LIGHTHOUSE BANK

April 11, 2017

Dear Shareholder:

We are pleased to enclose our 2016 Annual Report to Shareholders, 2017 Notice of Annual Meeting and Proxy Statement, and form of Proxy.

You are cordially invited to attend the 2017 Annual Meeting of Shareholders which will be held at 5:00 p.m. on Thursday, May 18, 2017 at Lighthouse Bank located at 2020 North Pacific Avenue, Santa Cruz, California.

The accompanying Notice of Annual Meeting and Proxy Statement provide information pertaining to the matters to be considered and acted upon at the Annual Meeting.

Your continuing support of Lighthouse Bank is appreciated and we hope you will attend the Annual Meeting. Whether or not you attend the Annual Meeting, it is very important that your shares be represented at the Annual Meeting. Accordingly, please date, sign, and mail the enclosed Proxy promptly.

If your shares are held in nominee or "street name," your shares will not be voted at the Annual Meeting unless you instruct your nominee, bank or broker how to vote. If you wish to vote in accordance with the Board of Directors' recommendations, it is not necessary to specify your choices. You may simply sign, date and return the enclosed Proxy in the enclosed postage-paid envelope.

Sincerely,

John C. Burroughs
Chairman of the Board

Lane S. Lawson, Jr.
Chief Executive Officer
Chief Credit Officer

LIGHTHOUSE BANK
2020 North Pacific Avenue
Santa Cruz, California 95060
831-600-4000

Notice of Annual Meeting of Shareholders
To Be Held May 18, 2017
At 5:00 p.m.

The Annual Meeting of Shareholders of Lighthouse Bank (the "Bank") will be held at Lighthouse Bank located at 2020 North Pacific Avenue, Santa Cruz, California on Thursday, May 18, 2017, at 5:00 p.m., and at any and all adjournments or postponements thereof, for the following purposes:

1. To elect the following ten (10) incumbent director-nominees to serve as directors of the Bank:

John C. Burroughs	Bruce A. McPherson
James R. Castellanos	Stephen D. Pahl
Michael P. Dunn, D.O.	Jon P. Sisk
Craig A. French	William R. Slakey
Lane S. Lawson, Jr.	James L. Weisenstein

2. To approve Lighthouse Bank 2017 Equity Incentive Plan.

3. To ratify the selection of Vavrinek, Trine, Day & Co., LLP, independent public accountants, to serve as the Bank's auditors for the year ending December 31, 2017.

4. To consider and transact such other business as may properly come before the Annual Meeting and any and all adjournments or postponements of the Annual Meeting.

Only shareholders of record at the close of business on March 28, 2017 are entitled to notice of and to vote at the Annual Meeting.

Article II, Section 2.14 of the Bank's Bylaws governs nominations for election of members of the Board of Directors as follows:

"Nominations for election of members of the board of directors may be made by the board of directors or by any shareholder of any outstanding class of capital stock of the corporation entitled to vote for the election of directors. Notice of intention to make any nominations (other than for persons named in the notice of the meeting at which such nomination is to be made) shall be made in writing and shall be delivered to the President of the corporation by the later of the close of business twenty-one (21) days prior to any meeting of shareholders called for the election of directors or seven (7) days after the date of mailing of notice of the meeting to shareholders. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of capital stock of the corporation owned by each proposed nominee; (d) the name and residence address of the notifying shareholder; (e) the number of shares of capital stock of the corporation owned by the notifying shareholder; (f) with the written consent of the proposed nominee, a copy of which shall be furnished with the notification, whether the proposed nominee has ever been convicted of or pleaded nolo contendere to any criminal offense involving dishonesty or breach of trust, filed a petition in bankruptcy, or been adjudged bankrupt. The notice shall be signed by the nominating shareholder and by the nominee. Nominations not made in accordance herewith shall be disregarded by the chairman of the meeting, and upon his instructions, the inspectors of election shall disregard all votes cast for each such nominee. The restrictions set forth in this paragraph shall not apply to nomination of a person to replace a proposed nominee who has died or otherwise become incapacitated to serve as a director between the last day for giving notice hereunder and the date of election of directors if the procedure called for in this paragraph was followed with respect to the nomination of the proposed nominee."

Copies of Lighthouse Bank's Annual Disclosure Statement, the first copy of which will be provided free of charge, are available by contacting: Lighthouse Bank, 2020 North Pacific Avenue, Santa Cruz, CA 95060, (831) 600-4009.

YOU ARE REQUESTED TO DATE, SIGN AND RETURN THE ENCLOSED PROXY WITHOUT DELAY WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING. YOU MAY REVOKE YOUR PROXY AT ANY TIME PRIOR TO ITS BEING VOTED, EITHER BY ATTENDING THE ANNUAL MEETING AND ELECTING TO VOTE IN PERSON, OR BY FILING WITH THE SECRETARY OF THE BANK, PRIOR TO THE ANNUAL MEETING, A WRITTEN NOTICE OF REVOCATION OR A DULY EXECUTED PROXY BEARING A LATER DATE.

PLEASE INDICATE ON THE PROXY WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING SO THAT WE MAY ARRANGE FOR ADEQUATE ACCOMMODATIONS.

IF YOU VOTE BY TELEPHONE OR ELECTRONICALLY THROUGH THE INTERNET, AS DESCRIBED IN THE PROXY STATEMENT ACCOMPANYING THIS NOTICE, YOU DO NOT NEED TO RETURN THE PROXY.

BY ORDER OF THE BOARD OF DIRECTORS

Stephen D. Pahl
Vice Chairman of the Board
Secretary

April 11, 2017
Santa Cruz, California

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

PROXY STATEMENT
FOR
THE ANNUAL MEETING OF SHAREHOLDERS
OF
LIGHTHOUSE BANK

MAY 18, 2017

INTRODUCTION

This Proxy Statement is being furnished to the shareholders of Lighthouse Bank (the “Bank”) in connection with the solicitation of proxies by the Board of Directors of the Bank for use at the Annual Meeting of Shareholders to be held at Lighthouse Bank located at 2020 North Pacific Avenue, Santa Cruz, California on Thursday, May 18, 2017, at 5:00 p.m., and at any and all adjournments or postponements thereof (the “Annual Meeting”), for the following purposes:

1. To elect the following ten (10) incumbent director-nominees to serve as directors of the Bank:

John C. Burroughs	Bruce A. McPherson
James R. Castellanos	Stephen D. Pahl
Michael P. Dunn, D.O.	Jon P. Sisk
Craig A. French	William R. Slakey
Lane S. Lawson, Jr.	James L. Weisenstein

2. To approve Lighthouse Bank 2017 Equity Incentive Plan.

3. To ratify the selection of Vavrinek, Trine, Day & Co., LLP, independent public accountants, to serve as the Bank’s auditors for the year ending December 31, 2017.

4. To consider and transact such other business as may properly come before the Annual Meeting and any and all adjournments or postponements of the Annual Meeting.

This Proxy Statement and the accompanying Notice of Annual Meeting and form of Proxy are being mailed to shareholders on or about April 11, 2017.

Instead of voting by proxy, a shareholder may choose to vote by telephone or electronically by using the Internet, as indicated on the Proxy. Telephone voting is conducted by calling the toll-free number (at no cost to the shareholder) indicated on the Proxy. Telephone voting is available 24 hours per day. Easy to follow voice prompts allow a shareholder to vote shares and to confirm that instructions have been properly recorded. The Bank’s telephone voting procedures are designed to authenticate the identity of shareholders by utilizing individual control numbers. Internet voting procedures are designed to authenticate the identity of a shareholder and to confirm that instructions have been properly recorded. The Bank believes these procedures are consistent with the requirements of applicable law. ***If a shareholder votes by telephone or electronically by using the Internet, there is no need to return the Proxy.***

If you vote by telephone or electronically through the Internet, your vote must be received by 12:00 a.m., Central Time, on May 18, 2017 to ensure that your vote is counted.

Revocability of Proxies

Any shareholder who returns the form of Proxy accompanying this Proxy Statement has the power to revoke that Proxy prior to its exercise. The Proxy may be revoked prior to the Annual Meeting by delivering to the Secretary of the Bank either a written instrument revoking the Proxy or a duly executed proxy bearing a later date. The Proxy may also be revoked by the shareholder by attending and voting at the Annual Meeting. The Proxy will be voted as directed by the shareholder and if no directions are given on the Proxy, it will be voted "FOR" the nominees of the Board of Directors as described in this Proxy Statement, "FOR" approval of the Lighthouse Bank 2017 Equity Incentive Plan and "FOR" the ratification of the selection of Vavrinek, Trine, Day & Co., LLP as independent public accountants for the year ending December 31, 2017, and, at the proxy holders' discretion, on such other matters, if any, which may come before the Annual Meeting and any and all adjournments or postponements of the Annual Meeting. The proxy also confers discretionary authority to vote the shares represented thereby on any matter that was not known at the time this Proxy Statement was mailed which may properly be presented for action at the Annual Meeting and may include: action with respect to procedural matters pertaining to the conduct of the Annual Meeting; and election of any person to any office for which a bona fide nominee is named herein if such nominee is unable to serve or for good cause will not serve.

Solicitation of Proxies

The solicitation of proxies is being made by the Board of Directors of the Bank. The expense of preparing, assembling, printing, and mailing this Proxy Statement and the materials used in the solicitation of proxies for the Annual Meeting will be borne by the Bank. It is contemplated that proxies will be solicited principally through the use of the mail, but officers, directors, and employees of the Bank may solicit proxies personally or by telephone, without receiving special compensation therefore. The Bank will reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses in forwarding the Proxy Statement to shareholders whose stock in the Bank is held of record by such entities. In addition, the Bank may use the services of individuals or companies it does not regularly employ in connection with this solicitation of proxies, if the Board of Directors and management determine it to be advisable.

Voting Securities; Record Date; Cumulative Voting

There were issued and outstanding 2,439,494 shares of the Bank's common stock on March 28, 2017 (the "Record Date"), which has been fixed as the Record Date for the purpose of determining shareholders entitled to notice of, and to vote at, the Annual Meeting. On any matter submitted to the vote of the shareholders, each holder of Bank common stock will be entitled to one vote, in person or by proxy, for each share of common stock he or she held of record on the books of the Bank as of the Record Date, except in connection with the election of directors as described below. Votes cast at the Annual Meeting will be counted by an inspector of election appointed by the Bank. Approval of any proposal (other than the election of directors) requires the affirmative vote of a majority of the shares represented and voting at the Annual Meeting which also constitutes a majority of the required quorum (unless a greater number is required as described in a proposal). In the election of directors, the ten (10) nominees receiving the highest number of affirmative votes will be elected. Shares represented by proxies that reflect abstentions or "broker non-votes" will be treated by the inspector of election as shares present and entitled to vote for purposes of determining the presence of a quorum; however, broker non-votes will not be treated as shares voted on any proposal and therefore will have no effect upon the outcome of any proposal. Abstentions will not be treated as affirmative votes on any proposal at the Annual Meeting and will have the same effect as a vote "against" a proposal (other than the election of directors proposal) if the affirmative votes in favor of a proposal are less than a majority of the required quorum. “Broker non-votes” means shares held by brokers or nominees as to which instructions have not been received from the beneficial owners or persons entitled to vote and the broker or nominee does not have discretionary voting power under applicable rules of the stock exchange or other self-regulatory organization of which the broker or nominee is a member.

In connection with the election of directors, shares may be voted cumulatively if a shareholder present at the Annual Meeting gives notice to the Chairman at the Annual Meeting, prior to the voting for election of directors, of his or her intention to vote cumulatively. If any shareholder of the Bank gives such notice, then all shareholders eligible to vote will be entitled to cumulate their shares in voting for the election of directors. In such event, the proxy holders will have discretionary authority to cumulate votes represented by proxies delivered pursuant to this Proxy Statement, in accordance with the recommendations of the Board of Directors. Cumulative voting allows a shareholder to cast a number of votes equal to the shares held in his or her name as of the Record Date multiplied by the number of directors to be elected. These votes may be cast for any one nominee, or may be distributed among as many nominees as the shareholder sees fit.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

The Bank's Bylaws provide that the number of directors of the Bank shall not be less than seven (7) nor more than thirteen (13) until changed by an amendment to the Bylaws adopted by the Bank's shareholders. The Bylaws further provide that the exact number of directors in the foregoing authorized range may be set by resolution of the Board of Directors or shareholders. The Board of Directors has set the exact number of directors at ten (10).

The persons named below, all of whom are incumbent directors, are nominated for election as directors at the Annual Meeting to serve until the 2018 Annual Meeting of Shareholders and until their successors are elected and qualified. Unless otherwise directed, votes will be cast by the proxy holders in such a way to effect, if possible, the election of the ten (10) incumbent director-nominees named below including, in the event of cumulative voting, the authority of the proxy holders to cumulate votes represented by the shares covered by proxies in the election of directors. The ten (10) nominees for director receiving the most votes will be elected as directors. In the event that any of the nominees should be unable to serve as a director, it is intended that the proxies received will be voted by the proxy holders for the election of such substitute nominee, if any, as shall be designated by the Board of Directors. Except as described above, the Board of Directors has no reason to believe that any of the nominees named below will be unable to serve if elected.

The table below sets forth the names of and certain information, as of March 28, 2017, concerning the persons nominated by the Board of Directors for election as directors of the Bank. The Board of Directors considered such information including the business experience of each nominee in connection with its evaluation of the qualifications, attributes and skills that led the Board of Directors to nominate these individuals to serve as directors of the Bank. The Board of Directors also believes that the nominees have a reputation for honesty, integrity and adherence to high ethical standards, in addition to being prepared to make the significant commitment of time and energy to serve on our Board of Directors and its committees and possessing the willingness to engage management and each other in a positive and collaborative fashion.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ELECTION OF THE NOMINEES NAMED IN THE FOLLOWING TABLE AS DIRECTORS OF THE BANK.

Board of Directors Nominees

Name and Position	Age	Director Since	Principal Occupation and Business Experience During Past Five Years
John C. Burroughs, Chairman of the Board	72	2007	Mr. Burroughs is owner of Burroughs-Braley Financial Planning and Wealth Management, a registered investment advisor, located in Santa Cruz. He is also Chairman of the Board of Directors of Foothill Securities, Inc. a broker/dealer and member of FINRA and SIPC, located in Mountain View.
James R. Castellanos, Director	64	2014	Since 1981, Mr. Castellanos has been President of Casco Property Management, LLC, a real estate management firm specializing in residential properties in San Jose and Santa Cruz.
Michael P. Dunn, D.O., Director	55	2007	Dr. Dunn is a physician with Dignity Health Medical Group. From January 2010 through February 2015, Dr. Dunn was a partner in the Watsonville Emergency Medical Group. He has also served on the medical staff at both Dominican Hospital since 1998, and at Watsonville Community Hospital since 2010.
Craig A. French, Director	67	2007	Since 2012, Mr. French has been the President of French Resources Group, Inc., a real estate investment and development company in Santa Cruz. From 2001 to 2012, he was the Managing Director and Chief Operating Officer of Redtree Properties, a real estate investment and development company in Santa Cruz.
Lane S. Lawson Jr., Director, Chief Executive Officer and Chief Credit Officer	69	2016	Mr. Lawson joined the Bank on October 1, 2007 as Executive Vice President and Chief Credit Officer. On February 8, 2016, Mr. Lawson was promoted to Chief Executive Officer and Chief Credit Officer of Lighthouse Bank and was appointed to the Board of Directors.
Bruce A. McPherson, Director	73	2007	In 2012, Mr. McPherson was elected to the Santa Cruz County Board of Supervisors, representing the Fifth District.
Stephen D. Pahl, Vice Chairman of the Board	60	2007	Since 2007, Mr. Pahl has been Senior Partner and Chairman of Pahl & McCay, a professional law corporation, in San Jose, California.
Jon P. Sisk, Director and President	54	2017	Mr. Sisk was a founder of Lighthouse Bank in 2007 and worked as Senior Vice President and Senior Lending Officer until 2013. On February 8, 2016, he returned to the Bank and was appointed to the position of President. On February 15, 2017, he was also appointed to the Board of Directors.

