

FIRST ULB CORP AND SUBSIDIARIES
Oakland, California

CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

The Shareholders and Board of Directors
First ULB Corp. and Subsidiaries
Oakland, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First ULB Corp. and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First ULB Corp. and Subsidiaries as of September 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Crowe Horwath LLP

San Francisco, California
December 2, 2015

FIRST ULB CORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and due from banks:		
Non-interest bearing	\$ 13,955,940	\$ 11,612,009
Interest bearing	77,001,402	81,525,893
CD investments in other banks	1,734,000	4,655,000
Investment securities:		
Available-for-sale, at estimated fair value	29,187,000	28,883,000
Held-to-maturity, at amortized cost	41,552	49,503
Loans held for sale	3,677,000	-
Loans, net of allowance for loan losses of \$3,173,089 and \$4,639,875 at September 30, 2015 and 2014, respectively	238,088,848	212,436,637
Premises and equipment, net	8,240,434	8,224,298
Federal Home Loan Bank stock and other equity stock	1,948,000	1,987,800
Cash surrender value of bank-owned life insurance	6,184,197	5,591,834
Accrued interest receivable and other assets	<u>7,067,048</u>	<u>7,091,038</u>
 Total assets	 <u>\$ 387,125,421</u>	 <u>\$ 362,057,012</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 158,178,785	\$ 136,100,747
Interest bearing	<u>184,211,630</u>	<u>173,692,345</u>
 Total deposits	 342,390,415	 309,793,092
Other borrowings	8,529,290	8,602,624
Accrued interest payable and other liabilities	3,432,519	3,363,193
Junior subordinated deferrable interest debentures	<u>6,392,000</u>	<u>6,392,000</u>
 Total liabilities	 360,744,224	 328,150,909
Commitments and Contingencies (Note 14)		
Shareholders' equity:		
Preferred stock - no par value; 10,000,000 shares authorized; no shares issued and outstanding at September 30, 2015 and 2014	-	-
Common stock - no par value; 10,000,000 shares authorized; 1,409,938 and 1,825,648 shares issued and outstanding at September 30, 2015 and September 30, 2014, respectively	16,384,914	24,291,455
Retained earnings	9,578,700	9,325,921
Accumulated other comprehensive income	<u>417,583</u>	<u>288,727</u>
 Total shareholders' equity	 <u>26,381,197</u>	 <u>33,906,103</u>
 Total liabilities and shareholders' equity	 <u>\$ 387,125,421</u>	 <u>\$ 362,057,012</u>

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

FIRST ULB CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Interest income:		
Interest and fees on loans	\$ 12,702,856	\$ 12,340,772
Interest on investment securities:		
Taxable interest income	467,244	396,162
Tax exempt interest income	250,594	255,932
Interest on deposits in other banks	<u>246,639</u>	<u>201,749</u>
Total interest income	13,667,333	13,194,615
Interest expense:		
Interest on deposits	226,901	241,377
Interest on other borrowings	374,834	124,317
Interest on junior subordinated deferrable interest debentures	<u>179,847</u>	<u>176,211</u>
Total interest expense	<u>781,582</u>	<u>541,905</u>
Net interest income	12,885,751	12,652,710
Provision for loan losses	<u>1,035,000</u>	<u>2,100,000</u>
Net interest income after provision for loan losses	11,850,751	10,552,710
Noninterest income:		
Service charges	134,236	136,805
Gain (loss) on sale, retirement of premises and equipment	5,859	(1,012)
Gain on sale of loans	1,245,401	918,774
(Loss) gain on sale of investment securities	(16,361)	21,505
Earnings from bank-owned life insurance	163,380	154,207
Gain from bargain purchase on bank acquisition	-	1,374,053
Other income	<u>1,020,257</u>	<u>659,396</u>
Total noninterest income	2,552,772	3,263,728
Noninterest expenses:		
Salaries and employee benefits	8,243,642	6,767,610
Occupancy and equipment	1,151,263	1,049,935
Other expense	<u>4,796,839</u>	<u>4,639,443</u>
Total noninterest expenses	<u>14,191,744</u>	<u>12,456,988</u>
Income before income tax (benefit) expense	211,779	1,359,450
Income tax (benefit) expense	<u>(41,000)</u>	<u>115,000</u>
Net income	<u>\$ 252,779</u>	<u>\$ 1,244,450</u>
Basic and diluted earnings per common share	<u>\$ 0.17</u>	<u>\$ 0.78</u>
Weighted average number of common shares outstanding	<u>1,447,603</u>	<u>1,602,383</u>

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

FIRST ULB CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Net Income	\$ 252,779	\$ 1,244,450
Other comprehensive income:		
Unrealized holding gains on available-for-sale investment securities arising during the year	202,038	786,316
Reclassification adjustment for net losses (gains) included in net income	<u>16,361</u>	<u>(21,505)</u>
Net change in unrealized gains on available-for-sale investment securities	218,399	764,811
Tax effect	<u>(89,543)</u>	<u>(313,572)</u>
Total other comprehensive income	<u>128,856</u>	<u>451,239</u>
Comprehensive income	<u>\$ 381,635</u>	<u>\$ 1,695,689</u>

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

FIRST ULB CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended September 30, 2015 and 2014

	<u>Common Stock</u>		<u>Retained</u>	<u>Accumulated-</u> <u>Other</u> <u>Compre</u> <u>hensive</u> <u>Income</u>	<u>Total</u> <u>Shareholders'</u> <u>Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>		
Balance at September 30, 2013	1,298,900	\$ 15,796,284	\$ 8,081,471	\$ (162,512)	\$ 23,715,243
Common stock issued in connection with merger, net of stock issuance costs of \$79,899	317,140	5,121,197	-	-	5,121,197
Cash paid in connection with merger for fractional shares and dissenter shareholder	-	(13,176)	-	-	(13,176)
Common stock issued in private placement	209,608	3,387,150	-	-	3,387,150
Net income	-	-	1,244,450	-	1,244,450
Other comprehensive income	-	-	-	451,239	451,239
Balance at September 30, 2014	<u>1,825,648</u>	<u>\$ 24,291,455</u>	<u>\$ 9,325,921</u>	<u>\$ 288,727</u>	<u>\$ 33,906,103</u>
Common stock repurchased and retired, including \$20,569 in capitalized legal costs	(425,710)	(8,066,541)	-	-	(8,066,541)
Common stock issued	10,000	160,000	-	-	160,000
Net income	-	-	252,779	-	252,779
Other comprehensive income	-	-	-	128,856	128,856
Balance at September 30, 2015	<u>1,409,938</u>	<u>\$ 16,384,914</u>	<u>\$ 9,578,700</u>	<u>\$ 417,583</u>	<u>\$ 26,381,197</u>

