

At December 31, 2016, the scheduled maturities of time deposits are as follows:

2017	\$ 51,694,226
2018	2,752,519
2019	294,977
2020	<u>360,000</u>
	<u>\$ 55,101,722</u>



**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE F - OTHER BORROWINGS**

The Company may borrow up to \$19,000,000 on an unsecured basis from its correspondent banks. As of December 31, 2016, the Company has no amounts outstanding under these arrangements.

In addition, the Company may also borrow up to approximately \$59.1 million from the Federal Home Loan Bank of San Francisco subject to providing adequate collateral and fulfilling other conditions of the credit facility. The credit facility is secured by loans in the amount of \$103.6 million. As of December 31, 2016, the Company had a \$5.5 million outstanding letter of credit under this arrangement that was pledged to the State of California for its Time Deposit program.

**NOTE G - INCOME TAXES**

The income tax expense for the years ended December 31, is comprised of the following:

	<u>2016</u>	<u>2015</u>
Current Taxes:		
Federal	\$ 65,256	\$ 27,700
State	23,179	8,441
	<u>88,435</u>	<u>36,141</u>
Deferred	<u>1,673,265</u>	<u>1,698,263</u>
Tax Expense	<u>\$ 1,761,700</u>	<u>\$ 1,734,404</u>

A comparison of the federal statutory income tax rates to the Company's effective income tax rates at December 31 follows:

	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Statutory Federal Tax	\$ 1,412,349	34.0%	\$ 1,393,364	34.0%
State Franchise Tax, Net of Federal Benefit	305,493	7.4%	301,641	7.4%
Other Items, Net	<u>43,858</u>	<u>1.0%</u>	<u>39,399</u>	<u>0.9%</u>
Tax Expense	<u>\$ 1,761,700</u>	<u>42.4%</u>	<u>\$ 1,734,404</u>	<u>42.3%</u>

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE G - INCOME TAXES - Continued**

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

	2016	2015
Deferred Tax Assets:		
Depreciation	\$ 130,457	\$ 145,350
Operating Loss Carryforwards	1,440,100	2,790,001
Nonaccrual Loan Interest	97,295	241,850
Other	746,593	675,792
	2,414,445	3,852,993
Deferred Tax Liabilities:		
Deferred Loan Costs	( 217,400)	( 162,086)
Allowance for Loan Losses Due to Tax Limitations	( 398,934)	( 175,087)
Other	( 71,715)	( 68,366)
	( 688,049)	( 405,539)
Net Deferred Tax Assets	\$ 1,726,396	\$ 3,447,454

As of December 31, 2016, the Company has Federal and California net operating loss carryforwards of approximately \$2,107,000 and \$10,117,000, respectively, available to offset future Federal and California taxable income. Federal and California net operating loss carryforwards, to the extent not used will begin to expire in 2029.

The Company is subject to federal income tax and franchise tax of the state of California. Tax returns for the years ended after December 31, 2012 are open to audit by federal authorities. Tax returns for the years ended after December 31, 2011 are open to audit by state authorities. Unrecognized tax benefits are not expected to significantly increase or decrease within the next twelve months.

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE H - OTHER EXPENSES**

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

	<u>2016</u>	<u>2015</u>
Data Processing and Communication	\$ 649,385	\$ 604,734
Directors' Fees	272,100	207,600
Marketing and Business Promotion	229,842	234,680
Professional Fees	396,126	328,414
Office Expenses	68,588	59,671
Regulatory Assessments	134,758	174,474
Loan Collection and Loan Expenses	28,471	64,002
Other Expenses	<u>626,248</u>	<u>513,241</u>
	<u>\$ 2,405,518</u>	<u>\$ 2,186,816</u>

**NOTE I - RELATED PARTY TRANSACTIONS**

In the ordinary course of business, certain executive officers, directors and companies with which they are associated have, in the past granted loans to certain related parties and their affiliates. As of December 31, 2016 and 2015, there were \$592,000 and \$0, respectively, outstanding loans made to related parties.