Name and Position	Age	Director Since	Principal Occupation and Business Experience During Past Five Years
William R. Slakey, Director	58	2007	Since May 2015, Mr. Slakey has been the Chief Financial Officer of Cupertino Electric Inc. in San Jose, a provider of electrical engineering and construction services. From November 2011 to April 2015, Mr. Slakey was Chief Financial Officer of Echelon Corporation, in San Jose, a developer of an open standard, multi-application energy control networking platform for smart grids, smart cities and smart building applications.
James L. Weisenstein, Director	61	2007	Mr. Weisenstein was the CEO of Day One Solar, Inc., a provider of solar electric commercial and residential installations, in Santa Cruz from July 2013 to December 2015. He also served on the board of directors of NextSpace, Inc., in Santa Cruz, from 2007-2011. From 2002 to 2013, Mr. Weisenstein was the President of Graystone Consulting, Inc., a provider of business consulting and executive coaching services, in Scotts Valley.

None of the directors were selected pursuant to any arrangement or understanding other than with the directors and officers of the Bank acting within their capacities as such. There are no family relationships between any two or more of the directors, officers or persons nominated or chosen by the Board of Directors to become a director or officer.

No director or officer of the Bank currently serves, or within the last five years has served, as a director of any public company, including any company which has a class of securities registered under, or which is subject to the periodic reporting requirements of, the Securities Exchange Act of 1934, or of any company registered as an investment company under the Investment Company Act of 1940, except Mr. Burroughs who is the Chairman of Foothill Securities, Inc., a broker-dealer and member of FINRA and SIPC, located in Mountain View. None of the nominees were subject to any legal, judicial or administrative proceedings involving or based on violations of federal or state securities, commodities, banking or insurance laws and regulations or settlements thereof, involvement in mail or wire fraud or fraud in connection with any business entity, any disciplinary sanctions or orders imposed by a stock, commodities or derivatives exchange or other self-regulatory organization, convictions in a criminal proceeding (excluding traffic violations and minor offenses) or had a petition under bankruptcy laws filed against themselves or an affiliate, in each case within the last ten years.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Management of the Bank knows of no person who owns, beneficially or of record, either individually or together with associates, five (5) percent or more of the outstanding shares of Bank common stock, except as set forth in the table below. The following table sets forth, as of March 28, 2017, the number and percentage of shares of Bank common stock beneficially owned, directly or indirectly, by each of the Bank's directors, principal shareholders, the executive officers(1) named in the Summary Compensation Table, and all of the individuals named in the table as a group. Beneficial ownership generally includes shares over which a person named below has sole or shared voting or investment power and shares which such person has the right to acquire within 60 days of March 28, 2017. Unless otherwise indicated, the persons listed below have sole voting and investment powers respecting the shares beneficially owned.

Title of Class	Name and Address of Beneficial Owner(2)	Amount and Nature of Beneficial Ownership (3)	Percent of Class
Common Stock, No Par Value	John C. Burroughs	127,250 (4)	5.18%
Common Stock, No Par Value	James R. Castellanos	22,008 (5)	0.90%
Common Stock, No Par Value	Michael P. Dunn, D.O.	40,425 (6)	1.65%
Common Stock, No Par Value	Craig A. French	28,679 (7)	1.18%
Common Stock, No Par Value	Lane S. Lawson, Jr.	53,130 (8)	2.16%
Common Stock, No Par Value	Bruce A. McPherson	40,425 (9)	1.65%
Common Stock, No Par Value	Stephen D. Pahl	100,548 (10)	4.09%
Common Stock, No Par Value	Kimberly M. Raynal	10,000 (11)	0.41%
Common Stock, No Par Value	Jon P. Sisk	35,087 (12)	1.43%
Common Stock, No Par Value	William R. Slakey	37,376 (13)	1.53%
Common Stock, No Par Value	Donald H. Soman	45,291 (14)	1.86%
Common Stock, No Par Value	James L. Weisenstein	58,674 (15)	2.41%
All named individuals as a group (12 persons)		598,891 (16)	23.50%

(1) As used in this Proxy Statement, the term "executive officer" of the Bank includes the Chief Executive Officer and Chief Credit Officer, President, Executive Vice President and Chief Financial Officer, and Executive Vice President and Chief Operating Officer, of the Bank.

(2) The address for beneficial owners is c/o Lighthouse Bank, 2020 North Pacific Avenue, Santa Cruz, California 95060.

(3) Includes shares beneficially owned (including options exercisable within 60 days of the Record Date), directly and indirectly, together with associates. A beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (a) voting power, which includes the power to vote, or to direct the voting of such security; and/or (b) investment power, which includes the power to dispose, or to direct the disposition, of such security, which may include shares held as trustee of a trust or as custodian for minor children. Unless otherwise noted, all shares are held as community property under California law or with sole investment and voting power.

(4) Includes 112,250 shares in which Mr. Burroughs has shared voting and investment powers and 15,000 shares subject to stock options exercisable within 60 days of the Record Date.

(5) Includes 18,158 shares in which Mr. Castellanos has sole voting and investment powers and 3,850 shares subject to stock options exercisable within 60 days of the Record Date.

(6) Includes 28,875 shares in which Dr. Dunn has shared voting and investment powers and 11,550 shares subject to stock options exercisable within 60 days of the Record Date.

(7) Includes 28,679 shares in which Mr. French has shared voting and investment powers and no shares subject to stock options exercisable within 60 days of the Record Date.

(8) Includes 30,030 shares in which Mr. Lawson has shared voting and investment powers and 23,100 shares subject to stock options exercisable within 60 days of the Record Date.

(9) Includes 28,875 shares in which Mr. McPherson has shared voting and investment powers and 11,550 shares subject to stock options exercisable within 60 days of the Record Date.

(10) Includes 83,223 shares in which Mr. Pahl has shared voting and investment powers and 17,325 shares subject to stock options exercisable within 60 days of the Record Date.

(11) All shares are subject to stock options exercisable within 60 days of the Record Date.

(12) Includes 18,420 shares in which Mr. Sisk has shared voting and investment powers and 16,667 shares subject to stock options exercisable within 60 days of the Record Date.

(13) Includes 37,376 shares in which Mr. Slakey has shared voting and investment powers and no shares subject to stock options exercisable within 60 days of the Record Date.

(14) Mr. Soman has sole voting and investment powers as to 45,291 shares and has no shares subject to stock options exercisable within 60 days of the Record Date.

(15) Includes 58,674 shares in which Mr. Weisenstein has shared voting and investment powers and no shares subject to stock options exercisable within 60 days of the Record Date.

(16) Includes 109,042 shares subject to stock options exercisable within 60 days of the Record Date.

EXECUTIVE OFFICERS

The following table sets forth the names of and certain information, as of March 28, 2017, concerning the Bank's executive officers.

Name and Position	Age	Officer Since	Principal Occupation and Business Experience During Past Five Years
Lane S. Lawson, Jr., Chief Executive Officer and Chief Credit Officer	69	2007	Mr. Lawson was appointed to serve as a Director, Chief Executive Officer and Chief Credit Officer effective with the retirement of former President and Chief Executive Officer, Richard G. Hofstetter, on February 8, 2016. Since October 1, 2007, Mr. Lawson has served as Executive Vice President and Chief Credit Officer. Mr. Lawson has 46 years of banking experience.
Jon P. Sisk President	54	2016	Mr. Sisk was appointed to serve as President effective February 8, 2016. From September 4, 2013 to February 5, 2016, he was Senior Vice President and Director of Real Estate and Construction Lending at Santa Cruz County Bank. Previously, from October 15, 2007 until July 11, 2013, he served at Lighthouse Bank as Senior Vice President and Senior Lending Officer. Mr. Sisk has 26 years of banking experience.
Donald H. Soman, Executive Vice President and Chief Financial Officer	66	2007	Mr. Soman has served as Executive Vice President and Chief Financial Officer since September 1, 2007. Mr. Soman has 37 years of banking experience.
Kimberly M. Raynal, Executive Vice President and Chief Operating Officer	49	2007	Mrs. Raynal has served as Executive Vice President and Chief Operating Officer since September 16, 2013. She has previously served as Senior Vice President and Chief Operating Officer since September 15, 2007 and has 33 years of banking experience.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Compensation Committee establishes general compensation policies as well as the actual salary of the Bank's executive officers. The Committee is composed of independent directors. Executive compensation is reviewed annually. Compensation for newly hired executive officers may be established by the Committee at a special meeting. In addition, the Committee oversees the benefit plans that cover all employees of the Bank.

The Bank's compensation policy is designed to attract and retain highly qualified personnel. Such compensation may include elements that reward long-term financial performance and growth of the Bank in the form of stock options under the Bank's 2007 Stock Option Plan and retirement benefits under the Bank's 401(k) Plan, in addition to short-term elements such as salary and bonus opportunity. The goal of stock option issuance as a long-term incentive is to attempt to more closely align the interests of the option recipient with the long-term interests of shareholders. The Bank's general strategy, including compensation paid to executive officers, is to pay annual compensation that is competitive with similar positions at peer group banks, with consideration given to the Bank's overall financial condition and performance relative to banks in similar positions.

Compensation for executive officers may also include termination severance benefits under executive employment agreements with the goal of retention of executive officers and continuity of management over the long-term development of the Bank. In determining compensation benefits, including compensation of executive officers, the Committee obtains salary information and surveys from industry trade associations and may consult with independent compensation and benefits experts. The Committee has not engaged any compensation and benefits consultants. The awarding of stock options is based on an officer's responsibilities and relative position in the Bank and is recommended by the Committee to the Board of Directors for approval.

The table below reflects the compensation earned and paid to the Bank's former President and Chief Executive Officer, Chief Executive Officer and Chief Credit Officer and next two highest paid executive officers, President, and Executive Vice President and Chief Financial Officer, for the periods ended December 31, 2016 and 2015.

Summary Compensation Table

Name and Principal Position	Year	Salary(1)	Bonus(2)	Option Awards(3)	All Other Compensation(4)	Total
Richard G. Hofstetter, (5)	2016	$ 55,259	$ 15,000	$ -	$ 202,126	$ 272,385
President and	2015	$ 250,000	$ 15,000	$ -	$ 6,507	$ 271,507
Chief Executive Officer						
Lane S. Lawson, Jr., (6)	2016	$ 244,021	$ 40,000	$ -	$ 6,723	$ 290,744
Chief Executive Officer and	2015	$ 190,135	$ 12,500	$ -	$ 6,684	$ 209,319
Chief Credit Officer						
Jon P. Sisk, (7)	2016	$ 202,067	$ 25,000	$ 209,280	$ 6,037	$ 442,384
President	2015	$ -	$ -	$ -	$ -	$ -
Donald H. Soman,	2016	$ 194,797	$ 15,000	$ -	$ 6,770	$ 216,567
Executive Vice President and	2015	$ 186,208	$ 12,500	$ -	$ 6,732	$ 205,440
Chief Financial Officer						

(1) Amounts shown for 2015 and 2016 include cash and non-cash compensation earned and received by the named executive officers, as well as amounts, if any, earned but deferred at the election of those officers under the Bank's 401(k) Plan. The Bank entered into employment agreements with Messrs. Hofstetter, Lawson, Sisk and Soman, dated August 1, 2007, October 1, 2007, February 8, 2016 and September 1, 2007, respectively. Agreements for Messrs. Hofstetter, Lawson and Soman, were subsequently amended in 2011 and in the case of Messrs. Hoffstetter and Lawson, the agreements were terminated in connection with the retirement of Mr. Hofstetter and a new agreement entered into with Mr. Lawson, as described hereafter in this Proxy Statement under the heading "Employment Agreements."

(2) Bonus payments, if any, are paid in the discretion of the Board of Directors after evaluation of financial results of operations and individual performance during the year prior to the year in which they were received.

(3) This column requires disclosure of the grant date fair value of stock based awards made for the years indicated under the Bank's 2007 Stock Option Plan ("2007 Plan") to the named executive officers in accordance with FASB ASC Topic 718. The Bank uses the Black-Scholes-Merton pricing model to determine the grant date fair value of stock based awards under FASB ASC Topic 718. No awards of stock options were made to the named executive officers in 2015 or 2016, except for the award in 2016 to Mr. Sisk of an option to purchase 50,000 shares of the Bank's common stock. Please also refer to "Note 8" of "Notes to Financial Statements" in the Bank's audited financial statements for the years ended December 31, 2016 and 2015 included in the Bank's 2016 Annual Report to Shareholders for discussion of the assumptions related to calculation of the grant date fair value of stock based awards under FASB ASC Topic 718. Awards of incentive and nonstatutory stock options may be made under the Bank's 2007 Stock Option Plan. See the discussion of the 2007 Plan hereafter in this Proxy Statement under the heading "2007 Stock Option Plan." Awards of stock options to purchase 46,200 shares of the Bank's common stock (originally 40,000 shares which were subsequently adjusted for the December 5, 2011 and March 8, 2013 stock dividends) were made to Messrs. Hofstetter, Lawson, and Soman, in 2007. See the "Outstanding Equity Awards at Fiscal Year-End Table" for additional information regarding the stock option awards to the named executive officers.

(4) Amounts shown for Messrs. Hofstetter, Lawson, and Soman include (i) automobile allowances for combined business and personal usage of $4,800 each for 2015 and automobile allowances for combined business and personal usage of $600, $4,800, $4,400, and $4,800, respectively, for Messrs. Hofstetter, Lawson, Sisk and Soman in 2016; (ii) employer matching 401(k) Plan contributions of $1,500 each for Messrs. Hofstetter, Lawson and Soman in 2015 and employer matching 401(k)

Plan contributions of $1,500 each for Messrs. Hofstetter, Lawson, Sisk and Soman in 2016; (iii) life insurance premiums of $207, $384, and $432, respectively, for Messrs. Hofstetter, Lawson and Soman in 2015 and $26, $423, $137 and $470, respectively, for Messrs. Hofstetter, Lawson, Sisk and Soman in 2016; and (iv) group health insurance premiums are excluded from the table in 2015 and 2016 because such premiums are pursuant to a plan that does not discriminate in favor of executive officers and is generally available to all qualified employees.

(5) Mr. Hofstetter retired effective February 5, 2016. Included in Other Compensation of Mr. Hoffstetter for 2016 is deferred compensation of $200,000, which is described hereafter in this Proxy Statement under the heading "Employment Agreements – Employment Agreement with Mr. Hofstetter."