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

FIRST ULB CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net income	\$ 252,779	\$ 1,244,450
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,035,000	2,100,000
Depreciation and amortization of premises and equipment	498,675	521,714
Depreciation of real estate held for investment	50,037	-
Amortization of investment security premiums, net of accretion of discounts	174,451	169,330
Amortization of core deposit intangible	55,917	50,000
Accretion of discounts, net of amortization of premiums on acquired loans	(101,263)	(257,701)
Accretion of discounts on FHLB borrowings assumed	(17,625)	(16,376)
Accretion of discounts on time deposits assumed	(29,822)	(85,563)
(Decrease) increase in deferred loan origination fees, net	(58,658)	91,872
Earnings from bank-owned life insurance	(163,380)	(154,207)
Net (gain) loss on sale, retirement of premises and equipment	(5,859)	1,012
Bargain purchase gain on bank acquisition	-	(1,374,053)
Net loss (gain) on sale of available-for-sale securities	16,361	(21,505)
Gain on sale of loans	(1,245,401)	(918,774)
Gain on sale of other real estate	(730)	-
Other real estate impairment	50,000	50,000
FHLB stock dividends	(1,200)	-
Impairment of real estate held for investment	455,000	-
Impairment on other equity investment	41,000	-
Increase in accrued interest receivable and other assets	(1,457,228)	(145,099)
Increase (decrease) in accrued interest payable and other liabilities	69,327	(301,491)
Deferred tax expense (benefit)	<u>664,000</u>	<u>(814,000)</u>
Net cash provided by operating activities	<u>281,381</u>	<u>139,609</u>
Cash flows from investing activities:		
Net decrease in time deposits in banks	2,921,000	4,168,000
Available-for-sale securities:		
Sales	2,063,500	456,305
Maturities, prepayments and calls	1,000,000	100,000
Purchases	(5,826,387)	-
Proceeds from principal repayments	2,486,487	2,643,940
Held-to-maturity securities:		
Proceeds from principal repayments	7,938	9,677
Purchase of equity investment	-	(100,000)
Purchase of Federal Home Loan Bank stock	-	(343,000)
Net increase in loans	(49,772,586)	(12,066,359)
Proceeds from sale of loans	20,813,697	14,485,417
Purchase of bank-owned life insurance	(428,983)	(508,814)
Purchases of premises and equipment	(515,452)	(156,707)
Purchases on real estate held for investment	-	(17,793)
Cash paid in acquisition, net of cash received	-	(3,938,348)
Advance from rental real estate held for investment	-	20,000
Proceeds from sale of premises and equipment	6,500	-
Proceeds from sale of other real estate owned	<u>117,450</u>	<u>-</u>
Net cash (used in) provided by investing activities	<u>(27,126,836)</u>	<u>4,752,318</u>

(Continued)

FIRST ULB CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from financing activities:		
Net increase in demand, interest bearing and savings deposits	40,354,534	27,089,201
Net decrease in time deposits	(7,727,389)	(14,261,729)
Proceeds from borrowings	-	6,000,000
Proceeds from stock issuance, net	160,000	3,387,150
Repurchase of common stock, net	(8,066,541)	-
Principal payments on other borrowing	(709)	-
Repayment of Federal Home Loan Bank advances	<u>(55,000)</u>	<u>(224,759)</u>
Net cash provided by financing activities	<u>24,664,895</u>	<u>21,989,863</u>
(Decrease) increase in cash and cash equivalents	(2,180,560)	26,881,790
Cash and cash equivalents at beginning of year	<u>93,137,902</u>	<u>66,256,112</u>
Cash and cash equivalents at end of year	<u>\$ 90,957,342</u>	<u>\$ 93,137,902</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 652,946	\$ 541,553
Cash paid during the year for income taxes	\$ 408,522	\$ 1,210,464
Supplemental non-cash disclosures:		
Transfers from portfolio loans to loans held for sale	\$ 3,677,000	\$ -
Acquisition:		
Fair value of assets acquired	\$ -	\$ 62,487,101
Fair value of liabilities assumed	\$ -	\$ 49,898,776
Stock issued to Union Financial Corporation shareholders, net of stock issuance costs	\$ -	\$ 5,121,197

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

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: United Business Bank (formerly known as United Labor Bank) (the "Bank") was incorporated on May 4, 1990. The Bank operates branches in Oakland, Long Beach, Sacramento, San Francisco, San Jose, and Glendale, California, Tukwila, Washington and Albuquerque, New Mexico. The Bank operates under a charter granted by the Office of the Comptroller of the Currency (OCC) and its deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC). Subsequent to its formation, the Bank merged with First ULB Corp. (the "Company") and became a wholly owned subsidiary. The Company's primary source of revenue is interest on residential and commercial real estate mortgage loans. On August 10, 2004, the Company formed a wholly-owned subsidiary, First ULB Statutory Trust I, a Delaware statutory business trust, for the exclusive purpose of issuing trust preferred securities. On November 29, 2013, the Company completed the acquisition of Union Financial Corporation, parent company of Union Savings Bank. Union Savings Bank was merged into the Bank and Union Financial Corporation was merged into the Company. Union Financial Corporation had one branch office in Albuquerque, New Mexico which the Company now operates as a branch office of the Bank.

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

Principles of Consolidation: These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All material intercompany transactions and accounts have been eliminated in consolidation. For financial reporting purposes, the Company's investment in First ULB Statutory Trust I is accounted for under the equity method and is included in other assets on the consolidated balance sheet. The junior subordinated debentures issued and guaranteed by the Company and held by the Trust are reflected as liabilities on the Company's consolidated balance sheet.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through December 2, 2015, which is the date the consolidated financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Reclassification: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Cash and Cash Equivalents: For the purpose of the statements of cash flows, cash and cash equivalents consist of cash and due from banks. Cash flows from interest bearing deposits in other banks, loans and deposits are presented on a net basis.

Investment Securities: Investments are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses generally excluded from earnings and reported, net of taxes, as accumulated other comprehensive income or loss within shareholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value.

Net gains or losses on the sale of investment securities are computed on the specific identification method and are shown separately in non-interest income on the consolidated statements of income. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

An investment security is impaired when its carrying value is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons for underlying the decline, to determine whether the loss in value is other than temporary. The term “other than temporary” is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security nor it is more likely than not that the Company will be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive loss. If management intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Loans: Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at the principal amounts outstanding, adjusted for deferred loan origination fees and costs, purchase premiums and discounts, write-downs and the allowance for loan losses. Loan origination fees, net of certain deferred origination costs, and purchase premiums and discounts are recognized as an adjustment to the yield of the related loans.

The accrual of interest on all loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due or when loans become ninety days past due. Upon such discontinuance, all unpaid accrued interest is reversed against current income unless the loan is well secured and in the process of collection. Interest received on all nonaccrual loans and impaired loans, as defined below in the section titled Allowance for Loan Losses, is either applied against principal or reported as interest income on a cash basis, according to management's judgment as to the collectability of principal. Generally, all loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer substantially in doubt.

The Company's real estate loan portfolio consists primarily of loans collateralized by first and second deeds of trust on one to four unit residential, multi-family residential and commercial real estate properties. A significant portion of the real estate loans is comprised of adjustable-rate mortgages. The interest rate and payment terms of these mortgages adjust on a periodic basis in accordance with various published indices. The majority of these adjustable-rate mortgages have terms which limit the amount of interest rate adjustment that can occur each year and over the life of the mortgage.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Sales and Servicing: Loans that management has the intent to sell are classified as loans held for sale and are carried at the lower of cost or estimated fair value. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Gains and losses on sales of loans are based on the difference between the selling price and the carrying value of the related loan sold.