As of December 31, 2016 and 2015, deposits from directors, officers, and their affiliates amounted to approximately \$3,110,000 and \$1,493,000, respectively.

**NOTE J - COMMITMENTS**

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

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

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE J - COMMITMENTS - Continued**

As of December 31, 2016 and 2015, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	<u>2016</u>	<u>2015</u>
Commitments to Extend Credit	\$ 28,495,000	\$ 24,200,000
Standby Letters of Credit	1,230,000	690,000
Other Commercial Letters of Credit	<u>170,000</u>	<u>80,000</u>
	<u>\$ 29,895,000</u>	<u>\$ 24,970,000</u>

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

The Company from time to time is subject to legal proceedings and claims arising in the ordinary course of business. The Company, based on available information and status of those claims or proceedings, does not believe that the aggregate potential liability resulting from such proceedings would have a material adverse effect on the Company's financial condition or results of operations.

**NOTE K - STOCK OPTION PLAN**

The Company adopted a stock option plan in January 2002, which was amended in March 2004. Under the terms of the 2002 Stock Option Plan (the "2002 Plan"), officers and key employees were granted both nonqualified and incentive stock options and directors, who are not an officer or employee, were granted nonqualified stock options. The Plan provided for options to purchase 994,970 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of the grant. Stock options granted expired no later than ten years from the date of the grant and generally vest over five years. The Plan provided for accelerated vesting if there is a change of control, as defined in the 2002 Plan. The Plan expired on January 24, 2012.

To replace the 2002 Plan, the Company adopted a new stock option plan on March 8, 2012 (the "2012 Plan"). The 2012 Plan was approved by the Company's shareholders on June 28, 2012. Under the terms of the 2012 Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors, who are not an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase 2,000,000 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of the grant. Stock options expire no later than ten years from the date of the grant and generally vest over three years. The Plan provides for accelerated vesting if there is a change of control, as defined in the 2012 Plan. As of December 31, 2016, there were 10,150 options and 1,157,797 options outstanding under the 2002 and 2012 Plan, respectively.

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE K - STOCK OPTION PLAN - Continued**

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions presented below:

	<u>2016</u>	<u>2015</u>
Expected Volatility	29.5%	29.5%
Expected Term	7.5 Years	7.5 Years
Expected Dividends	None	None
Risk Free Rate	1.32%-1.49%	1.75% - 2.15%
Weighted-Average Grant Date Fair Value	\$ 0.77	\$ 0.92

As of December 31, 2016, there was \$189,477 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 1.48 years.

A summary of the status of the Company's stock option plans as of December 31, 2016 and changes during the year then ended is presented below:

	Shares Available for Grant Under 2012 Plan	Shares Granted Under 2002 and 2012 Plans	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2016	794,870	1,215,280	\$ 1.81		
Granted	( 80,000)	80,000	2.20		
Exercised	-	(64,163)	1.77		
Forfeited or Expired	<u>63,170</u>	<u>(63,170)</u>	<u>1.77</u>		
Outstanding at December 31, 2016	<u>778,040</u>	<u>1,167,947</u>	<u>\$ 1.84</u>	<u>7.30 Years</u>	<u>\$1,354,629</u>
Options Exercisable		<u>856,938</u>	<u>\$ 1.66</u>	<u>6.79 Years</u>	<u>\$1,148,352</u>

The Company recognized stock-based compensation cost of \$144,256 and \$122,347 during 2016 and 2015, respectively.

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
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**NOTE L - EARNINGS PER SHARE ("EPS")**

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

	2016		2015	
	Income	Shares	Income	Shares
Net Income as Reported	\$ 2,392,268		\$ 2,363,724	
Weighted Average Shares				
Outstanding During the Year		13,490,150		13,465,757
<b>Used in Basic EPS</b>	2,392,268	13,490,150	2,363,724	13,465,757
Dilutive Effect of Outstanding				
Stock Options & Warrants	-	1,093,419	-	1,234,994
<b>Used in Dilutive EPS</b>	<u>\$ 2,392,268</u>	<u>14,583,570</u>	<u>\$ 2,363,724</u>	<u>14,700,751</u>

At December 31, 2016 and 2015 there were 318,460 and 296,460 stock options, respectively, that could potentially dilute earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been antidilutive.