(6) Mr. Lawson was appointed as Director, Chief Executive Officer and Chief Credit Officer effective in connection with the retirement of Mr. Hofstetter on February 8, 2016.

(7) Mr. Sisk was appointed as President effective February 8, 2016.

401(k) Plan

The Bank has a 401(k) Plan which was adopted in 2007, effective January 1, 2008. Generally, all Bank employees are eligible to participate in the 401(k) Plan beginning in January, 2008. Participating employees may defer a portion of their compensation in the 401(k) Plan and the Bank, at its option, may make matching contributions on participant deferrals. In 2015 and 2016, employer matching contributions were made to the 401(k) Plan for qualified employees including for the benefit of the named executive officers, which amounts are included in the column "All Other Compensation" in the "Summary Compensation Table," above.

2007 Stock Option Plan

The Bank has a 2007 Stock Option Plan (the "2007 Plan") which was adopted by the Board of Directors of the Bank on July 18, 2007, and approved pursuant to a written consent by shareholders on November 8, 2007. Subject to certain adjustments for changes in the Bank's capitalization, including stock splits and stock dividends, the aggregate number of shares of common stock authorized for issuance under the 2007 Plan is 642,074 (adjusted from the original 555,908 shares to reflect the 10% stock dividend of December 5, 2011 and the 5% stock dividend of March 8, 2013). Options may be awarded to non-employee directors, officers, employees and consultants of the Bank. Options awarded under the 2007 Plan are either incentive stock options or nonstatutory stock options; however, only nonstatutory stock options may be awarded to non-employee directors and consultants. Option terms cannot extend beyond ten years from the date of award. Options awarded become exercisable in accordance with a vesting schedule established at the award date. Generally, vesting occurs annually over the first three years following the grant date. Upon a change in control of the Bank or other Terminating Event as defined in the 2007 Plan, options under the 2007 Plan become fully vested and exercisable, or may be assumed or equivalent options may be substituted by a successor corporation. Options are adjusted to protect against dilution in the event of certain changes in the Bank's capitalization, including stock splits and stock dividends. All options awarded under the 2007 Plan have an exercise price equal to the fair market value per share of the common stock on the date of award.

Grants of Plan-Based Awards Table

The table below sets forth information concerning stock options granted under the Bank's 2007 Stock Option Plan during 2016. There were no stock options awarded to the executive officers named in the "Summary Compensation Table," except for an award to Mr. Sisk described below.

Name	Grant date	Option awards: Number of securities underlying options (#)	Exercise or base price of option awards ($/Sh) (1)	Grant date fair value of option awards (2)
Jon P. Sisk	2/8/16	50,000	$14.75	$209,280

(1) The exercise price of the stock option award is the market value of the Bank's common stock based on the closing price on the date of the award.

(2) The amount reported in this column represents the grant date fair value of stock based awards during the year calculated in accordance with FASB ASC Topic 718. The Bank uses the Black-Scholes-Merton pricing model to determine the grant date fair value of stock based awards under FASB ASC Topic 718. Please also refer to "Note 8" of "Notes to Financial Statements" in the Bank's audited financial statements for the years ended December 31, 2016 and 2015 included in the Bank's 2016 Annual Report to Shareholders for discussion of the assumptions related to calculation of the grant date fair value of stock based awards under FASB ASC Topic 718.

The following table sets forth information concerning outstanding option awards to the named executive officers under the Bank's 2007 Stock Option Plan at fiscal year-end 2016.

Outstanding Equity Awards at Fiscal Year-End Table

	Option Awards			
	Number of Securities Underlying Unexercised Options			
	(#)	(#)		
Name	Exercisable	Unexercisable	Option Exercise Price	Option Expiration Date
Lane S. Lawson, Jr.	23,100 (1)	-	$8.66	10/1/2017
Jon P. Sisk	-	50,000 (2)	$14.75	2/8/2026
Donald H. Soman	5,760 (3)	-	$8.66	9/1/2017

(1) Reflects shares of Bank common stock underlying incentive stock options awarded to Mr. Lawson on 10/1/07, which vest annually over the first three years following the award date. The option exercise price equals the market value of the Bank's common stock based on the closing price on the date of the award.

(2) Reflects shares of Bank common stock underlying incentive stock options awarded to Mr. Sisk on 2/8/16, which vest annually over the first three years following the award date. The option exercise price equals the market value of the Bank's common stock based on the closing price on the date of the award.

(3) Reflects shares of Bank common stock underlying incentive stock options awarded to Mr. Soman on 9/1/07, which vest annually over the first three years following the award date. The option exercise price equals the market value of the Bank's common stock based on the closing price on the date of the award.

OPTION EXERCISES AND STOCK VESTED

The following table summarizes information with respect to stock option awards exercised during fiscal year 2016 by any of the executive officers named in the "Summary Compensation Table."

Option Exercises Table

	Option Awards	
Name	Number of Shares Aquired on Exercise #	Value Realized on Exercise $
Richard G. Hofstetter	11,550	$ 69,785
Lane S. Lawson, Jr.	23,100	$ 134,950
Donald H. Soman,	16,185	$ 102,645

Equity Compensation Plan Information

The table below lists information regarding Bank common stock issuable upon the exercise of stock options, the weighted average exercise price of those options and the number of shares available for issuance under the 2007 Stock Option Plan at year-end 2016. The Bank has no other equity compensation plan and there are no warrants or other rights outstanding that would result in the issuance of shares of Bank common stock.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	302,449	$11.01	34,167
Equity compensation plans not approved by security holders	-	-	-
Total	302,449	$11.01	34,167

(1) For additional information, see the discussion of the 2007 Plan under the heading "2007 Stock Option Plan" in this Proxy Statement.

Employment Agreements

Employment Agreement with Mr. Hofstetter. Effective August 1, 2007, the Bank entered into an employment agreement with Mr. Hofstetter, which was amended July 21, 2011 and further amended on November 20, 2013, pursuant to which Mr. Hofstetter served as a member of the Board of Directors and committees thereof, except the Audit Committee, and as the President and Chief Executive Officer of the Bank until his retirement effective February 5, 2016. The agreement had a three year term, to August 31, 2016 and terminated upon Mr. Hofstetter's retirement.

The agreement included payment of a base salary per year, subject to adjustment upon an annual review by the Board of Directors, which salary is set forth in the "Summary Compensation Table" for the years indicated. At the end of each calendar year, the amount of bonus compensation, if any, to be paid to Mr. Hofstetter was to be determined in the sole discretion of the Board of Directors of the Bank (without the vote of Mr. Hofstetter) based upon evaluation of Mr. Hofstetter's performance and that of the Bank. On January 29, 2016, Mr. Hofstetter also was entitled to receive $200,000 contingent on his continued employment until his retirement date and retention of a new Chief Executive Officer, payable in a lump sum upon his retirement. The agreement provided for other incidental compensation and benefits, an auto allowance and reimbursement for business expenses.

In August 2007, as required by the agreement, and predicated upon applicable shareholder and regulatory approvals, the Bank awarded Mr. Hofstetter stock options to purchase 46,200 shares (originally 40,000 shares which were subsequently adjusted for the December 5, 2011 and March 8, 2013 stock dividends) of Bank common stock.

The agreement was an *at-will* contract that may be terminated by either party at any time. The agreement terminated upon Mr. Hofstetter's retirement. He received his earned compensation through his last day of employment, but he was not entitled to receive any severance payments provided under the agreement as a result of his voluntary termination of employment.

Employment Agreement with Mr. Lawson. Effective October 1, 2007, the Bank entered into an employment agreement with Mr. Lawson which was amended July 21, 2011, pursuant to which Mr. Lawson served as the Executive Vice President and Chief Credit Officer, subject to the direction of the Chief Executive Officer and the Board of Directors of the Bank. The agreement had a one-year term, renewable annually for successive one-year terms unless terminated or extended further by the Board of Directors. On February 8, 2016, the Bank entered into a new employment agreement with Mr. Lawson (the "2016 Agreement") pursuant to which Mr. Lawson serves as the Chief Executive Officer and Chief Credit Officer, subject to the direction of the Board of Directors of the Bank. The 2016 Agreement has a three-year term to February 8, 2019, which is automatically renewed annually for successive one-year terms, unless the 2016 Agreement is terminated upon written notice of non-renewal given not less than sixty (60) days prior to the end of a term.

The 2016 Agreement includes (i) payment of a base salary per year of $250,000, subject to annual adjustment increase of not less than 3.5% or such greater increase as may be determined by the Board of Directors in its discretion; (ii) two payments of $25,000 each as signing bonuses; and (iii) an annual payment equal to 1% of the Bank's net profit after tax if the Bank achieves 90% or more of the Board approved earnings target for each calendar year. At the end of each calendar year, the amount of bonus compensation, if any, (other than the signing bonuses described above) to be paid to Mr. Lawson is to be determined in the sole discretion of the Board of Directors of the Bank based upon evaluation of Mr. Lawson's performance and that of the Bank. The 2016 Agreement provides for other compensation and benefits, including, stock option entitlement under the Bank stock option plan, annual paid vacation, an auto allowance, medical and health benefits, and reimbursement for business expenses.

In October 2007, as required by the 2007 agreement, and predicated upon applicable shareholder and regulatory approvals, the Bank awarded Mr. Lawson stock options to purchase 46,200 shares (originally 40,000 shares which were subsequently adjusted for the December 5, 2011 and March 8, 2013 stock dividends) of Bank common stock.

The 2016 Agreement is an *at-will* contract that may be terminated by either party at any time. If the Bank terminates Mr. Lawson's employment for cause, he will not be entitled to any further amounts except as earned through his last day of employment. If the Bank terminates Mr. Lawson's employment without cause, or he terminates his employment for certain "good reasons" specified in the 2016 Agreement, he will be entitled to (i) his earned compensation through his last day of employment; (ii) a lump sum payment equal to one-year of his then current annual salary; (iii) a lump sum payment equal to one-year of medical/dental Cobra payments; and (iv) eligibility for a lump sum payment equal to the average of the two previous annual incentive compensation payments he received. If Mr. Lawson terminates his employment voluntarily and not based upon "good reason," then he will be entitled to no severance compensation, unless he is terminated in the context of a Change of Control (as that term is defined in the 2016 Agreement), in which case Mr. Lawson is entitled to a lump sum payment equal to (i) two-years of his then current annual salary; (ii) two-years of medical/dental Cobra payments; and (iii) eligibility for a lump sum payment equal to the average of the two previous annual incentive compensation payments he received.

Employment Agreement with Mr. Sisk. Effective February 8, 2016, the Bank entered into an employment agreement with Mr. Sisk, pursuant to which Mr. Sisk serves as the President, subject to the direction of the Chief Executive Officer of the Bank. The agreement has a three-year term, through February 8, 2019, and is renewable annually for successive one-year terms unless written notice is received not less than sixty (60) days prior to the end of the term of the intention of either party not to renew the agreement.

The agreement includes (i) payment of a base salary per year of $225,000, subject to annual adjustment increase as may be determined by the Bank in its discretion; (ii) two payments of $25,000 each as signing bonuses; and (iii) an annual payment equal to 1% of the Bank's net profit after tax if the Bank achieves 90% or more of the Board approved earnings target for each calendar year. At the end of each calendar year, the amount of bonus compensation, if any, (other than the signing bonuses described above) to be paid to Mr. Sisk is to be determined in the sole discretion of the Board of Directors. The agreement provides for other compensation and benefits, including, stock option entitlement under the Bank stock option plan, annual paid vacation, an auto allowance, medical and health benefits, and reimbursement for business expenses.

In February 2016, as required by the agreement, the Bank awarded Mr. Sisk a stock option to purchase 50,000 shares of Bank common stock.

The agreement is an *at-will* contract that may be terminated by either party at any time. If the Bank terminates Mr. Sisk's employment for cause, he will not be entitled to any further amounts except as earned through his last day of employment. If the Bank terminates Mr. Sisk's employment without cause he will be entitled to receive (i) his earned compensation through his last day of employment; (ii) a severance payment equal to one-year of his then current annual salary; (iii) a lump sum payment equal to one-year of medical/dental Cobra payments; and (iv) eligibility for a lump sum payment equal to the average of the two previous annual incentive compensation payments he received. Except for termination for Cause, disability or death, after the occurrence of a Change in Control (as that term is defined in the agreement), if Mr. Sisk's employment with the Bank is materially adversely altered or he is not retained by the Bank or the surviving bank or company, Mr. Sisk shall be entitled to a severance payment equal to (i) two-years of his then current annual salary; (ii) a lump sum payment equal to the cost of two-years of medical/dental Cobra payments; and (iii) eligibility for a lump sum payment equal to the average of the two previous annual incentive compensation payments he received.

Employment Agreement with Mr. Soman. Effective September 1, 2007, the Bank entered into an employment agreement with Mr. Soman which was amended July 21, 2011, and subsequently amended June 10, 2015, pursuant to which Mr. Soman serves as the Executive Vice President and Chief Financial Officer, subject to the direction of the Chief Executive Officer and the Board of Directors of the Bank. The agreement has a one-year term, which automatically renews on the expiration date of the one-year term for consecutive one-year terms, unless affirmative action is taken by the Board of Directors not less than 60 days prior to the expiration date of the one-year term to terminate the agreement, or unless the agreement is modified or superseded by mutual consent.

The agreement includes payment of a base salary per year, subject to adjustment upon an annual review by the Board of Directors, which salary is set forth in the "Summary Compensation Table" for the years indicated. At the end of each calendar year, the amount of bonus compensation, if any, to be paid to Mr. Soman is to be determined in the sole discretion of the Board of Directors of the Bank based upon evaluation of Mr. Soman's performance and that of the Bank. The agreement provides for other incidental compensation and benefits, an auto allowance and reimbursement for business expenses.

In September 2007, as required by the agreement, and predicated upon applicable shareholder and regulatory approvals, the Bank awarded Mr. Soman stock options to purchase 46,200 shares (originally 40,000 shares which were subsequently adjusted for the December 5, 2011 and March 8, 2013 stock dividends) of Bank common stock.

The agreement is an *at-will* contract that may be terminated by either party at any time. If the Bank terminates Mr. Soman's employment for cause, he will not be entitled to any further amounts except as earned through his last day of employment. If the Bank terminates Mr. Soman's employment without cause, he will be entitled to (i) his earned compensation through his last day of employment; (ii) a lump sum payment equal to one-year of his then current annual salary; and (iii) a lump sum payment equal to one-year of medical/dental Cobra payments. If Mr. Soman terminates his employment voluntarily then he will be entitled to no severance compensation, unless such termination occurs in the context of a Change of Control (as that term is defined in the employment agreement), in which case Mr. Soman is entitled to a severance payment equal to eighteen months of his then current annual salary, plus a lump sum payment equal to eighteen months of medical/dental Cobra payments.

Change of Control in Bank Ownership

Management is not aware of any arrangements, including the pledge by any person of shares of the Bank, the operation of which may at a subsequent date result in a change in control of the Bank.