The Company accounts for the transfers and servicing of financial assets based on the financial and servicing assets it controls and liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

Included in the portfolio are loans which, in general, are 75% guaranteed by the Small Business Administration (the "SBA"). The guaranteed portion of these loans may be sold to a third party, with the Company retaining the unguaranteed portion. The Company generally receives a premium in excess of the adjusted carrying value of the loan at the time of sale. The Company may be required to refund a portion of the sales premium if the borrower defaults or the loan prepays within ninety days of the settlement date. However, none of the premiums the Company had received were subject to these recourse provisions as of September 30, 2015 or 2014. The Company had SBA loans held for sale totaling \$3,677,000 at September 30, 2015. No SBA loans were held for sale at September 30, 2014. The guaranteed portion of SBA loans sold, totaling approximately \$43,863,000 and \$28,074,000 were being serviced for others at September 30, 2015 or 2014, respectively.

For loans for which guaranteed portion has been sold, the Company's investment in the loan is allocated between the retained portion of the loan, the servicing asset, the IO strip, and the sold portion of the loan based on their relative fair values on the date the loan is sold. The gain on the sold portion of the loan is recognized as income at the time of sale. The carrying value of the retained portion of the loan is discounted based on the estimated yield of a comparable non-guaranteed loan. Significant future prepayments of these loans will result in the recognition of additional accretion of these discounts, amortization of related servicing assets and an adjustment to the carrying value of related IO strips.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold or securitized with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are recorded at the difference between the contractual servicing fees and adequate compensation for performing the servicing, and are subsequently amortized in proportion to and over the period of the related net servicing income or expense. Servicing assets are periodically, but not less than annually, evaluated for impairment using discounted cash flows based on current market interest rates. Servicing assets were not considered material as of September 30, 2015 or 2014.

In addition, assets (accounted for as interest-only (IO) strips) are recorded at the fair value of the difference between note rates and rates paid to purchasers (the interest spread) and contractual servicing fees, if applicable. IO strips are carried at fair value with gains or losses recorded as a component of shareholders' equity, similar to available-for-sale investment securities. IO strips were not considered material at September 30, 2015 or 2014.

Purchased Credit Impaired Loans: The Company purchases individual loans and groups of loans, some of which have shown evidence of credit deterioration since origination. These purchased credit impaired (PCI) loans are initially recorded at fair value, such that there is no carryover of the seller's allowance for loan losses.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Such PCI loans may be accounted for individually or aggregated into pools of loans based on common risk characteristics such as, credit score, loan type, and date of origination. All of the Company's PCI loans are accounted for individually. The Company estimates the amount and timing of expected cash flows for each PCI loan, and the expected cash flows in excess of the loan's carrying amount is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the PCI loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a provision for loan losses is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income as an increase to the accretable yield.

Allowance for Loan Losses: The allowance for loan losses is an estimate of probable credit losses inherent in the Company's loan portfolio that have been incurred as of the balance-sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectable are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to loans individually evaluated for impairment and general reserves for loans collectively evaluated for impairment.

The Company's process for identifying impaired loans is the same for all classes of loans. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Factors considered in this assessment include the borrower's historical payment performance, financial condition, and global cash flows. Other than PCI loans accounted for as described previously, loans determined to be impaired are individually evaluated and impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. The change in present value of impaired loans measured for impairment using the present value of expected cash flows is recorded as an adjustment to the provision for loan losses.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company grants a concession for economic or legal reasons related to the borrower's financial difficulties that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. When a loan is considered to be a TDR, the Company discontinues the accrual of interest. Generally, a TDR is returned to accrual status once the borrower has demonstrated an ability to repay its obligation under the modified terms for a reasonable period of time, usually six months, and the ultimate collectability of the total principal and interest is no longer in doubt.

The determination of the general reserve for loans that are collectively evaluated for impairment is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment for the trailing 5-year period, internal asset classifications, and qualitative factors to include economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable incurred credit losses inherent in the portfolio taken as a whole.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company maintains a separate allowance for each portfolio segment (loan type). These portfolio segments include single family residential mortgage, multi-family residential mortgage, commercial real estate-other, commercial real estate-construction, commercial, and consumer loans. The allowance for loan losses attributable to each portfolio segment, which includes both impaired loans and loans that are not impaired, is combined to determine the Company's overall allowance, which is included on the consolidated balance sheet.

The Company assigns a risk rating to all loans and periodically performs detailed reviews of all such loans to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company's regulators. During the internal reviews for multi-family residential, commercial real estate-other, commercial real estate-construction, and commercial loans, management monitors and analyzes the financial condition of borrowers and guarantors, if any, trends in the industries in which borrowers operate and the fair values of collateral securing the loans, if any. During the internal reviews for single family residential and consumer loans, management monitors and analyzes the loan payment history and the status of property taxes and insurance. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

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

Special Mention – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

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

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

Loss – Loans classified as loss are considered uncollectable and charged off immediately.

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Consumer – A consumer loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

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

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures: The Company also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance-sheet commitments is included in accrued interest payable and other liabilities on the consolidated balance sheet.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment: Premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets, which is three to seven years for equipment, three to five years for automobiles, five to ten years for furniture and thirty-nine years for bank premises. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Company evaluates premises and equipment for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Investment in Federal Home Loan Bank Stock: As a member of the Federal Home Loan Bank System, the Bank is required to maintain an investment in the capital stock of the Federal Home Loan Bank of San Francisco and Dallas (FHLB). The investment is carried at cost and may be redeemed at par with restrictions. The Company evaluates the investment for impairment on at least an annual basis, based on the ultimate recovery of par. Both cash and stock dividends are reported as income.

Bank-Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Core Deposit Intangible: The core deposit intangible represents estimated future benefits of acquired deposits and is booked separately from the liability in other assets. The customer relationship is the primary identifiable asset and various assumptions were applied using a discounted cash flow approach to arrive at fair value. These assumptions included customer attrition, deposit interest rates, service charge income, overhead expense and costs of alternative funding. It is amortized on an accelerated basis over an estimated eight-year life. The core deposit intangible asset is evaluated periodically, but not less than annually, for impairment. The Company's evaluation uses a qualitative analysis of attrition to determine the likelihood that the carrying amount of its core deposit intangible is impaired. No impairment losses were recognized for the years ended September 30, 2015 and 2014.

Other Real Estate Owned: Other real estate owned includes real estate acquired in full or partial settlement of loan obligations, generally through foreclosure, that is being marketed for sale. Other real estate owned is initially recorded at fair value less estimated selling costs, establishing a new cost basis. When property is acquired, any excess of the Company's recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property, net of estimated selling costs, is charged against the allowance for loan losses and any excess of the estimated fair market value of the property, net of estimated selling costs over the Company's recorded investment in the loan balance and accrued interest income is credited first to the allowance for loan losses as a recovery to the extent charge-offs had been recorded previously, and then to earnings as a gain on foreclosure of loan. For other real estate owned properties that management intends to sell, a valuation allowance for losses is maintained to provide for temporary declines in value after foreclosure. The allowance is established through a provision for losses on other real estate owned which is included in other expenses. Subsequent gains or losses on sales are recorded in non-interest income as incurred. After acquisition, costs incurred relating to the development and improvement of property are capitalized to the extent they do not cause the recorded value to exceed the net realizable value, whereas operating expenses of such properties, net of related income, are included in other expenses. The balance of other real estate owned totaled \$166,720 at September 30, 2014. No such amounts were outstanding at September 30, 2015.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate Held for Investment: Real estate held for investment includes real estate acquired in full or partial settlement of loan obligations, generally through foreclosure, that is not being marketed for sale and is being operated, such as rental properties. As of September 30, 2015, the Company had one property classified as real estate held for investment, which was placed into service during the year ended September 30, 2014. This held for use property is included in other assets on the consolidated balance sheets and is carried at amortized cost, which was \$984,000 and \$1,489,000 at September 30, 2015 and 2014, respectively. Depreciation is determined using the straight-line method over the estimated useful life which is 30 years. Management intends to hold this property for investment and realize income from future rental cash flows generated by the property. Because of its held for use classification, this other real estate owned property is not adjusted to fair value unless it is impaired. The property is evaluated for impairment each reporting period using undiscounted expected cash flows from the property compared to its carrying value. If those undiscounted expected cash flows do not support the carrying value then an impairment charge is recorded through earnings and a new cost basis is established at its fair value. The property's fair value is determined based on a market appraisal, less estimated costs to sell. Based on this measurement management recorded an impairment charge of \$455,000 for the year ended September 30, 2015. There were no impairment charge recorded on this property for the year ended September 30, 2014.