**NOTE M - EMPLOYEE BENEFIT PLAN**

The Company adopted a 401(k) for its employees. Under the plan, eligible employees may defer a portion of their salaries. The plan also provides for discretionary Company profit sharing contributions. The Company made no contributions to the plan during 2016 and 2015.

**NOTE N - FAIR VALUE MEASUREMENT**

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

*Securities*

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE N - FAIR VALUE MEASUREMENT - Continued**

*Collateral-Dependent Impaired Loans*

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

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers whose qualifications and licenses have been reviewed and verified by the Bank. Once received, a member of the loan department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value. The Bank also determines what additional adjustments, if any, should be made to the appraisal values on any remaining collateral-dependent impaired loans to arrive at fair value. No significant adjustments to appraised values have been made as a result of this comparison process as of December 31, 2016.

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2016 and 2015:

	Fair Value Measurements Using:			
	Level 1	Level 2	Level 3	Total
<b>December 31, 2016</b>				
<b>Assets Measured at Fair Value:</b>				
<b>Recurring Basis</b>				
Securities Available for Sale	\$ -	\$ 7,214,000	\$ -	\$ 7,214,000
<b>Non-recurring Basis</b>				
Collateral-dependent Impaired Loans:				
Commercial Real Estate	\$ -	\$ -	\$ 726,000	\$ 726,000
<b>December 31, 2015</b>				
<b>Assets Measured at Fair Value:</b>				
<b>Recurring Basis</b>				
Securities Available for Sale	\$ -	\$ 17,999,000	\$ -	\$ 17,999,000
<b>Non-recurring Basis</b>				
Collateral-dependent Impaired Loans:				
Commercial Real Estate	\$ -	\$ -	\$ 1,326,000	\$ 1,326,000

Collateral-dependent impaired loans had a carrying value of approximately \$726,000 and \$1,326,000, net of specific reserves of approximately \$0, at December 31, 2016 and 2015, respectively.

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE N - FAIR VALUE MEASUREMENT - Continued**

Quantitative information about the Company's nonrecurring Level 3 fair value measurements as of December 31, 2016 and 2015 are as follows:

<u>December 31, 2016</u>	Fair Value Amount	Valuation Technique	Unobservable Input	Adjustment Range
Impaired Loans	\$ 726,000	Appraisals	Management Adjustments to Reflect Current Conditions and Selling costs	10%
 <u>December 31, 2015</u>				
Impaired Loans	\$ 1,326,000	Appraisals	Management Adjustments to Reflect Current Conditions and Selling costs	10% - 18%

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

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

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

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

*Cash and Cash Equivalents*

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

*Time Deposits in Other Banks*

Fair values for time deposits with other banks are estimated using discounted cash flow analyses, using interest rates currently being offered with similar terms.



**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued**

*Loans Held-for-Sale*

Loans held-for-sale are reported at the lower of cost or fair value. Fair value is determined based on quotes, bids, or indications from potential purchasing institutions. Therefore, loans held-for-sale are categorized as a Level 1 measurement.

*Collateral-Dependent Impaired loans*

For collateral dependent impaired loans, fair value is generally based on recent real estate appraisals. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and typically result in a Level 3 classification of the inputs for determining fair value.

*Loans*

For variable rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for all other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

*Federal Home Loan Bank Stock and Other Bank Stock*

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

*Noninterest-Bearing and Interest Bearing Demand Deposits*

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

*Interest-Bearing Time Deposits*

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

*Off-Balance Sheet Financial Instruments*

The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. The fair value of these financial instruments is not material.