DIRECTOR COMPENSATION

Since the inception of the Bank's operations and until 2011, the Bank's Directors received no fees for attendance at meetings of the Board of Directors or committees of the Board. Directors received compensation only in the form of the award of stock options under the Bank's 2007 Stock Option Plan (the "2007 Plan"). The 2007 Plan set aside 642,074 shares (adjusted from the original 555,908 shares to reflect the 10% stock dividend of December 5, 2011 and the 5% stock dividend of March 8, 2013) of Bank common stock for the award of incentive and nonstatutory stock options to non-employee directors, officers, employees and consultants of the Bank. Only nonstatutory options may be awarded to non-employee directors and consultants under the 2007 Plan. Non-employee founders of the Bank who were not also directors ("Bank Founders") were awarded nonstatutory options under the 2007 Plan to acquire 1,155 shares each for a total of 26,565 shares of the Bank's common stock on the date of adoption of the 2007 Plan, at an exercise price of $8.66 per share, which reflected the fair market value on the date of award. The option awards were made subject to the approval of the 2007 Plan by the shareholders of the Bank. Nonstatutory stock options awarded under the 2007 Plan generally vest annually over the first three years from the award date in the case of non-employee directors and were vested fully upon the award date in the case of the Bank Founders. As of March 28, 2017, there were 76,985 shares reserved for issuance upon exercise of nonstatutory stock options by all non-employee directors and Bank Founders as a group at the respective award prices described above. The number of shares of common stock subject to nonstatutory stock options exercisable by all non-employee directors and Bank Founders as a group at December 31, 2016 was 100,855. For all discussion presented, amounts pertaining to stock options reflect adjustment for the 10% stock dividend of December 5, 2011 and the 5% stock dividend of March 8, 2013.

The table below reflects the compensation earned by or paid to the Bank's non-employee directors[1] during the year ended December 31, 2016.

Director Compensation Table

Name and Principal Position	Year	Fees Earned or Paid in Cash	Option Awards[2]	All Other Compensation	Total
John C. Burroughs	2016	$ 18,000	-	-	$ 18,000
James R. Castellanos	2016	$ 9,750	-	-	$ 9,750
Michael P. Dunn	2016	$ 13,750	-	-	$ 13,750
Craig A. French	2016	$ 13,250	-	-	$ 13,250
Bruce A. McPherson	2016	$ 10,000	-	-	$ 10,000
Stephen D. Pahl	2016	$ 14,500	-	-	$ 14,500
William R. Slakey	2016	$ 10,000	-	-	$ 10,000
James L. Weisenstein	2016	$ 10,500	-	-	$ 10,500

(1) The compensation and option awards for Director and Chief Executive Officer, Lane S. Lawson, Jr., and Director and President, Jon P. Sisk, are set forth in the "Summary Compensation Table" and footnotes thereto and in the "Outstanding Equity Awards at Fiscal Year-End Table" and footnotes thereto in this Proxy Statement.

(2) The column requires disclosure of the grant date fair value of stock based awards made in the last fiscal year ended 2016 to the directors named in the table under the Bank's 2007 Stock Option Plan in accordance with FASB ASC Topic 718; however, there were no stock option awards under the 2007 Plan during 2016 to the non-employee directors. The Bank uses the Black-Scholes-Merton pricing model to determine the grant date fair value of stock based awards under FASB ASC Topic 718. Please also refer to "Note 8" of "Notes to Financial Statements" in the Bank's audited financial statements for the years ended December 31, 2016 and 2015 included in the Bank's 2016 Annual Report to Shareholders for discussion of the assumptions related to calculation of the grant date fair value of stock based awards under FASB ASC Topic 718. The aggregate number of stock options outstanding at December 31, 2016 for each of the directors named in the table above are as follows: Burroughs, 15,000 options; Castellanos, 7,700 options: Dunn, 11,550 options; French, no options; McPherson, 11,550 options; Pahl, 17,325 options; Slakey, 17,325 options; and Weisenstein, no options. The weighted average exercise price for all directors named in the table as a group was $8.94. For information regarding each director's exercisable options as of or within 60 days of the Record Date, see the "Security Ownership of Certain Beneficial Owners and Management" table and related footnotes in this Proxy Statement.

TRANSACTIONS WITH RELATED PERSONS

There have been no material transactions in 2016, nor are there any presently proposed transactions, to which the Bank was or is to be a party in which the amount involved exceeds the lesser of $120,000 or 1% of the average of the Bank's total assets for the two-year period ended December 31, 2016, and in which any director, executive officer, nominee for director, or 5% shareholder, or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest.

Indebtedness of Management and Directors

Some of the Bank's directors and executive officers, as well as members of their immediate families and associates, are customers of, and have had deposit banking transactions with the Bank in the ordinary course of the Bank's business, and the Bank expects to continue to have such ordinary banking transactions with these persons in the future. It is, however, the policy of the Bank to not extend credit to executive officers or employees. It is the policy of the Bank to extend credit to its non-employee directors provided that all loans and commitments to lend included in such transactions were made in the ordinary course of business, in compliance with Regulation O, on the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other persons of similar creditworthiness, and do not involve more than the normal risk of collectability or present other unfavorable features. While the Bank does not have any limits on the aggregate amount it may lend to directors, individually or as a group, loans to individual directors must comply with the Bank's lending policies and statutory lending limits. In addition, prior approval of the Bank's Board of Directors is required for all such loans over $100,000. The aggregate amount of indebtedness including extensions of credit or overdrafts, endorsements and guarantees outstanding at any time since the beginning of the Bank's last fiscal year and as of the latest practicable date did not exceed (i) the lesser of ten percent of the equity capital accounts of the Bank or five million dollars as to each such director or executive officer, as well as members of their immediate families and associates, or (ii) twenty percent of the equity capital accounts of the Bank as a group.

CORPORATE GOVERNANCE

General Role of the Board of Directors

The Bank's Board of Directors oversees the Company's Chief Executive Officer and other senior management officers in the competent and ethical operation of the Bank on a day-to-day basis and assures that the long-term interests of the shareholders are being served. To satisfy its duties, directors are expected to take a proactive, focused approach to their position, and set standards to ensure that the Bank is committed to business success through the maintenance of high standards of responsibility and ethics.

Code of Ethics

The Board of Directors has adopted policies of ethical behavior that require the Bank's officers (including the principal executive, financial and accounting officers, or controller and persons performing similar functions) and employees to conduct business in accordance with the highest ethical standards and in compliance with all laws, rules and regulations applicable to the Bank.

Director Independence

The Bank has adopted the NASDAQ "independence" listing rules definition to determine the independence of its non-employee directors. Each member of the Board of Directors and each nominee for election as a director, except Chief Executive Officer and Chief Credit Officer Lane S. Lawson Jr. and President Jon P. Sisk, qualifies as "independent" under such NASDAQ definition.

Leadership Structure of the Board

The Board believes that the Bank and its shareholders are best served by having an independent Board Chairman whose duties are separate from those of the Chief Executive Officer. In accordance with the Bank's bylaws, the Board of Directors elects the Chief Executive Officer and the Board Chairman. The Chairman is selected from the independent directors. The Board of Directors believes that the current structure of the Board of Directors is appropriate to effectively manage the affairs of the Bank and is in the best interests of the Bank's shareholders.

Board's Role in Risk Oversight

The Board of Directors is actively involved in oversight of risks that could affect the Bank. This oversight is conducted primarily through committees of the Board of Directors, as disclosed in the descriptions of each of the committees below, but the full Board has retained responsibility for general oversight of risks. The Board satisfies this responsibility through full reports by each committee chair regarding the committee's considerations and actions, as well as through regular reports directly from officers responsible for oversight of particular risks within the Bank.

Committees of the Board of Directors

Audit Committee

The Audit Committee reviews all reports of examination of the Bank made by regulatory authorities and conducts, in accordance with the Audit Committee Charter, Audit Policy and procedures approved by the Board, third party examinations and audits of the Bank. The Audit Committee Charter is posted on the Bank's website at www.lighthousebank.net. The Bank's auditors report directly to the Audit Committee. The Audit Committee regularly reports to the Board its findings, conclusions and recommendations, if any, relating to the adequacy of internal controls and procedures in accordance with applicable laws, regulations and sound financial accounting principles. Directors Slakey (Chairman), Burroughs, Castellanos, and French served as members of the Committee. Each Audit Committee member is deemed "independent" as defined under NASDAQ listing rules and financially sophisticated and qualified to review the Bank's financial statements. The Audit Committee met four times during 2016.

Audit Committee Report

The Audit Committee has reviewed and discussed the audited financial statements of the Bank for the fiscal year ended December 31, 2016 with management and Vavrinek, Trine, Day & Co., LLP, the Bank's independent public accountants. The Committee has also discussed with Vavrinek, Trine, Day & Co., LLP the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication With Those Charged With Governance) as may be modified or supplemented. The Committee has also received the letter from Vavrinek, Trine, Day & Co., LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) as may be modified or supplemented, and the Committee has discussed the independence of Vavrinek, Trine, Day & Co., LLP with that firm. Based on the Committee's review and discussions noted above, the Committee recommended to the Board of Directors that the Bank's audited financial statements be included in the Bank's Annual Report to Shareholders for the fiscal year ended December 31, 2016.

Submitted by:
/s/ William R. Slakey, John C. Burroughs, James R. Castellanos, and Craig A. French.

Loan Committee

The Loan Committee is responsible for approving loan policies and procedures, approving loans and reviewing the Bank's loan portfolio. The Loan Committee also has general oversight responsibility for the Bank's policy and performance under the Community Reinvestment Act. Directors Pahl (Chairman), Burroughs, Castellanos, Dunn, French, Chief Credit Officer, Lawson Jr. (non-voting), President, Sisk (non-voting) and Senior Loan Officer, Kristin Ditlevsen (non-voting) served as members of the Committee. The Loan Committee met twelve times during 2016.

Asset-Liability Management Committee

The Asset-Liability Management Committee reviews, approves and monitors the policies and procedures governing investments and asset/liability management. Directors Dunn (Chairman), Burroughs, Lawson, McPherson, and Slakey, and Executive Officer Soman (non-voting) served as members of the Committee. The Asset-Liability Management Committee met four times during 2016.

Compensation Committee

The Compensation Committee is responsible for overseeing the adequacy and effectiveness of compensation and benefit plans and employee programs. The Compensation Committee makes recommendations to the Board of Directors regarding the compensation for executive officers and benefits for all employees. The Compensation Committee does not have a charter and believes that policies and practices established by the Board of Directors currently provide sufficient guidance. Directors Weisenstein (Chairman), Burroughs, Dunn, French, Pahl, and Lawson (non-voting on matters pertaining to his own compensation) served as members of the Committee. The Compensation Committee met one time during 2016.

Strategic Planning Committee

The Strategic Planning Committee is responsible for establishing and recommending to the Board of Directors strategic plans and initiatives for the Bank. Directors Weisenstein (Chairman), Burroughs, Castellanos, French, Lawson, and Pahl served as members of the Committee. The Strategic Planning Committee met three times during 2016.

Nominating Committee

The Bank does not have a Nominating Committee. The full Board of Directors performs the functions of a Nominating Committee which include evaluation and recommendation of candidates for nomination as directors of the Bank. Candidates are selected by a majority of directors who are "independent" as defined under the NASDAQ listing rules. The Board of Directors does not have a nominating committee charter and believes that its practices established by the Board of Directors currently provide sufficient guidance. Any recommendations by shareholders will be evaluated by the Board of Directors in the same manner as any other recommendation. Shareholders that desire to recommend candidates for consideration by the Bank's Board of Directors must mail or deliver written recommendations to the Bank addressed as follows: Board of Directors, Lighthouse Bank, 2020 North Pacific Avenue, Santa Cruz, California 95060. Any recommendation must include biographical information indicating the background and experience of the candidate that qualifies the candidate for consideration as a director for evaluation by the Board of Directors. In addition to minimum standards of "independence" for non-employee directors and financial literacy, the Board of Directors considers various other criteria including the candidate's experience and expertise, financial resources, ability to devote the time and effort necessary to fulfill the responsibilities of a director and involvement in community activities in the market areas served by the Bank that may enhance the reputation of the Bank. Diversity is one of the factors that the Board considers in identifying nominees for director, which may include, among other matters, an evaluation of (a) the competencies and skills that the candidate possesses and the candidate's areas of qualification and expertise that would enhance the composition of the Board and (b) how the candidate would contribute to the Board's overall balance of expertise, perspectives, backgrounds and experiences in substantive matters pertaining to the Bank's business. The Board has not adopted a formal diversity policy with regard to the selection of director-nominees. The Bank has not paid a fee to any third party to identify or evaluate director candidates. The Board of Directors may, however, elect to use third parties in the future to identify or evaluate candidates for consideration as directors. Shareholders who wish to nominate a candidate for election to the Bank's

Board of Directors, as opposed to recommending a potential nominee for consideration by the Board of Directors, are required to comply with the advance notice and any other requirements of the Bank's Bylaws, applicable laws and regulations. For a discussion of the specific backgrounds and qualifications of our current directors and director-nominees, see "Proposal No. 1 – Election of Directors – Board of Directors Nominees."

Board and Committee Attendance

During calendar year 2016, the Bank's Board of Directors met twelve times for regularly scheduled and special meetings. Each director attended at least 75% of the aggregate of: (i) the total number of meetings of the Board of Directors; and (ii) the total number of meetings of board committees on which each director served. Average director attendance at the combination of meetings of the board and committees was 93% in 2016.

Annual Meeting Attendance

The Bank encourages members of its Board of Directors to attend the Bank's Annual Meeting of Shareholders each year. Eight directors attended the Bank's Annual Meeting of Shareholders held in 2016.

Shareholder Communications

A majority of the members of the Board of Directors, each of whom is "independent" as defined under the NASDAQ listing rules, has established procedures for receipt and delivery of shareholder communications addressed to the Board of Directors. Any such shareholder communications, including communications by employees of the Bank solely in their capacity as shareholders, should be mailed to the Bank addressed as follows: Board of Directors, Lighthouse Bank, 2020 North Pacific Avenue, Santa Cruz, California 95060.

PROPOSAL NO. 2

APPROVAL OF THE LIGHTHOUSE BANK 2017 EQUITY INCENTIVE PLAN

The shareholders of Lighthouse Bank (the "Bank") are being asked to ratify and approve the Bank's 2017 Equity Incentive Plan (the "2017 Plan"). On February 15, 2017, the Board of Directors of the Bank adopted the 2017 Plan. The Board of Directors also authorized 445,255 shares of the Bank's no par value common stock ("Common Stock") to be reserved for issuance for awards of restricted stock and grants of stock options under the 2017 Plan. These 445,255 shares of Common Stock reserved for the 2017 Plan, when aggregated with 282,604 shares reserved for issuance pursuant to stock options outstanding and unexercised (both vested and unvested) as of February 15, 2017 under the 2007 Stock Option Plan (see discussion of the 2007 Stock Option Plan below), represent approximately thirty percent (30%) of the total shares of the Bank's Common Stock (2,426,198 shares) outstanding as of February 15, 2017. The terms and provisions of the 2017 Plan are summarized in this Proposal No. 2, which summary is qualified in its entirety by reference to the 2017 Plan, a copy of which is attached as Appendix 1 to this Proxy Statement.