Income Taxes: The Company files its income taxes on a consolidated basis with its subsidiaries. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for income taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates which are expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company has elected to record interest accrued and penalties related to unrecognized tax benefits in tax expense.

Earnings Per Common Share: Basic earnings per common share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Company. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS. Earnings per share are retroactively adjusted for stock dividends and stock splits for all periods presented. As of September 30, 2015 and 2014, no instruments or contracts had been entered into that could cause a dilutive effect on earnings per common share.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on securities available for sale which are recognized as separate component of equity, net of the related income tax effect.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Recent Accounting Standards:

In January 2014, the FASB issued ASU 2014-04, "Receivables – Troubled Debt Restructurings by Creditors – Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure". The ASU amended existing guidance to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. ASU 2014-04 is effective prospectively for the Company fiscal years, and interim periods beginning after December 15, 2014. Amendments in this standard can be applied using the modified retrospective or prospective transition method. Early adoption is permitted. Adoption of this standard is not expected to have a material impact on the Company's operating results or financial condition.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", which amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. In August 2015 the FASB instituted a one-year deferral of the effective date of this amendment to annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of this new accounting standard on the consolidated financial statements and results of operations.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2014, the FASB issued ASI 2014-14, “Troubled Debt Restructurings by Creditors (Subtopic 210-40); Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure”. The ASU amends existing guidance related to the classification of certain government-guaranteed mortgage loans, including those guaranteed by the FHB and the VA, upon foreclosure. It requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are met: 1) The loan has a government guarantee that is not separable from the loan before foreclosure; 2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and 3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. These amendments are effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015. The adoption of this standard is not expected to have a material effect on the Company’s operating results or financial condition.

In November 2014, the FASB issued ASU 2014-17, “Business Combinations (Topic 805); Pushdown Accounting (a consensus of the FASB Emerging Task Force), which amends existing guidance related to the accounting by an acquired entity upon a change-in-control event. The amendments provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity’s most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. The amendments were effective November 14, 2014. The adoption of this standard did not have a material effect on the Company’s operating results or financial condition.

NOTE 2 – ACQUISITION

On November 29, 2013, the Company completed its acquisition of Union Financial Corporation, parent company of Union Savings Bank. The merger added \$42.8 million in loans, \$48.6 million in deposits and \$14.2 million in investment securities to the Company. The acquisition was treated as a “reorganization” within the definition of section 368(a) of the Internal Revenue Code and is generally considered tax-free for U.S federal income tax purposes. As consideration for the acquisition, the Company issued 1.5355 shares of its common stock in exchange for each share of Union Financial Corporation common stock, resulting in the issuance of 317,140 shares, or \$5,201,096 using the Company’s stock price which was \$16.40 per share on the date of the acquisition. Stock issuance costs totaling \$79,899 were capitalized in connection with the issuance of these shares. The Company also paid \$13,176 in cash for fractional shares and a dissenting shareholder. In connection with the merger, the Company advanced \$6,000,000 to Union Financial Corporation in order for it to retire FHLB borrowings, which it did prior to the closing of the merger. Therefore, the tables below do not reflect assumption of a liability, but rather reflect this advance as part of the merger consideration paid. The Company incurred merger expenses of \$163,936 for the year ended September 30, 2014. There were no merger expenses incurred for the year ended September 30, 2015.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 2 – ACQUISITION (Continued)

The following table reflects the estimated fair values of the assets acquired and liabilities assumed in the acquisition of Union Financial Corporation:

	Acquisition Date November 29, 2013
Assets:	
Cash and cash equivalents	\$ 2,074,828
Investment securities	14,235,228
Loans	42,852,898
Core deposit intangible	360,000
Other real estate owned	216,720
Federal Home Loan Bank stock	405,700
Bank premises and equipment	1,896,632
Accrued interest receivable and other assets	<u>445,095</u>
Total assets acquired	<u>\$ 62,487,101</u>
Liabilities:	
Deposits:	
Non-interest bearing	\$ 5,840,287
Interest bearing –	
Transaction accounts	8,931,929
Savings accounts	1,472,617
Money market accounts	6,764,504
Other time deposits	<u>25,536,006</u>
Total deposits	48,545,343
Other borrowings	843,759
Deferred tax liability	19,116
Accrued interest payable and other liabilities	<u>490,558</u>
Total liabilities assumed	<u>\$ 49,898,776</u>
Merger consideration:	
Cash advanced prior to merger to retire FHLB borrowings	\$ 6,000,000
Common stock issued	5,201,096
Cash paid for fractional shares and dissenter	<u>13,176</u>
Total Merger consideration	<u>11,214,272</u>
Bargain purchase gain	<u>\$ 1,374,053</u>

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 2 – ACQUISITION (Continued)

The following table presents the net assets acquired from Union Financial Corporation and the estimated fair value adjustments:

	Acquisition Date November 29, 2013
Book value of net assets acquired	\$ 11,423,258
Fair value adjustments:	
Investment securities	7,246
Loans	68,772
Other real estate owned	78,120
Core deposit intangible	360,000
Bank premises and equipment	1,220,605
Equity investment	(42,971)
Time deposits	(150,100)
Deferred tax liability, net	(520,963)
FHLB advances	(49,000)
Other assets and liabilities	<u>193,358</u>
Total purchase accounting adjustments	<u>1,165,067</u>
Fair value of net assets acquired	12,588,325
Less merger consideration	<u>(11,214,272)</u>
Bargain purchase gain	<u>\$ 1,374,053</u>

As a result of the merger, the Company recognized a gain from bargain purchase which is the excess of the fair value of the net assets acquired over total purchase price paid.

Loans

Acquired loans are recorded at their estimated fair values at acquisition date. The fair value adjustments, which are recorded through premiums and discounts, were calculated on an individual loan basis using a discounted cash flow analysis (excluding four credit impaired loans) factoring in the terms of the loans and various assumptions to estimate the projected cash flows. Although the loans were valued individually based on individual terms of the loans, various assumptions were applied to the loans based upon the pools and risk rating categories in which they were classified. These assumptions required significant judgment and represent management's best estimate. Key assumptions included risk ratings, loss rates, recovery period, prepayment rate, and discount rate. Management engaged a third-party expert to assist in performing the initial day 1 fair value of the acquired loan portfolio.