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued**

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2016 and 2015 is summarized as follows (dollar amounts in thousands):

	Fair Value Hierarchy	2016		2015	
		Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets:</b>					
Cash and Cash Equivalents	Level 1	\$ 52,654	\$ 52,654	\$ 49,289	\$ 49,289
Time Deposits in Other Banks	Level 2	-	-	1,344	1,346
Investment Securities	Level 2	7,214	7,214	17,999	17,999
Loans Held For Sale	Level 1	9,709	9,709	6,059	6,059
Loans, net	Level 2	186,781	186,246	149,582	148,105
Collateral-Dependent Impaired Loans	Level 3	726	726	1,326	1,326
Federal Home Loan Bank Stock	Level 2	952	952	880	880
<b>Financial Liabilities:</b>					
Noninterest-Bearing and Interest-Bearing					
Demand Deposits	Level 1	168,481	168,481	143,868	143,868
Interest-Bearing Time Deposits	Level 2	55,102	54,977	51,695	51,753

**NOTE P - WARRANTS**

In connection with the Company's 2012 stock offering, the Company issued one warrant to purchase one additional share of common stock for every share purchased. These warrants may be exercised at a per share price of \$1.10 at any time for five years from the date of issuance. The 2012 warrants expire on June 30, 2017. During 2016, 20,000 warrants were exercised. There were 1,803,000 and 1,823,000 warrants still outstanding from the 2012 stock offering at December 31, 2016 and 2015, respectively.

**NOTE Q - REGULATORY ORDER**

The Bank's Board of Directors entered into a stipulation and consent to the issuance of a Consent Order ("Order") by the Federal Deposit Insurance Corporation ("FDIC") and the California Department of Business Oversight ("CDBO") on December 22, 2009. The Order was terminated on February 11, 2015.

## UNITI FINANCIAL CORPORATION AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

#### NOTE R - REGULATORY MATTERS

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

In July, 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules). The new rules, Basel III, became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% in 2015 to 2.5% by 2019. The capital conservation buffer for 2016 is 0.625%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and CET1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015 and 2016, that the Bank meets all capital adequacy requirements.

As of December 31, 2016, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well-capitalized, the Bank must maintain minimum ratios as set forth in the table below.

**UNITI FINANCIAL CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE R - REGULATORY MATTERS - Continued**

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

	Actual		Amount of Capital Required			
			For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2016:</b>						
Total Capital (to Risk-Weighted Assets)						
Company	\$39,749	19.4%	\$16,363	8.0%	N/A	N/A
Bank	\$37,304	18.2%	\$16,379	8.0%	\$20,474	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	\$37,171	18.2%	\$12,272	6.0%	N/A	N/A
Bank	\$34,724	17.0%	\$12,284	6.0%	\$16,379	8.0%
CET1 Capital (to Risk-Weighted Assets)						
Company	\$37,171	18.2%	\$9,204	4.5%	N/A	N/A
Bank	\$34,724	17.0%	\$9,213	4.5%	\$13,308	6.5%
Tier 1 Capital (to Average Assets)						
Company	\$37,171	15.5%	\$9,588	4.0%	N/A	N/A
Bank	\$34,724	13.7%	\$10,166	4.0%	\$12,708	5.0%
<b>As of December 31, 2015:</b>						
Total Capital (to Risk-Weighted Assets)						
Company	\$35,300	21.7%	\$13,021	8.0%	N/A	N/A
Bank	\$32,926	20.3%	\$12,997	8.0%	\$16,246	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	\$33,220	20.4%	\$9,766	6.0%	N/A	N/A
Bank	\$30,850	19.0%	\$9,748	6.0%	\$12,997	8.0%
CET1 Capital (to Risk-Weighted Assets)						
Company	\$33,220	20.4%	\$7,325	4.5%	N/A	N/A
Bank	\$30,850	19.0%	\$7,311	4.5%	\$10,560	6.5%
Tier 1 Capital (to Average Assets)						
Company	\$33,220	13.9%	\$9,537	4.0%	N/A	N/A
Bank	\$30,850	13.0%	\$9,473	4.0%	\$11,841	5.0%

The California Financial Code provides that a Company may not make a cash distribution to its shareholders in excess of the lesser of the bank's undivided profits or the Company's net income for its last three fiscal years less the amount of any distribution made by the bank's shareholders during the same period. In addition, the Company and the Bank may not pay dividends that would result in its capital levels being reduced below the minimum requirements shown above.