The 2017 Plan provides for the award of restricted stock, in addition to the grant of stock options, to Bank employees, officers, non-employee directors and consultants. No awards of restricted stock or grants of stock options have been made under the 2017 Plan since its adoption by the Board of Directors on February 15, 2017 and the Board of Directors does not intend to award restricted stock or grant stock options under the 2017 Plan before shareholder approval of the 2017 Plan has been obtained. Continuance of the 2017 Plan is subject to approval by the shareholders of the Bank within twelve (12) months after the date the 2017 Plan was adopted by the Board of Directors.

Introduction

The Bank's 2007 Stock Option Plan (the "2007 Plan") was adopted by the Board of Directors of the Bank on July 18, 2007 and was approved by the shareholders of the Bank on November 8, 2007, reserving 555,908 shares of Common Stock equal to approximately thirty percent (30%) of the Bank's outstanding Common Stock sold in its initial public offering (which was subsequently adjusted to 642,074 shares to reflect the issuance of stock dividends). The 2007 Plan provides for the grant of stock options to Bank employees, officers, non-employee directors and consultants.

The ten-year term of the 2007 Plan expires by its terms on July 18, 2017. In anticipation of the expiration of the 2007 Plan, the Board of Directors determined that it was advisable to discontinue and terminate the grant of stock options under the 2007 Plan and in lieu thereof, to adopt a new 2017 Plan. No further grants of stock options have been made under the 2007 Plan since the date the Board of Directors adopted the 2017 Plan (February 15, 2017) and no awards of restricted stock or grants of stock options under the 2017 Plan have been made or will be made prior to obtaining shareholder approval of the 2017 Plan. As of February 15, 2017, a total of 282,604 shares of the Bank's Common Stock remain reserved for issuance pursuant to the 2007 Plan for outstanding and unexercised (both vested and unvested) stock options granted under the 2007 Plan. All other shares formerly reserved for the 2007 Plan have been restored to the category of authorized and unissued shares of Bank Common Stock.

Purpose

The purpose of the 2017 Plan is to attract, retain and motivate eligible participants under the 2017 Plan, including employees, officers, non-employee directors and consultants of the Bank, to achieve high levels of performance and the goals and objectives of the Bank's business plans to promote the long-term success of the Bank and the creation of shareholder value.

Administration

The 2017 Plan is administered by the Board of Directors in their capacity as the "Administrator" of the 2017 Plan; however, the Board of Directors may elect to appoint a committee to act as the Administrator. The Administrator has the full power and authority to interpret and administer the 2017 Plan and to establish and amend rules and regulations for its administration. The Administrator's decisions are final and conclusive.

Administration of the 2017 Plan with respect to stock option grants and restricted stock awards to persons who are subject to Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act") must be by a committee consisting of at least two directors who qualify as "non-employee directors" under Rule 16b-3 of the Exchange Act. Also, administration of the 2017 Plan with respect to grants and awards intended to qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "IRC"), must be by a committee consisting of at least two directors who qualify as "outside directors" under Section 162(m) of the IRC.

The Administrator has broad authority and discretion to administer the 2017 Plan and the stock option grants and restricted stock awards thereunder, including, but not limited to, the authority to: (a) determine the employees, officers, non-employee directors, and consultants who will receive such grants and awards; (b) set the terms of such grants and awards, such as the number of shares, vesting schedule, exercise price, fair market value of shares underlying grants and awards, as applicable, and any performance criteria or goals; (c) interpret the 2017 Plan and apply its provisions; (d) adopt, amend, or rescind rules, procedures, agreements and forms of grant and award agreements relating to the 2017 Plan; (e) accelerate the (i) date on which any stock option grant may be exercised, (ii) date of termination of the restrictions applicable to a restricted stock award, or (iii) end of a performance period, if the Administrator determines that such action would be in the best interests of the Bank and the participants; and (f) make all other determinations deemed necessary or advisable for administering the 2017 Plan.

The determinations of the Administrator under the 2017 Plan are final and binding on all persons. The Administrator may amend or terminate the 2017 Plan at any time and for any reason; provided, however, that no such amendment or termination will affect outstanding stock options or restricted stock without the consent of the affected participant who received a stock option grant or restricted stock award and no amendment may be made without the approval of shareholders to materially increase the benefits to participants such as to increase the shares issuable under the 2017 Plan, expand the types of such grants and awards available, materially expand the class of employees eligible to participate, or materially change the method of determining the exercise price of stock options.

Unless the Administrator terminates the 2017 Plan earlier, the 2017 Plan will terminate on February 15, 2027. The Administrator may not grant any stock options or award any restricted stock under the 2017 Plan after the termination date.

Shares Reserved for Issuance Under the 2017 Plan

The maximum number of shares of the Bank's Common Stock that may be issued under the 2017 Plan is 445,255 shares, unless subsequently amended in accordance with the terms of the 2017 Plan. This number of shares, combined with the 282,604 shares reserved for issuance upon the exercise of outstanding stock options granted and remaining unexercised under the 2007 Plan, represents approximately thirty percent (30%) of the 2,426,198 shares of Bank Common Stock issued and outstanding on February 15, 2017.

Subject to any required action by the shareholders of the Bank, the number of shares of the Bank's Common Stock underlying outstanding stock options and restricted stock, and the number of shares of the Common Stock that have been authorized for issuance under the 2017 Plan, but as to which no stock options have yet been granted or restricted stock awarded, or that have been returned to the 2017 Plan upon forfeiture, cancellation or expiration of stock options or restricted stock, as well as the price for each Share covered by each such outstanding stock option or restricted stock (if payment for restricted stock is a condition to an award), shall be proportionately adjusted for any increase or decrease in the number of issued shares of the Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease as determined by the Administrator.

See "Equity Compensation Plan Information," "Director Compensation," "Summary Compensation," "Grants of Plan-Based Awards" and "Outstanding Equity Awards at Fiscal Year-End" tables and any related footnotes thereto in this Proxy Statement for more information regarding outstanding stock options under the 2007 Plan. No stock option grants or restricted stock awards have been made under the 2017 Plan and none will be made unless shareholders approve the 2017 Plan.

Eligibility

Employees, officers, non-employee directors and consultants are eligible to receive stock option grants and restricted stock awards under the 2017 Plan. As of the Record Date, March 28, 2017, the Bank had approximately 27 employees and officers and eight non-employee directors who are eligible to participate in the 2017 Plan and no consultants have been selected to participate in the 2017 Plan. Stock option grants and restricted stock awards made by the Administrator will be subject to the terms and conditions of the 2017 Plan and to such other terms and conditions consistent with the 2017 Plan as the Administrator deems appropriate. Each such grant or award under the 2017 Plan will be confirmed by an agreement the terms of which will be subject to the provisions of the 2017 Plan. There is no requirement that the type, form, amount or terms and conditions of such grants or awards be uniform from individual to individual.

The amount of benefits that will be received, granted or awarded has not been allocated to any individuals or groups. The actual number of individuals who will receive grants or awards and the number of future grants or awards cannot be determined in advance because the Administrator has the discretion to select the grant and award recipients and establish the terms of grants and awards consistent with the provisions of the 2017 Plan. There are no pending or outstanding stock option grants or restricted stock awards under the 2017 Plan that are conditioned upon shareholder approval of the 2017 Plan.

General Description of the Types of Grants and Awards

Stock Option Grants

The 2017 Plan authorizes the Bank to grant stock options that qualify as incentive stock options ("Incentive Options") under the Internal Revenue Code of 1986, as amended, and nonstatutory stock options ("Nonstatutory Options") to employees and officers of the Bank. Non-employee directors and consultants are only eligible to receive Nonstatutory Options.

The maximum period during which any stock option may remain exercisable may not exceed ten (10) years. In addition, each stock option must vest at the rate of at least twenty percent (20%) per year over the five (5) years from the date of grant. Stock options issued under the 2017 Plan may either be immediately exercisable for the full number of shares purchasable thereunder or may become exercisable in cumulative increments over a period of months or years as determined by the Administrator. Should any stock option granted under the 2017 Plan expire or become unexercisable for any reason without having been exercised in full, the shares subject to the portion of the stock option not so exercised will become available for subsequent stock option grants under the 2017 Plan.

If an Incentive Option is granted to an individual who, at the time of the grant, owns more than ten percent (10%) of the Bank's Common Stock outstanding, the exercise price of the stock option must be not less than one hundred ten percent (110%) of the fair market value of the Common Stock at the time the stock option is granted. To the extent that the aggregate fair market value of stock with respect to which Incentive Options are exercisable for the first time by any individual during any calendar year exceeds $100,000, such stock options will be treated as Nonstatutory Options.

Upon receipt of the total consideration for the exercise of a stock option, share certificates will be issued, if requested by the exercising participant, or a book entry in the records of the Bank's transfer agent will be made as an uncertificated issuance to the participant. Stock options may be exercised by payment of (i) cash, (ii) certified check, (iii) official bank check, or any combination of those methods of payment or the equivalent acceptable to the Administrator. In addition, a stock option may also be exercised, at the discretion of the Administrator, by (i) the delivery and surrender of shares of Common Stock which have been owned by the participant for such period as the Administrator may require and have an aggregate fair market value on the date of surrender equal to the exercise price; or (ii) delivery to the Administrator of a written exercise notice instructing the Administrator to deliver the shares in certificated or uncertificated form to a designated brokerage firm along with irrevocable instructions to the brokerage firm to sell the shares acquired upon exercise of the stock option and to deliver to the Administrator out of the proceeds available on the settlement date, an amount sufficient to cover the aggregate stock option price payable for the purchased shares plus all applicable federal, state and local taxes under laws or regulations in connection with such exercise required to be withheld by the Bank by reason of such purchase and/or sale. Stock options will expire as specified in the 2017 Plan, or on such date as the Administrator may determine at the time the stock option is granted; provided, however, a stock option may not have a term in excess of ten (10) years. All stock options awarded pursuant to the 2017 Plan become exercisable in full in the event of a terminating event that constitutes a change in control with respect to the Bank.

In the event of termination of a participant's service to the Bank for "cause," any and all of the participant's outstanding and unexercised stock options (vested and unvested) as of the date of termination shall automatically expire and terminate in their entirety; provided, however, that the Administrator may, within thirty (30) days of such termination, in its sole discretion but without any obligation to do so, reinstate the portion of any stock option that was vested and exercisable by the participant on the date of such termination by giving notice of reinstatement to the participant. In the event of such reinstatement, the participant may exercise the vested portion of any such stock option within the period specified in the 2017 Plan (and in no event later than the expiration date of the term of such stock option). Any unexercised part or all of a stock option will be terminated and forfeited and the Shares underlying the stock option will revert to the Plan. Notwithstanding the foregoing, the exercise of the stock option shall also be subject to any requirements or conditions which a bank regulatory agency may impose upon the participant's exercise of the stock option including, but not limited to forfeiture of the stock option, or the participant's rights as a shareholder resulting from exercise of the stock option.

In general, in the event of termination of a participant's service to the Bank, including as a result of disability, death, or any other reason except for "cause," the participant or, as applicable, the participant's legal representative, may exercise the participant's vested stock options within the periods specified in the 2017 Plan (and in no event later than the expiration date of the term of such stock option). Any part or all of the stock option which is not exercised within the time specified will be terminated and forfeited and the shares underlying the stock option will revert to the 2017 Plan. Stock options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of, except by will or the laws of descent or distribution and may only be exercised by the participant during the participant's lifetime. Any attempted transfer in violation of this restriction will result in termination and forfeiture of the stock option and the shares underlying the stock option will revert to the 2017 Plan.

Restricted Stock Awards

A restricted stock award is an award entitling the participant to receive shares of the Bank's Common Stock that are subject to restrictions on sale or transfer and that are recoverable by the Bank if specified conditions are not met. The lapse of these restrictions may be based on continued employment, the passage of time, the achievement of performance goals, and/or upon the occurrence of other events as determined by the Administrator, in its discretion.

The Administrator may make an award of restricted stock containing such restrictions to any eligible participant, subject to the terms of the 2017 Plan and to such other terms and conditions as the Administrator may prescribe. At the time of award, the Administrator will determine: (a) the number of shares of Common Stock subject to the award; (b) the purchase price or consideration (if any) for such shares; (c) the restrictions placed on such shares which may include continued employment, achievement of performance goals and other criteria established by the Administrator as may be necessary to comply with any applicable requirements for awards intended to constitute "qualified performance-based compensation" under Section 162(m) of the Internal Revenue Code of 1986, as amended; and (d) the date(s) when the restrictions placed on such Shares will lapse including any performance period during which the achievement of any performance goals will be measured.

Awards of restricted stock will be represented in a book entry account in the name of the participant who receives the award. Until issuance of shares upon the lapse of restrictions applicable to the restricted stock, the participant (i) shall have no right to vote, receive dividends or have any other rights as a shareholder and (ii) will not be entitled to delivery of a stock certificate during the restriction period. The Bank will retain custody of the restricted stock during the restriction period.

If the participant's service to the Bank is terminated, including as a result of disability, death, or for cause, or for any other reason, any portion of the restricted stock award remaining subject to restrictions that have not previously lapsed will be forfeited immediately upon the earlier of the date (i) the Bank's notice or advice of termination is dispatched to the participant or (ii) of such termination of service, in either case without regard to receipt by the participant of such notice or advice from the Bank. Upon a termination and forfeiture of the restricted stock, the shares underlying the restricted stock will revert to the 2017 Plan.

Upon a terminating event that constitutes a change in control with respect to the Bank, the restrictions on all restricted stock will lapse and the restricted stock will become immediately vested and the participant will be entitled to possession of the shares of Common Stock underlying the restricted stock.

The 2017 Plan authorizes the Administrator to award restricted stock to individuals with such restriction periods as the Administrator may designate. The Administrator may also provide at the time of award that restricted stock cannot vest unless applicable performance goals, if any, are satisfied.

The provisions of restricted stock awards (including any applicable performance goals) need not be the same with respect to each participant. Restricted stock may not be sold, pledged, assigned, hypothecated, transferred, or disposed of, except by will or the laws of descent or distribution. Any attempted transfer in violation of this restriction will result in termination and forfeiture of the restricted stock. Restricted stock is forfeited upon the individual's termination of employment prior to the date set forth in the award agreement, or the breach of any other terms and conditions provided by the Administrator and set forth in the award agreement.

For any awards not intended to meet the requirements of Section 162(m), the Administrator may establish goals based on other performance criteria as it deems appropriate. For example, the Administrator may decide to disregard or offset the effect of any special charges or gains or cumulative effect of a change in accounting in determining the attainment of performance goals or condition payment of awards on achievement of objective criteria established by the Administrator, including comparing Bank performance to the performance of peer companies.

Summary of Federal Tax Consequences

The following is only a brief summary of the effect of United States federal income tax laws and regulations currently in effect, which are subject to change, and the discussion does not purport to be a complete description of the income tax aspects applicable to the 2017 Plan or participants who receive grants of stock options or awards of restricted stock under the 2017 Plan. A participant in the 2017 Plan may also be subject to state and local taxes in connection with the grant of stock options or the award of restricted stock under the 2017 Plan. Participants under the 2017 Plan will be encouraged to consult their individual tax advisors for advice regarding the applicability of the tax laws and regulations that may apply to their stock option grants and restricted stock awards under their personal circumstances. This summary expressly does not discuss the income tax laws of any state, municipality, or non-U.S. taxing jurisdiction, or the gift, estate, excise taxes (including the rules applicable to deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended ("IRC"), or excess parachute payments under IRC Sections 280G and 4999), performance-based compensation under IRC Section 162(m), or other tax laws other than federal income tax law.