Those loans that were not identified as credit impaired at acquisition were accounted for under ASC Sub-Topic 310-20, Accounting for Non-refundable Fees and Costs, which requires that the discount be accreted to income over the life of the asset. ASC 805 does not allow for the carrying over the existing allowance for loan losses in a business combination and accordingly the ALLL of Union Financial Corporation was eliminated at acquisition date.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 2 – ACQUISITION (Continued)

Core Deposit Intangible

The core deposit intangible represents estimated future benefits of acquired deposits and is booked separately from the liability in other assets. Management engaged a third-party expert to assist in performing the initial day 1 fair value of the acquired intangible asset, or core deposit intangible. The customer relationship is the primary identifiable asset and various assumptions were applied in determining fair value. These assumptions included customer attrition, deposit interest rates, service charge income, overhead expense and costs of alternative funding.

The Company recorded a core deposit intangible asset of \$360,000 at acquisition, of which \$56,000 and \$50,000 was amortized in 2015 and 2014, respectively. The core deposit intangible asset is evaluated periodically, but no less than annually, for impairment. At September 30, 2015 the future estimated amortization expense is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 51,000
2017	47,000
2018	43,000
2019	40,000
2020	37,000
2021	31,000
2022	<u>5,000</u>
Total	<u>\$ 254,000</u>

Deposits

The fair values for demand deposits, NOW, savings and MMDA accounts were equal to the amounts payable on demand at the acquisition date. Management engaged a third-party expert to assist in estimating the initial day 1 fair value of the assumed certificate of deposits. Fair values are based on discounted cash flow analysis using market interest rates offered at acquisition date for similar maturities.

Pro Forma Results of Operations

The contribution of the acquired operations of the former Union Financial Corporation to the Company's results of operations for the period November 29, 2013 to September 30, 2014 is as follows: interest income of \$2.2 million, interest expense of \$108,000, non-interest income of \$43,000, non-interest expense of \$665,000 and income before income taxes of \$1.3 million. These amounts include acquisition-related costs, accretion of the discount on the acquired loans, amortization of the fair value mark on time deposits and core deposit intangible amortization. Union Financial Corporation's results of operations prior to the acquisition date are not included in the Company's operating results for 2014.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 2 – ACQUISITION (Continued)

The following table presents Union Financial Corporation's revenue (interest income and non-interest income) and earnings included in the consolidated statement of income for year ended September 30, 2014, and the pro forma revenue and earnings of the combined entity as if the acquisition date had been October 1, 2013. This pro forma information does not necessarily reflect the results of operations that would have resulted had the acquisition been completed on October 1, 2013, nor is it indicative of the results of operations in future periods.

Pro Forma Revenue and Earnings	Union Financial Corporation Only		Combined	
	Revenue	Earnings	Revenue	Earnings (Loss)
Actual from November 29, 2013 to September 30, 2014	\$ 2,202,331	\$ 833,075	\$ 13,129,729	\$ (243,121)
2014 supplemental pro forma from October 1, 2013 to September 30, 2014	\$ 2,693,650	\$ 790,170	\$ 15,575,609	\$ (172,508)

NOTE 3 – INVESTMENT SECURITIES

Available-for-Sale: The amortized cost and estimated fair value of available-for-sale investment securities at the dates indicated consisted of the following:

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Small Business Administration loan-backed securities	\$ 6,232,325	\$ 38,299	\$ (16,624)	\$ 6,254,000
Obligations of states and political subdivisions	9,717,148	153,679	(40,827)	9,830,000
Mortgage-backed securities issued by U.S. Government sponsored agencies	12,529,760	573,926	(686)	13,103,000
	<u>\$ 28,479,233</u>	<u>\$ 765,904</u>	<u>\$ (58,137)</u>	<u>\$ 29,187,000</u>

Net unrealized gains on available-for-sale investment securities totaling \$707,767 were recorded, net of \$290,184 in income taxes as accumulated other comprehensive income within shareholders' equity at September 30, 2015. Proceeds on sales of available-for-sale investment securities totaled \$2,063,500 for the year ended September 30, 2015. Gross realized gains and gross realized losses on sales of available-for-sale investment securities totaled \$22,645 and \$39,006, respectively for the year ended September 30, 2015.

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Small Business Administration loan-backed securities	\$ 4,075,252	\$ 41,798	\$ (4,050)	\$ 4,113,000
Obligations of states and political subdivisions	9,007,121	107,899	(63,020)	9,052,000
Mortgage-backed securities issued by U.S. Government sponsored agencies	15,311,259	438,402	(31,661)	15,718,000
	<u>\$ 28,393,632</u>	<u>\$ 588,099</u>	<u>\$ (98,731)</u>	<u>\$ 28,883,000</u>

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 3 – INVESTMENT SECURITIES (Continued)

Net unrealized gains on available-for-sale investment securities totaling \$489,368 were recorded, net of \$200,641 in income taxes as accumulated other comprehensive income within shareholders' equity at September 30, 2014. Proceeds and gross realized gains on sales of available-for-sale investment securities totaled \$456,305 and \$21,505 for the year ended September 30, 2014, respectively.

Held-to-Maturity: The amortized cost and estimated fair value of held-to-maturity securities at the dates indicated consisted of the following:

		September 30, 2015			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:					
Mortgage-backed securities					
Issued by U.S. Government sponsored agencies					
		\$ 41,552	\$ 8,448	\$ -	\$ 50,000
		September 30, 2014			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:					
Mortgage-backed securities					
Issued by U.S. Government sponsored agencies					
		\$ 49,503	\$ 8,497	\$ -	\$ 58,000

For the years ended September 30, 2015 and 2014, there were no sales, calls, or transfers of held-to-maturity investment securities.

Investment securities with unrealized losses at September 30, 2015 and 2014 are summarized and classified according to the duration of the loss period as follows:

		September 30, 2015					
		Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:							
Small Business Administration							
loan-backed securities							
		\$ 2,383,000	\$ (12,187)	\$ 1,075,000	\$ (4,437)	\$ 3,458,000	\$ (16,624)
Obligations of states and							
political subdivisions							
		1,189,000	(28,452)	1,547,000	(12,375)	2,736,000	(40,827)
Mortgage-backed securities							
issued by U.S. Government							
sponsored agencies							
		36,000	(199)	106,000	(487)	142,000	(686)
		<u>\$ 3,608,000</u>	<u>\$ (40,838)</u>	<u>\$ 2,728,000</u>	<u>\$ (17,299)</u>	<u>\$ 6,336,000</u>	<u>\$ (58,137)</u>
		September 30, 2014					
		Less than 12 Months		12 Months or More		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:							
Small Business Administration							
loan-backed securities							
		\$ -	\$ -	\$ 1,699,000	\$ (4,050)	\$ 1,699,000	\$ (4,050)
Obligations of states and							
political subdivisions							
		-	-	3,910,000	(63,020)	3,910,000	(63,020)
Mortgage-backed securities							
issued by U.S. Government							
sponsored agencies							
		336,000	(3,189)	1,029,000	(28,472)	1,365,000	(31,661)
		<u>\$ 336,000</u>	<u>\$ (3,189)</u>	<u>\$ 6,638,000</u>	<u>\$ (95,542)</u>	<u>\$ 6,974,000</u>	<u>\$ (98,731)</u>

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 3 – INVESTMENT SECURITIES (Continued)

Small Business Administration Loan-Backed Securities: At September 30, 2015, the Company held 12 Small Business Administration loan-backed securities of which 4 were in a loss position for less than twelve months and 2 were in a loss position for twelve months or more. The contractual cash flows of these investments are guaranteed by an agency of the U.S. Government. All of these securities have continued to pay as scheduled despite their impairment which management believes is primarily due to increases in market interest rates. In addition, the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity. Therefore, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2015.