Stock Option Taxation

Generally, stock options awarded under the 2017 Plan may be either Incentive Options which satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, or Nonstatutory Options which do not meet such requirements. The federal income tax treatment for the two types of stock options differs as follows:

Incentive Options. No taxable income is recognized by a participant at the time of the stock option grant, and no taxable income is generally recognized at the time the stock option is exercised. However, the excess of the fair market value of the Common Stock received upon the exercise of an Incentive Option over the exercise price is includable in the employee’ s alternative minimum taxable income and may be subject to the alternative minimum tax (“AMT”). For AMT purposes only, the basis of the Common Stock received upon exercise of an Incentive Option is increased by the amount of such excess.

A participant will recognize taxable income in the year in which the purchased shares acquired upon exercise of an Incentive Option are sold or otherwise disposed. For federal tax purposes, dispositions are divided into two categories: (i) qualifying and (ii) disqualifying. A participant will make a qualifying disposition of the purchased shares if the sale or disposition is made more than two years after the grant date of the stock option and more than one year after the exercise date. If a participant fails to satisfy either of these two holding periods prior to sale or disposition, then a disqualifying disposition of the purchased shares will result.

Upon a qualifying disposition, a participant will recognize long-term capital gain or loss in an amount equal to the difference between the amount realized upon the sale or other disposition of the purchased shares and the exercise price paid for the shares except that for AMT purposes, the gain or loss would be the difference between the amount realized upon the sale or other disposition of the purchased shares and the participant's basis increased as described above. If there is a disqualifying disposition of the shares, then the participant will generally recognize ordinary income to the extent of the lesser of the difference between the exercise price and (i) the fair market value of the Common Stock on the date of exercise, or (ii) the amount realized on such disqualifying disposition. Any additional gain recognized upon the disposition will be capital gain. If the amount realized is less than the exercise price, the participant will, in general, recognize a capital loss. If the participant makes a disqualifying disposition of the purchased shares, then the Bank will be entitled to an income tax deduction, for the taxable year in which such disposition occurs, to the extent the participant recognizes ordinary income. In no other instance will the Bank be allowed a deduction with respect to the participant’s disposition of the purchased shares.

Nonstatutory Options. No taxable income is recognized by a participant upon the award of a Nonstatutory Option. The participant will in general recognize ordinary income, in the year in which the stock option is exercised, equal to the excess of the fair market value of purchased shares on the date of exercise over the exercise price paid for such shares, and the participant will be required to satisfy the tax withholding requirements applicable to such income. Upon a subsequent sale of the purchased shares, the participant will generally recognize either a capital gain or a capital loss depending on the holding period prior to sale and whether the amount realized is more or less than the fair market value on the date of exercise. The Bank will be entitled to a business expense deduction equal to the amount of ordinary income recognized by the participant with respect to an exercised Nonstatutory Option. The deduction will in general be allowed for the taxable year of the Bank in which ordinary income is recognized by the participant in connection with the acquisition of the stock option shares.

Restricted Stock Taxation

A participant generally will not have taxable income upon the award of restricted stock. Instead, the participant will recognize ordinary income at the time of vesting equal to the fair market value (on the vesting date) of the shares received. A participant may elect to be taxed at the time of award. Ordinary income recognized on the vesting of restricted stock is also subject to income tax and employment tax withholding. As in the case of Nonstatutory Option exercise, the Bank will be entitled to a business expense deduction equal to the amount of ordinary income recognized by the recipient of a restricted stock award at the time of such recognition.

Required Approval

Approval of the 2017 Plan requires that (i) holders of a majority of the shares of the Bank Common Stock represented and voting at the Annual Meeting vote “FOR” Proposal No. 2 and (ii) such votes “FOR” Proposal No. 2 also constitute a majority of the required quorum. Abstentions and broker non-votes will be counted for purposes of determining the presence of a quorum and may reduce the number of votes cast affirmatively for Proposal No. 2 thereby affecting the vote in the same manner as a vote “AGAINST” the proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” PROPOSAL NO. 2.

PROPOSAL NO. 3

RATIFICATION OF THE SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS

Vavrinek, Trine, Day & Co., LLP served as the Bank’s independent public accountants for the 2016 fiscal year. Vavrinek, Trine, Day & Co., LLP provided various services to the Bank as described below consisting of audit services and tax related services, including preparation of tax returns, for the 2016 fiscal year.

Vavrinek, Trine, Day & Co., LLP has no interests, financial or otherwise, in the Bank and the Bank has had no disagreements with its accountants with respect to accounting principles, practices or financial statement disclosure. It is anticipated that one or more representatives of Vavrinek, Trine, Day & Co., LLP will be present at the Annual Meeting and will be able to make a statement if they so desire and answer appropriate questions.

The table below summarizes the services rendered to the Bank by Vavrinek, Trine, Day & Co., LLP in 2016 and 2015.

Category of Services	Fiscal Year 2016	Fiscal Year 2015
Audit Fees (1)	$45,000	$45,000
Audit-Related Fees	-	-
Tax Fees (2)	$7,000	$7,000
All Other Fees	-	-
Total Accounting Fees	$52,000	$52,000

(1) Audit fees consisted of services rendered by Vavrinek, Trine, Day & Co., LLP for the audit of the financial statements included in the Bank’s Annual Report to Shareholders for the years ended December 31, 2016 and December 31, 2015.

(2) Tax fees consisted primarily of assistance relating to tax compliance, tax advice, tax planning and related tax services for years 2016 and 2015.

The Audit Committee pre-approved 100% of all professional services rendered by Vavrinek, Trine, Day & Co., LLP during the 2016 and 2015 fiscal years, including the preparation of the Bank's tax returns and the pre-approval of all audit and permissible non-audit services, and considered whether the provision of such services is compatible with Vavrinek, Trine, Day & Co., LLP maintaining its independence.

The Board of Directors has selected Vavrinek, Trine, Day & Co., LLP to serve as the Bank's independent public accountants for the 2017 fiscal year. The ratification of the selection of Vavrinek, Trine, Day & Co., LLP as the Bank's independent public accountants requires the affirmative vote of the holders of a majority of the shares of the Bank's common stock represented and voting at the Annual Meeting. If shareholders do not ratify the selection of Vavrinek, Trine, Day & Co., LLP, the Board of Directors will reconsider the selection. The Board of Directors reserves the right, in its discretion, to select alternative independent public accountants notwithstanding ratification by shareholders, at any time that the Board of Directors determines that such a change would be in the best interests of the Bank and its shareholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL NO. 3.

WEBSITE ACCESS

Information regarding the Bank may be obtained from the Bank's website at www.lighthousebank.net.

ANNUAL REPORT

The Annual Report to Shareholders for the year ended December 31, 2016, is being mailed concurrently with this Proxy Statement to all shareholders of record as of March 28, 2017.

ANNUAL DISCLOSURE STATEMENT

Copies of Lighthouse Bank's Annual Disclosure Statement, the first copy of which will be provided free of charge, are available by contacting: Lighthouse Bank, 2020 North Pacific Avenue, Santa Cruz, CA 95060, (831) 600-4009.

SHAREHOLDERS' PROPOSALS

Next year's Annual Meeting of Shareholders is currently anticipated to be held on May 17, 2018. Any shareholder desiring to submit a proposal for action at the 2018 Annual Meeting of Shareholders which is to be presented in the Bank's Proxy Statement with respect to the 2018 Annual Meeting of Shareholders, should mail the proposal by certified mail return receipt requested, to the Bank, 2020 North Pacific Avenue, Santa Cruz, California 95060, Attention: Brianna Carabba, Vice President, Executive Administrator. All such proposals must be received by the Bank not later than December 14, 2017. Matters pertaining to such proposals, including the number and length thereof, eligibility of persons entitled to have such proposals included, and other aspects, are subject to all applicable laws and regulations.

OTHER MATTERS

Management is not aware of any other matters to come before the Annual Meeting. If any other matter not mentioned in this Proxy Statement is brought before the Annual Meeting or any adjournments or postponements thereof, the persons named in the enclosed form of Proxy will have discretionary authority to vote all proxies with respect thereto in accordance with the recommendations of management.

LIGHTHOUSE BANK

Stephen D. Pahl
Vice Chairman of the Board
Secretary

Santa Cruz, California
April 11, 2017

LIGHTHOUSE BANK
2017 EQUITY INCENTIVE PLAN

1. Purpose of the Plan.

The purpose of the Lighthouse Bank 2017 Equity Incentive Plan is to attract, retain and motivate eligible participants under the Plan, including employees, officers, non-employee directors and consultants of the Bank, to achieve high levels of performance and the goals and objectives of the Bank's business plans to promote the long-term success of the Bank and the creation of shareholder value.

2. Definitions.

As used herein, the following definitions shall apply:

(a) ***"Administrator"*** means the Board or any of its Committees appointed pursuant to Section 4 of the Plan.

(b) ***"Bank"*** means Lighthouse Bank, a California banking corporation.

(c) ***"Board"*** means the Board of Directors of the Bank.

(d) ***"Code"*** means the Internal Revenue Code of 1986, as amended.

(e) ***"Committee"*** means a Committee appointed by the Board in accordance with Section 4 of the Plan.

(f) ***"Common Stock"*** means the common stock, no par value, of the Bank.

(g) ***"Consultant"*** means any person who is engaged by the Bank to render consulting or advisory services and is compensated for such services, and any Director of the Bank who is not also an Employee, whether compensated for such services or not. If the Bank registers any class of any equity security pursuant to the Exchange Act, the term Consultant shall thereafter not include Directors who are not compensated for their services or are paid only a director's fee.

(h) ***"Continuous Status as a Director, Employee or Consultant"*** means that the director, employment or consulting relationship with the Bank is not interrupted or terminated. Continuous Status as a Director, Employee or Consultant shall not be considered interrupted in the case of (i) any leave of absence approved by the Bank or (ii) transfers between locations of the Bank or transfers to any subsidiary of the Bank, or between a subsidiary and the Bank or any successor. A leave of absence shall include sick leave or any other personal leave approved by an authorized representative of the Bank. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract, including policies of the Bank. If reemployment upon expiration of a leave of absence approved by the Bank is not so guaranteed, on the day which is three (3) months after the ninety-first (91st) day of such leave any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option.

(i) ***"Director"*** means a member of the Board of Directors of the Bank.

(j) ***"Employee"*** means any person, including an Officer or Director, employed by the Bank. The payment of a director's fee by the Bank shall not be sufficient to constitute "employment" for purposes of the Plan.

(k) ***"Exchange Act"*** means the Securities Exchange Act of 1934, as amended.

(l) ***"Fair Market Value"*** means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed or quoted on any stock exchange or stock trade quotation entity, including, without limitation, NASDAQ Stock Market or the OTC Markets Group, or any successors, its Fair Market Value shall be the closing sales price for such stock (or the closing bid price, if no sales were reported) as quoted on such exchange or stock trade quotation entity for the last market trading day prior to the time of determination and reported in *The Wall Street Journal* (or if not so reported, as otherwise reported by the OTC Markets Group, or its successor), or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the time of determination; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(m) ***"Incentive Stock Option"*** means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(n) ***"Nonstatutory Stock Option"*** means an option not intended to qualify as an Incentive Stock Option.

(o) ***"Notice of Award or Grant"*** means the written notice of Restricted Stock award or Option grant, as applicable, to be given to each of the Participants.

(p) ***"Officer"*** means a person who is an officer of the Bank within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(q) ***"Option"*** means a stock option granted pursuant to the Plan.

(r) ***"Participant"*** means a Director, Emp1oyee or Consultant who receives an Option grant or a Restricted Stock award pursuant to the Plan.

(s) ***"Plan"*** means the Lighthouse Bank 2017 Equity Incentive Plan.

(t) ***"Restricted Stock"*** means the Common Stock awarded pursuant to the Plan.

(u) ***"Rule 16b-3"*** means Rule 16b-3 promulgated under the Exchange Act or any successor thereto.

(v) ***"Section 16(b)"*** means Section 16(b) of the Exchange Act.

(w) ***"Share"*** means each of the shares of Common Stock underlying and subject to an Option or Restricted Stock, as adjusted in accordance with Section 11 below.

3. Stock Subject to the Plan. Subject to the provisions of Section 11 of the Plan, the maximum number of shares of Common Stock that may be issued under this Plan pursuant to all grants of Options and awards of Restricted Stock is 445,255, unless amended in accordance with the terms of the Plan; provided, however, that at no time shall the total number of shares of Common Stock issuable under the Plan combined with the total number of shares of Common Stock issuable upon the exercise of outstanding Options under the Bank's 2007 Stock Option Plan exceed thirty percent (30%) of the total outstanding shares of Common Stock (2,426,198 shares), calculated on the date of Board approval of the Plan (February 15, 2017) in accordance with Section 260.140.45 of the California Code of Regulations. The shares may be authorized but unissued, or reacquired Common Stock. The allocation of shares of Common Stock among Participants and between grants of Options and awards of Restricted Stock shall be at the discretion of the Administrator.

If Restricted Stock or an Option is terminated, forfeited, cancelled or expires, or an Option becomes unexercisable without having been exercised in full, or an Option is surrendered pursuant to an option exchange or otherwise, the unissued Shares which were subject to the Restricted Stock or Option shall become available for future awards of Restricted Stock or Option grants under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan shall not be returned to the Plan and shall not become available for future grants or awards under the Plan.

4. Administration of the Plan.

(a) Initial Plan Procedure. Prior to the date, if any, upon which the Bank becomes subject to the Exchange Act, the Plan shall be administered by the Board or a Committee appointed by the Board.

(b) Plan Procedure Under the Exchange Act. After the date, if any, upon which the Bank becomes subject to the Exchange Act, the Plan shall be administered as follows:

(i) **Multiple Administrative Bodies.** If permitted by Rule 16b-3, the Plan may be administered by different bodies with respect to Directors, Officers, and Employees who are neither Directors nor Officers.

(ii) **Administration With Respect to Directors and Officers.** With respect to grants of Options and awards of Restricted Stock to Directors or Employees who are also Officers or Directors, the Plan shall be administered by (A) the Board if the Board may administer the Plan in compliance with any applicable laws, including the rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made, or (B) a Committee designated by the Board to administer the Plan, which Committee shall be constituted to comply with any applicable laws, including the rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by any applicable laws, including the rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made.

(iii) **Administration With Respect to Other Employees and Consultants.** With respect to grants of Options and awards of Restricted Stock to Employees or Consultants who are neither Directors nor Officers, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted in such a manner as to satisfy the legal requirements relating to the administration of stock option and equity securities plans, if any, of United States securities laws, of California corporate and securities laws, of the Code, and of any applicable stock exchange or stock trade quotation entity upon which the Common Stock may then be listed or quoted (the ***"Applicable Laws"****)*. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(iv) **Compliance with Section 162(m).** If, at any time, grants and awards made under the Plan are intended to be subject to Section 162(m) of the Code, the Plan shall be administered by a committee comprised solely of "outside directors" (within the meaning of Treas. Reg. § 1.162-27(e)(3)) or such other persons as may be permitted from time to time under Section 162(m) of the Code and the Treasury Regulations promulgated thereunder.

(c) Powers of the Administrator. Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any bank regulatory agencies or governmental authorities having jurisdiction over the Bank and the approval, if required, of any stock exchange or stock trade quotation entity upon which the Common Stock may then be listed or quoted, the Administrator shall have the authority in its discretion:

(i) to determine the Fair Market Value of the Common Stock in accordance with Section 2(l) of the Plan;

(ii) to select the eligible Participants to whom Options and Restricted Stock may from time to time be granted and awarded hereunder;

(iii) to determine whether and to what extent Options are granted and Restricted Stock awarded hereunder;

(iv) to determine the number of Shares to be covered by each such Option grant and Restricted Stock award hereunder;

(v) to allocate the Shares underlying Options granted and Restricted Stock awarded hereunder;

(vi) to approve forms of agreements for Options ("Option Agreement") and for Restricted Stock ("Restricted Stock Agreement") for use under the Plan; and

(vii) to construe and interpret the terms of the Plan and Option grants and Restricted Stock awards pursuant to the Plan.

(d) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final, binding and conclusive on all Participants.

5. Eligibility.

(a) Nonstatutory Stock Options may be granted to Directors, Employees and Consultants. Incentive Stock Options may be granted only to Employees. A Director, Employee or Consultant who has been granted an Option may, if otherwise eligible, be granted additional Options. Each Option grant shall be designated in an Option Agreement between the Participant and the Bank, in a form approved for use by the Administrator, as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Bank) exceeds $100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(b) Restricted Stock may be awarded to Directors, Employees and Consultants. A Director, Employee or Consultant who has been awarded Restricted Stock may, if otherwise eligible, be awarded additional Restricted Stock. Each Restricted Stock award shall be designated in a Restricted Stock Agreement between the Participant and the Bank, in a form approved for use by the Administrator.

(c) Neither the Plan nor any Option grant or Restricted Stock award shall confer upon any Participant any right to Continuous Status as a Director, Employee or Consultant with the Bank, nor limit in any way the right of the Bank or the Participant to terminate the Participant's employment or consulting status at any time, with or without cause.

(d) Any inconsistency or conflict between the terms of the Plan and terms of an Option Agreement or Restricted Stock Agreement shall be resolved in favor of the terms of the Plan.

6. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the shareholders of the Bank, as described in Section 17 of the Plan. The Board adopted the Plan on February 15, 2017 and it shall continue in effect for a term of ten (10) years until February 15, 2027, unless sooner terminated under Section 13 of the Plan.

7. Term of Option; Restriction Period of Restricted Stock. The term of each Option shall be the term stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to a Participant who, at the time the Option is granted, owns Common Stock representing more than ten percent (10%) of the voting power of all classes of stock of the Bank, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

At the time of making an award of Restricted Stock, the Administrator shall establish the restriction period for vesting of the Restricted Stock applicable to such award, which shall be any period of time during which the award is subject to forfeiture based on the passage of time, the achievement of performance goals and/or upon the occurrence of other events as determined by the Administrator, in its discretion. The Administrator may establish different restriction periods from time to time and each award of Restricted Stock may have a different restriction period, in the discretion of the Administrator.

8. Option Exercise Price; Restricted Stock Payment.

(a) The per share exercise price for the Shares to be issued upon exercise of any Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Bank, the per Share exercise price shall be no less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option

(A) granted to a Participant who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Bank, the per Share exercise price shall be no less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of the grant.

(B) granted to any other Participant, the per Share exercise price shall be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of (i) cash, (ii) certified check, (iii) official bank check, or any combination of those methods of payment or the equivalent acceptable to the Administrator. In addition, an Option may also be exercised, at the discretion of the Administrator, by (i) the delivery and surrender of shares of Common Stock which have been owned by the Participant for such period as the Administrator may require and have an aggregate Fair Market Value on the date of surrender equal to the exercise price; or (ii) delivery to the Administrator of a written exercise notice instructing the Administrator to deliver the Shares in certificated or uncertificated form to a designated brokerage firm along with irrevocable instructions to the brokerage firm to sell the Shares acquired upon exercise of the Option and to deliver to the Administrator out of the proceeds available on the settlement date, an amount sufficient to cover the aggregate Option price payable for the purchased Shares plus all applicable federal, state and local taxes under laws or regulations in connection with such exercise required to be withheld by the Bank by reason of such purchase and/or sale. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Bank.

(c) Awards of Restricted Stock may be made by the Administrator on terms and conditions under which the Participant shall not be required to make any payment for the Shares or, in the alternative, under which the Participant, as a condition to the award of Restricted Stock, shall pay all (or any lesser amount than all) of the Fair Market Value of the Shares, determined by the Administrator as of the date the Restricted Stock award is made. If the latter, such purchase price shall be paid in cash by the Participant, at the time and in the manner provided in the Restricted Stock Agreement.

9. Additional Terms and Conditions Applicable to Options.

(a) Option Exercise. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator and as permissible under the terms of the Plan, but in no case at a rate of less than twenty percent (20%) per year over five (5) years from the date the Option is granted. The right to exercise an Option may be conditioned on specific performance criteria with respect to the Bank and/or the Participant. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Bank in accordance with terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Bank. Full payment may, as authorized by the Administrator, consist of any consideration and method of payment allowable under Section 8(b). Exercise of an Option in any manner shall result in a decrease in the number of shares of the Common Stock which thereafter may be available under the Plan and the Option grant, by the number of Shares as to which the Option is exercised.

(b) Termination of Employment or Consulting Relationship. Except as otherwise provided in subsections (c), (d), (e) and (f) below, in the event of termination of a Participant's Continuous Status as a Director, an Employee or a Consultant (but not in the event of a Participant's change of status from Employee to Director or Consultant (in which case an Employee's Incentive Stock Option shall automatically convert to a Nonstatutory Stock Option three (3) months and one (1) day following such change of status) or from Director or Consultant to Employee), such Participant may, but only within three (3) months after the date of such termination (and in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Participant’s Option to the extent that the Participant was entitled to exercise it at the date of such termination. Any part or all of the Option which is not exercised within the time specified will be terminated and forfeited and the Shares underlying the Option will revert to the Plan.

(c) Disability. In the event of termination of a Participant's Continuous Status as a Director, an Employee or a Consultant as a result of his or her disability, the Participant may, but only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the termination of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. The term “disability” shall mean the inability of the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment and shall be determined by the Administrator on the basis of such medical evidence as the Administrator deems warranted under the circumstances. However, in the event of termination of a Participant's Continuous Status as a Director, an Employee or a Consultant as a result of his or her “permanent disability” as such term is defined in Section 22(e)(3) of the Code, the Participant shall be entitled, but only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), to exercise all Options such Director, Employee or Consultant would have been entitled to exercise had such Director, Employee or Consultant remained employed for one (1) year from the date of such termination. If such disability is not a “permanent disability,” in the case of an Incentive Stock Option such Incentive Stock Option shall automatically cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option three (3) months and one (1) day following such termination. Any part or all of the Option which is not exercised within the time specified will be terminated and forfeited and the Shares underlying the Option will revert to the Plan.

(d) Death. In the event of the death of a Participant, the Participant's estate or any person who acquired the right to exercise the Option by bequest or inheritance shall be entitled, but only within twelve

(12) months from the date of such termination of a Participant's Continuous Status as a Director, an Employee or a Consultant (and in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), to exercise all Options such Director, Employee or Consultant would have been entitled to exercise had such Director, Employee or Consultant remained in office or actively employed for one (1) continuous year from the date of such termination. If, after the Participant's death, the Participant's estate or a person who acquires the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate and be forfeited, and the Shares underlying the Option shall revert to the Plan.

(e) Cause. The term “cause” when used in connection with termination of the Continuous Status of a Participant as a Director, an Employee, or a Consultant shall mean the definition of “cause” used in any employment agreement between the Bank and any Participant. In the absence of any such employment agreement, “cause” shall mean (i) the commission of an act of embezzlement, fraud, dishonesty, breach of fiduciary duty to the Bank, or deliberately disregarding the rules of the Bank which resulted in loss, damage or injury to the Bank, or (ii) unauthorized disclosure of any of the trade secrets or confidential information of the Bank, or (iii) inducing any client or customer of the Bank to break any contract with the Bank, or (iv) inducing any principal for whom the Bank acts as agent to terminate such agency relationship, or (v) engaging in any conduct which constitutes unfair competition with the Bank including usurpation of corporate opportunity, or (vi) if an Employee is removed from any office of the Bank or a Director is removed from the Bank’s Board by any bank regulatory agency. In the event of such a termination of Continuous Status for “cause,” any and all of the Participant’s outstanding and unexercised Options (vested and unvested) as of the date of termination of the Participant’s Continuous Status as a Director, an Employee, or a Consultant, shall automatically expire and terminate in their entirety; provided, however, that the Administrator may, within thirty (30) days of such termination, in its sole discretion but without any obligation to do so, reinstate the portion of any Option that was vested and exercisable by the Participant on the date of such termination by giving notice of reinstatement to the Participant. In the event of such reinstatement, notwithstanding “cause,” the Participant may exercise the vested portion of any such Option in accordance with Section 9(f) below. Any part or all of the Option which is not exercised within the time specified in Section 9(f) will be terminated and forfeited and the Shares underlying the Option will revert to the Plan. Notwithstanding the foregoing, the exercise of the Option shall also be subject to any requirements or conditions which a bank regulatory agency may impose upon the Participant’s exercise of the Option including, but not limited to forfeiture of the Option, or the Participant’s rights as a shareholder resulting from exercise of the Option. In making any determination pursuant to this paragraph, the Administrator shall act fairly and shall give the Participant whose employment or consulting status has been terminated an opportunity to personally appear and be heard at a hearing before the full Board and present evidence on the Participant’s behalf. For the purpose of this paragraph, termination of employment or consulting status shall be deemed to occur upon the earlier of the date (i) the Bank’s notice or advice of termination for cause is dispatched to the Participant or (ii) of such termination of Continuous Status, without regard to receipt by the Participant of such notice or advice from the Bank.

(f) Other Reasons. If a Participant’s employment or consulting relationship or service on the Board is terminated for any reason other than those mentioned above under “Disability,” Death” and “Cause,” the Participant may, within three (3) months (or such longer period as the Administrator may determine at the time of grant or during the term of the Option) following such termination, exercise the Option to the extent such Option was vested and exercisable on the date of termination of a Participant's Continuous Status as a Director, Employee or Consultant; provided the date of exercise is in no event after the expiration of the term of the Option and provided further that any Option which is exercised more than three (3) months following termination shall be treated as a Nonstatutory Stock Option whether or not it was designated as such at the time it was granted. Any part or all of the Option which is not exercised within the time specified herein will be terminated and forfeited and the Shares underlying the Option will revert to the Plan.

(g) Rule 16b-3. Options granted to a Participant subject to Section 16(b) of the Exchange Act must comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

(h) Transferability of Options and Shares. No Options or Shares underlying and subject to Options may be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner by a Participant other than by will or by the laws of descent or distribution or as may otherwise be permitted under Rule 16b-3 or Section 422 of the Code and may be exercised, during the lifetime of the Participant, only by the Participant. Any attempted transfer in violation of this restriction shall result in termination and forfeiture of any such Option or Share. Unless otherwise provided by the Administrator in the Option Agreement, no Option grant or Share underlying an Option grant shall be subject to attachment, pledge, encumbrance, or similar action, except as required by law.

(i) Withholding. The Bank shall have the right to condition the issuance of Shares in connection with the exercise of an Option upon the payment by the Participant of any applicable taxes required to be withheld under federal, state or local tax laws or regulations in connection with such exercise. A Participant may elect to pay any such tax by (i) requesting the Bank to withhold a sufficient number of shares of Common Stock from the total number of Shares issuable upon exercise of the Option; or (ii) delivering to the Bank a sufficient number of shares of Common Stock which have been held by the Participant for such period of time as the Administrator may require. The value of shares of Common Stock withheld or delivered for such purpose shall be the Fair Market Value of such shares of Common Stock on the date the exercise becomes taxable as determined by the Administrator. Such an election is subject to approval or disapproval by the Administrator, and if the Participant is subject to Section 16 of the Exchange Act, compliance with such requirements of Rule 16b-3 as may be applicable.

(j) Section 83(b) Election. The Bank may stipulate in an Option Agreement that the Option grant is conditioned upon the Participant making or refraining from making an election with respect to the grant under Section 83(b) of the Code ("Section 83(b)"). If a Participant makes such an election under Section 83(b), the Participant shall be required to promptly file a copy of such election with the Bank.

(k) Notice of Sale. A Participant shall be required to give the Bank notice of any sale or other disposition of any Shares acquired upon exercise of an Option, not more than (5) days after such sale or disposition.

(l) Other Terms and Conditions. Option Agreements may contain such other provisions, which shall not be inconsistent with any of the foregoing terms in Section 9, as the Administrator shall deem appropriate.

10. Additional Terms and Conditions Applicable to Restricted Stock.

(a) Award Terms and Restrictions. From time to time, the Administrator may make awards of Restricted Stock to Participants utilizing such Shares as are still reserved and available for issuance under the Plan. Upon the forfeiture or other cancellation of a Restricted Stock award, the underlying Shares will revert to the Plan. Shares withheld from a Restricted Stock award to satisfy a Participant's tax withholding obligations will also revert to the Plan. Issuance of Shares pursuant to a Restricted Stock award shall result in a decrease in the number of shares of the Common Stock which thereafter may be available under the Plan and the Restricted Stock award, by the number of Shares issued to the Participant.

Each such award of Restricted Stock shall contain restrictions on sale or transfer of the Restricted Stock, subject to the terms of the Plan and to such other terms and conditions as the Administrator, in its discretion, may prescribe. At the time of award, the Administrator will determine: (i) the number of Shares subject to the award; (ii) the purchase price or consideration (if any) for the Shares; (iii) the restrictions placed on the Shares which may include continued employment and the achievement of performance goals and other criteria established by the Administrator as may be necessary to comply with any applicable requirements of Section 162(m) for awards intended to constitute "qualified performance-based compensation;" and (iv) the date(s) when the restrictions placed on the Shares will lapse, including any performance period during which the achievement of any performance goals will be measured. The Administrator may, in addition, prescribe additional restrictions, terms, or conditions upon or to the Restricted Stock award as it may deem necessary or appropriate in its discretion.

(b) Withholding. The Bank shall have the right to condition the issuance of Shares in connection with the Restricted Stock upon the payment by the Participant of any applicable taxes required to be withheld under federal, state and local tax laws or regulations. A Participant may elect to pay any such tax by requesting the Bank to withhold a sufficient number of shares of Common Stock from the total number of Shares issuable upon lapse of the restrictions applicable to the Restricted Stock. The value of shares of Common Stock withheld for such purpose shall be the Fair Market Value of such shares of Common Stock on the date the issuance of Shares to the Participant becomes taxable as determined by the Administrator. Such an election is subject to approval or disapproval by the Administrator, and if the Participant is subject to Section 16 of the Exchange Act, compliance with such requirements of Rule 16b-3 as may be applicable.
Participants may satisfy any amounts required to be withheld by the Bank under applicable federal, state and local tax laws in effect from time to time, by electing to have the Bank withhold a portion of the Restricted Stock award to be delivered for the payment of such taxes.