Obligations of States and Political Subdivisions: At September 30, 2015, the Company held 13 obligations of states and political subdivision securities of which 2 were in a loss position for less than twelve months and 1 was in a loss position for twelve months or more. Management believes the unrealized losses on the Company's investments in obligations of states and political subdivision securities were due to increases in market interest rates. All of these securities have continued to pay as scheduled despite their impairment due to current market conditions. Specifically, there has been no observable deterioration in the credit rating or financial performance of the underlying municipalities. In addition, the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity. Therefore, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2015.

Mortgage-Backed Securities Issued by U.S. Government Sponsored Agencies: At September 30, 2015, the Company held 66 Mortgage-backed securities issued by U.S. Government Sponsored Agencies of which 1 was in a loss position for less than twelve months and 4 were in a loss position for twelve months or more. The contractual cash flows of these investments are guaranteed by an agency sponsored by the U.S. government. All of these securities have continued to pay as scheduled despite their impairment. In addition, the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity. Therefore, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2015.

The amortized cost and estimated fair value of investment securities at September 30, 2015 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due:				
Within one year	\$ 194,391	\$ 195,000	\$ -	\$ -
One to five years	514,127	515,000	-	-
Five to ten years	2,368,442	2,409,000	-	-
Beyond ten years	6,640,188	6,711,000	-	-
Investment securities not due at a single maturity date:				
Small Business Administration Loan-backed securities	6,232,325	6,254,000	-	-
Mortgage-backed securities issued by U.S. Government sponsored Agencies	12,529,760	13,103,000	41,552	50,000
	<u>\$ 28,479,233</u>	<u>\$ 29,187,000</u>	<u>\$ 41,552</u>	<u>\$ 50,000</u>

Investment securities with carrying amounts of approximately \$8,804,000 and \$8,967,000 were pledged to secure advances from the Federal Home Loan Bank at September 30, 2015 and 2014, respectively.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table shows an aging analysis of the loan portfolio by the time past due at September 30, 2015 and 2014:

<u>September 30, 2015</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Nonaccrual</u>	<u>Total Past Due or on Nonaccrual</u>	<u>Current</u>	<u>Total</u>
Residential real estate single family	\$ -	\$ -	\$ -	\$ -	\$ 17,109,372	\$ 17,109,372
Residential real estate multi-family	-	-	-	-	66,482,007	66,482,007
Commercial real estate - construction	-	-	-	-	3,768,579	3,768,579
Commercial real estate - SBA	-	-	413,337	413,337	13,319,255	13,732,592
Commercial real estate - other	-	-	-	-	118,373,175	118,373,175
Commercial business	-	-	1,682,453	1,682,453	19,670,169	21,352,622
Consumer	5,278	-	-	5,278	438,312	443,590
	<u>\$ 5,278</u>	<u>\$ -</u>	<u>\$ 2,095,790</u>	<u>\$ 2,101,068</u>	<u>\$239,160,869</u>	<u>\$241,261,937</u>

<u>September 30, 2014</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Nonaccrual</u>	<u>Total Past Due or on Nonaccrual</u>	<u>Current</u>	<u>Total</u>
Residential real estate single family	\$ -	\$ -	\$ -	\$ -	\$ 19,229,108	\$ 19,229,108
Residential real estate multi-family	-	-	-	-	52,283,393	52,283,393
Commercial real estate - construction	-	-	-	-	6,336,603	6,336,603
Commercial real estate - SBA	-	-	519,143	519,143	11,978,208	12,497,351
Commercial real estate - other	-	1,182,147	-	1,182,147	96,733,345	97,915,492
Commercial business	-	-	3,465,766	3,465,766	24,841,905	28,307,671
Consumer	-	-	15,729	15,729	491,165	506,894
	<u>\$ -</u>	<u>\$ 1,182,147</u>	<u>\$ 4,000,638</u>	<u>\$ 5,182,785</u>	<u>\$211,893,727</u>	<u>\$217,076,512</u>

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table shows the loan portfolio allocated by management's internal risk ratings at September 30, 2015 and 2014:

<u>September 30, 2015</u>	<u>Residential Real Estate Single Family</u>	<u>Residential Real Estate Multi-family</u>	<u>Commercial Real Estate - Construction</u>	<u>Commercial Real Estate - SBA</u>	<u>Commercial Real Estate - Other</u>	<u>Commercial Business</u>	<u>Consumer</u>	<u>Total</u>
Grade:								
Pass	\$ 17,109,372	\$ 61,253,191	\$ 3,768,579	\$ 13,319,255	\$ 108,611,964	\$ 19,623,902	\$ 438,372	\$ 224,124,635
Special Mention	-	2,581,892	-	-	4,264,354	-	-	6,846,246
Substandard	-	2,646,924	-	413,337	5,496,857	1,483,059	5,218	10,045,395
Doubtful	-	-	-	-	-	245,661	-	245,661
	<u>\$ 17,109,372</u>	<u>\$ 66,482,007</u>	<u>\$ 3,768,579</u>	<u>\$ 13,732,592</u>	<u>\$ 118,373,175</u>	<u>\$ 21,352,622</u>	<u>\$ 443,590</u>	<u>\$ 241,261,937</u>
<u>September 30, 2014</u>	<u>Residential Real Estate Single Family</u>	<u>Residential Real Estate Multi-family</u>	<u>Commercial Real Estate - Construction</u>	<u>Commercial Real Estate - SBA</u>	<u>Commercial Real Estate - Other</u>	<u>Commercial Business</u>	<u>Consumer</u>	<u>Total</u>
Grade:								
Pass	\$ 19,229,108	\$ 48,623,135	\$ 6,336,603	\$ 11,978,209	\$ 88,362,675	\$ 22,354,452	\$ 483,796	\$ 197,367,978
Special Mention	-	1,532,349	-	-	2,957,456	1,434,538	-	5,924,343
Substandard	-	2,127,909	-	519,142	6,595,361	1,059,290	23,098	10,324,800
Doubtful	-	-	-	-	-	3,459,391	-	3,459,391
	<u>\$ 19,229,108</u>	<u>\$ 52,283,393</u>	<u>\$ 6,336,603</u>	<u>\$ 12,497,351</u>	<u>\$ 97,915,492</u>	<u>\$ 28,307,671</u>	<u>\$ 506,894</u>	<u>\$ 217,076,512</u>

There were no accruing loans past due 90 days or more at September 30, 2015 and 2014. Interest forgone on nonaccrual loans totaled approximately \$5,000 and \$39,000 for the years ended September 30, 2015 and 2014, respectively. There was no interest income on nonaccrual loans recognized on a cash basis for the years ended September 30, 2015 and 2014.