(c) Section 83(b) Election. The Administrator may stipulate in a Restricted Stock Agreement that such award of Restricted Stock is conditioned upon the Participant making or refraining from making an election with respect to the award under Section 83(b). If a Participant makes such an election under Section 83(b), the Participant shall be required to promptly file a copy of such election with the Bank.

(d) Notice of Sale. A Participant shall be required to give the Bank notice of any sale or other disposition of any Shares acquired upon lapse of restrictions of Restricted Stock awarded to the Participant, not more than (5) days after such sale or disposition.

(e) Termination of Service. If the Participant's Continuous Status as a Director, an Employee, or a Consultant to the Bank is terminated as a result of "Disability," "Death," or for "Cause" as set forth in Section 9, or for any other reason, any portion of the Restricted Stock award remaining subject to restrictions that have not previously lapsed will be forfeited immediately upon the earlier of the date (i) the Bank's notice or advice of termination is dispatched to the Participant or (ii) of such termination of Continuous Status, in each case without regard to receipt by the Participant of such notice or advice from the Bank.

(f) Transferability and Encumbrance. Unless otherwise provided by the Administrator, no Restricted Stock award or Share underlying and subject to an award of Restricted Stock may be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner by the Participant during the restriction period other than by will or the laws of descent and distribution. Any attempted transfer in violation of this restriction shall result in termination and forfeiture of any such Share or award. Unless otherwise provided by the Board in the Restricted Stock Agreement, no Restricted Stock award or Share underlying and subject to an award of Restricted Stock shall be subject to attachment, pledge, encumbrance, or similar action, at any time during the restriction period except as required by law.

(g) Rule 16b-3. Restricted Stock awarded to a Participant subject to Section 16(b) of the Exchange Act must comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

(h) Other Terms and Conditions. Restricted Stock Agreements may contain such other provisions, which shall not be inconsistent with any of the foregoing terms in Section 10, as the Administrator shall deem appropriate.

11. Adjustments Upon Changes in Capitalization or Terminating Event.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Bank, the number of Shares underlying outstanding Options and Restricted Stock, and the number of shares of the Common Stock that have been authorized for issuance under the Plan, but as to which no Options have yet been granted or Restricted Stock awarded, or that have been returned to the Plan upon forfeiture, cancellation or expiration of an Option or Restricted Stock, as well as the price for each Share underlying each such outstanding Option or Restricted Stock (if payment for Restricted Stock is a condition to an award), shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease as determined by the Administrator. Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Bank of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares underlying an Option or Restricted Stock. The grant of an Option or award of Restricted Stock pursuant to the Plan shall not affect in any way the right or power of the Bank to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets. Any such proportionate adjustments to outstanding Options or Restricted Stock shall be subject to the same terms and conditions thereof, including restrictions of any Restricted Stock award until they lapse or are removed.

(b) Terminating Events. A “Terminating Event” shall be defined as any one of the following events: (i) a dissolution or liquidation of the Bank; (ii) a reorganization, merger or consolidation of the Bank with one or more corporations, as the result of which (A) the Bank is not the surviving corporation or (B) the Bank becomes a subsidiary of another corporation (which shall be deemed to have occurred if another corporation shall own directly or indirectly, over fifty percent (50%) of the aggregate voting power of all outstanding equity securities of the Bank); (iii) a sale of substantially all the assets of the Bank to another corporation or to any other person or entity, or any group of persons and/or entities acting in concert; or (iv) a sale of the equity securities of the Bank representing more than fifty percent (50%) of the aggregate voting power of all outstanding equity securities of the Bank to any person or entity, or any group of persons and/or entities acting in concert. Upon a Terminating Event, the Bank shall deliver to each Participant, no less than thirty (30) days prior to the Terminating Event, written notification of the Terminating Event and the Participant's right, subject to compliance with Section 162(m) of the Code if a grant or an award is intended to constitute “qualified performance-based compensation” under Section 162(m), to (i) exercise all Options granted pursuant to this Plan, whether or not vested under the Plan or applicable Option Agreement, and all outstanding Options granted pursuant to the Plan shall completely vest and become immediately exercisable as to all Shares underlying the Option immediately prior to such

Terminating Event, and (ii) receive issuance of Shares underlying the Restricted Stock award, whether or not all restrictions have lapsed under the Plan or applicable Restricted Stock Agreement, and all outstanding Restricted Stock awarded pursuant to the Plan shall completely vest and be issuable as to all Shares underlying the Restricted Stock immediately prior to such Terminating Event. The Participant rights regarding accelerated vesting of Options and lapse of restrictions of Restricted Stock specified above shall be conditioned upon execution of a final plan, definitive agreement, or comparable document used to effectuate the Terminating Event and approved by the Board which results in a Terminating Event. Upon the occurrence of the Terminating Event, all then outstanding Options and the Plan shall terminate; provided, however, that any outstanding Options not exercised as of the occurrence of the Terminating Event shall not terminate if there is a successor corporation which assumes the outstanding Options or substitutes for such Options, new options covering the stock of the successor corporation with appropriate adjustments as to the number and kind of shares and prices. In the case of Restricted Stock, the restrictions on the Restricted Stock, if any, shall lapse, the Restricted Stock will become immediately vested and the Participant shall be entitled to possession of the Shares underlying the Restricted Stock award or the substantially equivalent consideration as stipulated in the final plan, definitive agreement, or comparable document used to effectuate the Terminating Event and approved by the Board which results in a Terminating Event.

Notwithstanding the foregoing, such accelerated vesting and right of exercise applicable to Options and the acceleration of the lapse of restrictions applicable to Restricted Stock (a) shall not be available in the case of the formation of a corporation at the direction of the Board that becomes the parent holding company of the Bank pursuant to the Bank Holding Bank Act of 1956, as amended, and (b) shall be conditioned upon (i) the execution by all parties required for the Terminating Event to be legally enforceable by or against the Bank of a final plan, definitive agreement, or comparable document used to effectuate the Terminating Event and approved by the Board which results in a Terminating Event, (ii) receipt of all required approvals and consents including, without limitation, any required approvals of shareholders and applicable bank regulatory agencies and governmental authorities having jurisdiction over the Bank, and (iii) satisfaction of all other conditions to consummation of any such Terminating Event as may be contained in the final plan, definitive agreement or comparable document.

(c) Notice of Adjustments; Fractional Shares. Written notice of any adjustments made pursuant to this Section 11 will be given as soon as reasonably practicable by the Bank to each Participant and such adjustments (whether or not such notice is given) shall be effective and binding for all purposes of the Plan. No right to purchase fractional shares shall exist or be permitted under the Plan, including as a result from any adjustment to Options or Restricted Stock. All fractional shares of Common Stock, if any, subject to an Option or Restricted Stock shall be rounded down to the nearest whole share.

(d) Compliance with Incentive Stock Option Provisions. Notwithstanding anything to the contrary herein, each adjustment made to an Incentive Stock Option pursuant to this Section 11 shall comply with the rules of Section 424(a) of the Code, and no adjustment shall be made that would cause any Incentive Stock Option to become a Nonstatutory Stock Option.

12. Date of Option Grants and Restricted Stock Awards. The date of any Option grant or Restricted Stock award shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or awarding such Restricted Stock, or such other date as is determined by the Administrator. A Notice of Award or Grant shall be given to each Participant to whom an Option is granted or Restricted Stock is awarded within a reasonable time after the date of such grant or award.

13. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Administrator may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any Participant under any grant or award theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act or with Section 422 of the Code (or any other applicable law or regulation, including the requirements of any stock exchange or stock trade quotation entity upon which the Common Stock may then be listed or quoted), the Bank shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. Any amendment or termination of the Plan shall not affect Options or Restricted Stock already granted or awarded, and such Options and Restricted Stock shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Bank.

14. Conditions Upon Issuance of Shares; Shareholder Rights. Shares shall not be issued pursuant to the exercise of an Option or lapse of restrictions pursuant to Restricted Stock, unless such exercise, lapse of restrictions and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the laws of the United States, including the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or stock trade quotation entity upon which the Common Stock may then be listed or quoted, and shall be further subject to the approval of counsel for the Bank with respect to such compliance. As a condition to the exercise of an Option, the Bank may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Bank, such a representation is required by any of the aforementioned relevant provisions of law.

Until the issuance of Shares upon exercise of an Option or lapse of restrictions of Restricted Stock (as evidenced by the appropriate entry on the records of a duly authorized transfer agent of the Bank of the certificated or uncertificated issuance of such Shares), no right to vote, receive dividends or any other rights as a shareholder shall exist with respect to the Shares, notwithstanding the exercise of the Option or lapse of restrictions of Restricted Stock. A Participant’s breach of the terms and conditions established by the Administrator and made applicable to the Option grant or Restricted Stock award and restrictions thereto will cause a termination and forfeiture of the Option or Restricted Stock. The Bank shall issue (or cause to be issued) a stock certificate if requested by the Participant as soon as reasonably practicable upon lapse of restrictions applicable to Restricted Stock and receipt of any payment required to be made or upon payment in conformity with the exercise procedures applicable to the Option and in the absence of such a Participant request, the issuance shall be recorded as an electronic uncertificated entry. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of such issuance, except as provided in Section 11 hereof.

15. Reservation of Shares. During the term of this Plan, the Bank shall at all times reserve and keep available such number of shares of Common Stock as shall be sufficient to satisfy the requirements of the Plan. The inability of the Bank to obtain authority from any bank regulatory agencies or governmental authorities having jurisdiction over the Bank, which authority is deemed by Bank counsel to be necessary to the lawful issuance and sale of any shares of Common Stock hereunder, shall relieve the Bank of any liability in respect of the failure to issue or sell such shares of Common Stock as to which such requisite authority shall not have been obtained.

16. Agreements. Option grants and Restricted Stock awards and any amendments thereto shall be evidenced by written Option Agreements and Restricted Stock Agreements in such form as the Administrator shall approve from time to time.

17. Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Bank within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under applicable state and federal law and the rules of any stock exchange or stock trade quotation entity upon which the Common Stock is listed or quoted.

18. Information to Participants. The Bank shall provide to each Participant who acquires shares of Common Stock pursuant to the Plan, not less frequently than annually during the period such Participant has Options or Restricted Stock outstanding, and, in the case of a Participant who acquires shares of Common Stock pursuant to the Plan, during the period such Participant owns such shares of Common Stock, copies of the Bank's annual report to shareholders containing audited financial statements. The Bank shall not be required to provide such annual report to Directors and key Employees whose duties in connection with the Bank assure their access to equivalent information.

19. Regulatory and Securities Law Compliance. In addition to any other provisions of the Plan, the grant or exercise of any Option and the award or receipt of any Restricted Stock hereunder shall be further conditioned upon (a) receipt of any required approvals or non-objections of the Plan by applicable bank regulatory agencies having jurisdiction over the Bank; (b) immediate exercise or forfeiture of any exercisable Option and vested Restricted Stock in compliance with a directive regarding failure to maintain required minimum capital adequacy levels received by the Bank from the Federal Deposit Insurance Corporation or other bank regulatory agency having jurisdiction over the Bank; and (c) compliance with all laws, rules, and regulations applicable to the Plan including, without limitation, federal and state securities laws and the rules, regulations and directives of bank regulatory agencies and other governmental authorities having jurisdiction over the Bank and its securities. The Bank shall diligently endeavor to comply with all such laws, rules and regulations applicable to the Plan.

20. Indemnification. To the extent permitted by applicable law in effect from time to time, no member of the Board or the Board itself, shall be liable for any action or omission of any other member of the Board or the Board itself nor for any act or omission on the member's own part, excepting only the member's own willful misconduct or gross negligence. The Bank shall pay expenses incurred by, and satisfy a judgment or fine rendered or levied against, a present or former member of the Board in any action against such person (whether or not the Bank is joined as a party defendant) to impose liability or a penalty on such person for an act alleged to have been committed by the Bank or by such person while a member of the Board arising with respect to the Plan or administration thereof or out of membership on the Board, or all or any combination of the preceding; provided such member of the Board was acting in good faith, within what such member of the Board reasonably believed to have been the scope of his or her position or authority and for a purpose which he or she reasonably believed to be in the best interests of the Bank or its shareholders, which shall be presumed to exist where such member of the Board has relied upon the opinions of qualified experts and advisors. Payments authorized hereunder include amounts paid and expenses incurred in settling any such action or threatened action. In the event of any conflict or inconsistency between the provisions of this section and the indemnification provisions applicable to a member of the Board under applicable law, the articles of incorporation and bylaws of the Bank, or any indemnification agreement between the Bank and such member of the Board, the conflict or inconsistency shall be resolved in favor of the provisions of such applicable law, articles of incorporation and bylaws, or indemnification agreement. The provisions of this section shall apply to the estate, executor, administrator, heirs, legatees or devisees of a member of the Board, and the term “person” as used in this section shall include the estate, executor, administrator, heirs, legatees or devisees of such person.

21. Section 409A. All Options granted and Restricted Stock awarded under the Plan shall be made in such manner, and subject to such terms and conditions, as the Administrator deems necessary to avoid application of Section 409A of the Code (“Section 409A”). No Options shall be granted or Restricted Stock awarded under the Plan that would be subject to Section 409A, and the Plan and all such grants and awards hereunder shall be administered and interpreted consistent with that intent including that the definition of “Fair Market Value” shall be determined in a manner consistent with Section 409A, where necessary to avoid the application of Section 409A to any Option grant or award of Restricted Stock hereunder. By accepting any Option grant or award of Restricted Stock hereunder, a Participant agrees to voluntarily waive any claim against the Bank for any violation of Section 409A that occurs despite a good faith attempt to comply with Section 409A.

22. Notices. Any notice required or permitted hereunder shall be given by the Bank or the Participant in writing and shall be deemed given upon delivery to the (i) Participant at such Participant's address then on file with the Bank and (ii) Bank at its then existing headquarters office.

23. Binding Effect. The Plan shall be binding upon the Bank’s successors and assigns, and upon a Participant’s acceptance of a grant of an Option or an award of Restricted Stock (such acceptance evidenced by the Participant’s signature on a form of Incentive Stock Option Agreement, Nonstatutory Stock Option Agreement or Restricted Stock Agreement, as applicable, approved by the Administrator), the Plan shall be binding upon the Participant’s assigns, transferees, heirs, beneficiaries, executors, administrators, and any other legal representatives.

24. Bank Liability for Unsecured Obligations. Any obligations of the Bank arising under the Plan or any Option granted or Restricted Stock awarded thereunder shall constitute the general unsecured obligations of the Bank. No director, officer, employee, consultant, agent, subsidiary or affiliate of the Bank shall have any liability, jointly or severally, for such unsecured obligations of the Bank.

25. Severability. If any provision or part of the Plan is adjudged by a court of competent jurisdiction to be void, invalid or unenforceable, the other provisions or part of the Plan shall remain in effect and be enforced to the fullest extent permitted by law.

26. Governing Law. The laws of the State of California without regard to its principles of conflicts of laws, shall govern the interpretation of the Plan, except to the extent governed by the laws of the United States.