Commercial real estate loans totaling approximately \$11,231,000 and \$12,028,000 as of September 30, 2015 and 2014, respectively, were pledged to secure short term borrowing arrangements with the Federal Reserve Bank.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Various mortgage loans totaling approximately \$27,910,000 and \$33,774,000 as of September 30, 2015 and 2014, respectively, were pledged to secure short term borrowing arrangements with the Federal Home Loan Bank of San Francisco.

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ended September 30, 2015 and 2014:

<u>September 30, 2015</u>	<u>Residential Real Estate Single Family</u>	<u>Residential Real Estate Multi-family</u>	<u>Commercial Real Estate - Construction</u>	<u>Commercial Real Estate - SBA</u>	<u>Commercial Real Estate - Other</u>	<u>Commercial Business</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:									
Beginning balance	\$ 112,938	\$ 682,977	\$ 27,068	\$ 51,412	\$ 1,478,813	\$ 2,027,180	\$ 90,433	\$ 169,054	\$ 4,639,875
Provision for loan losses	(93,971)	(14,333)	(17,504)	22,864	73,019	1,317,504	(86,332)	(166,247)	1,035,000
Loans charged-off	-	-	-	-	-	(2,500,000)	(1,786)	-	(2,501,786)
Recoveries	-	-	-	-	-	-	-	-	-
Total ending allowance balance	<u>\$ 18,967</u>	<u>\$ 668,644</u>	<u>\$ 9,564</u>	<u>\$ 74,276</u>	<u>\$ 1,551,832</u>	<u>\$ 844,684</u>	<u>\$ 2,315</u>	<u>\$ 2,807</u>	<u>\$ 3,173,089</u>
<u>September 30, 2014</u>	<u>Residential Real Estate Single Family</u>	<u>Residential Real Estate Multi-family</u>	<u>Commercial Real Estate - Construction</u>	<u>Commercial Real Estate - SBA</u>	<u>Commercial Real Estate - Other</u>	<u>Commercial Business</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:									
Beginning balance	\$ 43,001	\$ 819,865	\$ 21,804	\$ 30,205	\$ 1,424,344	\$ 146,825	\$ 9	\$ 53,822	\$ 2,539,875
Provision for loan losses	69,937	(136,888)	5,264	21,207	54,469	1,880,355	90,424	115,232	2,100,000
Loans charged-off	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Total ending allowance balance	<u>\$ 112,938</u>	<u>\$ 682,977</u>	<u>\$ 27,068</u>	<u>\$ 51,412</u>	<u>\$ 1,478,813</u>	<u>\$ 2,027,180</u>	<u>\$ 90,433</u>	<u>\$ 169,054</u>	<u>\$ 4,639,875</u>

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2015 and 2014:

<u>September 30, 2015</u>	<u>Residential Real Estate Single Family</u>	<u>Residential Real Estate Multi-family</u>	<u>Commercial Real Estate - Construction</u>	<u>Commercial Real Estate - SBA</u>	<u>Commercial Real Estate - Other</u>	<u>Commercial Business</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:									
Ending allowance balance									
attributable to loans:									
Individually evaluated									
for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 432,438	\$ -	\$ -	\$ 432,438
Collectively evaluated									
for impairment	<u>18,967</u>	<u>668,644</u>	<u>9,564</u>	<u>74,276</u>	<u>1,551,832</u>	<u>412,246</u>	<u>2,315</u>	<u>2,807</u>	<u>2,740,651</u>
Total ending allowance									
balance	<u>\$ 18,967</u>	<u>\$ 668,644</u>	<u>\$ 9,564</u>	<u>\$ 74,276</u>	<u>\$ 1,551,832</u>	<u>\$ 844,684</u>	<u>\$ 2,315</u>	<u>\$ 2,807</u>	<u>\$ 3,173,089</u>
Loans:									
Loans individually evaluated									
for impairment	\$ -	\$ -	\$ -	\$ 413,337	\$ 1,672,837	\$ 1,682,453	\$ -		\$ 3,768,627
Loans collectively evaluated									
for impairment	<u>17,109,372</u>	<u>66,482,007</u>	<u>3,768,579</u>	<u>13,319,255</u>	<u>116,700,338</u>	<u>19,670,169</u>	<u>443,590</u>		<u>237,493,310</u>
Total ending loans									
balance	<u>\$ 17,109,372</u>	<u>\$ 66,482,007</u>	<u>\$ 3,768,579</u>	<u>\$ 13,732,592</u>	<u>\$ 118,373,175</u>	<u>\$ 21,352,622</u>	<u>\$ 443,590</u>		<u>\$ 241,261,937</u>

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

<u>September 30, 2014</u>	<u>Residential Real Estate Single Family</u>	<u>Residential Real Estate Multi-family</u>	<u>Commercial Real Estate - Construction</u>	<u>Commercial Real Estate - SBA</u>	<u>Commercial Real Estate - Other</u>	<u>Commercial Business</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:									
Ending allowance balance									
attributable to loans:									
Individually evaluated									
for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,684,658	\$ -	\$ -	\$ 1,684,658
Collectively evaluated									
for impairment	<u>112,938</u>	<u>682,977</u>	<u>27,068</u>	<u>51,412</u>	<u>1,478,813</u>	<u>342,522</u>	<u>90,433</u>	<u>169,054</u>	<u>2,955,217</u>
Total ending allowance									
balance	<u>\$ 112,938</u>	<u>\$ 682,977</u>	<u>\$ 27,068</u>	<u>\$ 51,412</u>	<u>\$ 1,478,813</u>	<u>\$ 2,027,180</u>	<u>\$ 90,433</u>	<u>\$ 169,054</u>	<u>\$ 4,639,875</u>
Loans:									
Loans individually evaluated									
for impairment	\$ -	\$ -	\$ -	\$ 519,142	\$ 1,730,899	\$ 3,465,767	\$ 15,729		\$ 5,731,537
Loans collectively evaluated									
for impairment	<u>19,229,108</u>	<u>52,283,393</u>	<u>6,336,603</u>	<u>11,978,209</u>	<u>96,184,593</u>	<u>24,841,904</u>	<u>491,165</u>		<u>211,344,975</u>
Total ending loans									
balance	<u>\$ 19,229,108</u>	<u>\$ 52,283,393</u>	<u>\$ 6,336,603</u>	<u>\$ 12,497,351</u>	<u>\$ 97,915,492</u>	<u>\$ 28,307,671</u>	<u>\$ 506,894</u>		<u>\$ 217,076,512</u>

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents information related to impaired loans by class of loans as of September 30, 2015 and 2014:

<u>September 30, 2015</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial real estate - other					
Motel	\$ 1,672,837	\$ 2,453,700	\$ -	\$ 1,701,868	\$ 139,037
Commercial real estate - SBA	413,337	413,337	-	466,240	-
With related allowance recorded:					
Commercial	1,682,453	4,182,453	432,438	2,570,922	17,474
Total					
Commercial real estate - other					
Motel	\$ 1,672,837	\$ 2,453,700	\$ -	\$ 1,701,868	\$ 139,037
Commercial real estate - SBA	\$ 413,337	\$ 413,337	\$ -	\$ 466,240	\$ -
Commercial	\$ 1,682,453	\$ 4,182,453	\$ 432,438	\$ 2,570,922	\$ 17,474

<u>September 30, 2014</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial real estate - other					
Motel	\$ 1,730,899	\$ 2,511,763	\$ -	\$ 2,134,116	\$ 116,245
Commercial real estate - SBA	519,143	519,143	-	592,969	23,248
Commercial	6,376	6,695	-	3,188	-
Consumer	15,729	17,390	-	7,865	-
With related allowance recorded:					
Commercial	3,459,391	3,459,391	1,684,658	3,618,450	19,100
Total					
Commercial real estate - other					
Motel	\$ 1,730,899	\$ 2,511,763	\$ -	\$ 2,134,116	\$ 116,245
Commercial real estate - SBA	\$ 519,143	\$ 519,143	\$ -	\$ 592,969	\$ 23,248
Commercial	\$ 3,465,766	\$ 3,466,086	\$ 1,684,658	\$ 3,621,638	\$ 19,100
Consumer	\$ 15,729	\$ 17,390	\$ -	\$ 7,865	\$ -

Accrued interest receivable has not been included in the recorded investment balances as amounts were considered insignificant as of September 30, 2015 and 2014.

Troubled Debt Restructurings:

As of September 30, 2015 and 2014, the Company has a recorded investment in troubled debt restructurings of \$2,607,224 and \$1,730,900, respectively. The Company has allocated \$252,284 of specific allowance for those loans at September 30, 2015 and no specific reserves for those loans at September 30, 2014. The Company is not committed to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings. A loan is considered to be in a payment default once it is 90 days contractually past due under the modified terms. No previously identified TDRs defaulted during the years ended September 30, 2015 and 2014.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

During the year ended September 30, 2015, the terms of a commercial loan were modified as a troubled debt restructuring. The pre and post modification recorded investment was \$934,387. The modification of the terms of this loan included deferred amortization payments until maturity and the waiver of certain financial covenants. There were no loans modified as troubled debt restructurings during the year ended September 30, 2014.

Purchase Credit Impaired Loans: The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. As of September 30, 2015, there was no remaining recorded investment in PCI loans. The carrying amounts and contractual principal balances of those loans as of September 30, 2014 was as follows:

	<u>Carrying Amount</u>	<u>Contractual Balance</u>
Commercial	\$ 6,376	\$ 6,696
Consumer	<u>15,729</u>	<u>17,390</u>
Outstanding balance	<u>\$ 22,105</u>	<u>\$ 24,086</u>

Accretable yield, or income expected to be collected, is as follows:

	<u>September 30,</u> <u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 1,981	\$ -
New loans acquired	-	19,277
Reclassifications from nonaccretable difference	-	70,383
Accretion of income	-	(87,679)
Payoff	<u>(1,981)</u>	<u>-</u>
Ending balance at end of year	<u>\$ -</u>	<u>\$ 1,981</u>

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FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	<u>September 30,</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 2,210,000	\$ 2,210,000
Building	7,499,054	7,418,657
Furniture and equipment	3,051,197	2,689,802
Automobiles	423,358	384,107
Leasehold improvements	<u>254,871</u>	<u>285,141</u>
	13,438,480	12,987,707
Less accumulated depreciation and amortization	<u>(5,198,046)</u>	<u>(4,763,409)</u>
	<u>\$ 8,240,434</u>	<u>\$ 8,224,298</u>

Depreciation and amortization expense totaled \$498,675 and \$521,714 for the years ended September 30, 2015 and 2014, respectively.

NOTE 6 – INTEREST-BEARING DEPOSITS

Interest bearing deposits consisted of the following:

	<u>September 30,</u>	
	<u>2015</u>	<u>2014</u>
Savings	\$ 21,157,647	\$ 27,184,941
Money market	80,720,300	67,165,288
Transaction accounts	61,314,956	50,566,178
Time, \$100,000 or more	15,403,548	21,110,273
Other time	<u>5,615,179</u>	<u>7,665,665</u>
	<u>\$ 184,211,630</u>	<u>\$ 173,692,345</u>

Time deposits issued in denominations greater than or equal to \$250,000 totaled \$5,617,958 and \$4,849,028 at September 30, 2015 and 2014, respectively.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 6 – INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits are as follows:

Year Ending September 30,	
2016	\$ 16,913,616
2017	3,375,546
2018	636,249
2019	<u>93,316</u>
	<u>\$ 21,018,727</u>

Interest expense recognized on interest bearing deposits consisted of the following:

	September 30, 2015	2014
Savings	\$ 13,606	\$ 15,508
Money market	100,684	72,207
Transaction accounts	22,979	33,444
Time, \$100,000 or more	70,908	96,966
Other time	<u>18,724</u>	<u>23,252</u>
	<u>\$ 226,901</u>	<u>\$ 241,377</u>

NOTE 7 – SHORT-TERM BORROWING ARRANGEMENTS

The Company has a \$4,000,000 unsecured short-term borrowing arrangement with one of its correspondent banks. There were no borrowings outstanding under this arrangement at September 30, 2015 and 2014.

In addition, the Company could borrow up to approximately \$6,863,000 and \$7,551,000 from the Federal Reserve Bank as of September 30, 2015 and 2014, respectively. Commercial real estate loans totaling approximately \$11,231,000 and \$12,028,000 as of September 30, 2015 and 2014, respectively, secure this borrowing arrangement. There were no borrowings outstanding under this arrangement at September 30, 2015 and 2014.

NOTE 8 – OTHER BORROWINGS

The Company has a borrowing agreement with the FHLB which allows the Company to borrow on either a short-term or long-term basis up to approximately \$30,968,000 and \$35,559,000 as of September 30, 2015 and 2014, respectively, based on specified percentage of the collateral pledged. Various mortgage loans and investment securities totaling approximately \$35,270,000 and \$42,500,000 as of September 30, 2015 and 2014, respectively, are pledged to secure these borrowing arrangements. Of the total borrowing capacity at September 30, 2015, approximately \$28,453,000 was available.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 8 – OTHER BORROWINGS (Continued)

As part of the acquisition, the Company assumed FHLB borrowings at fair values of approximately \$844,000 and contractual values totaling approximately \$795,000.

2015			2014		
<u>Amount</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity Date</u>
\$ 450,000	5.36%	June 1, 2016	\$ 55,000	5.21%	July 1, 2015
65,000	5.26%	July 1, 2016	450,000	5.36%	June 1, 2016
1,000,000	4.88%	December 1, 2016	65,000	5.26%	July 1, 2016
1,000,000	5.19%	January 23, 2017	1,000,000	4.88%	December 1, 2016
-			1,000,000	5.19%	January 23, 2017
<u>\$ 2,515,000⁽¹⁾</u>			<u>\$ 2,570,000⁽¹⁾</u>		

⁽¹⁾ Represents principal amount of borrowings. The Company's recorded investment totaled \$2,529,999 and \$2,602,624 as of September 30, 2015 and 2014, respectively, which was net of unamortized purchase premium of \$14,999 and \$32,624, respectively.

The Company entered into a \$6,000,000 long term borrowing arrangement with another financial institution during the year ended September 30, 2014. The note matures on August 5, 2023 and bears a current interest rate of 4.25% (based on the Wall Street Journal Prime Rate plus 1.00%). The note requires interest-only payments through September 5, 2016 and monthly principal payments of \$71,429 payable thereafter, plus interest. The note is secured by the Company's investment in the stock of the Bank. Debt issuance costs were not significant. The proceeds from this borrowing arrangement were used to repurchase 405,000 shares of the Company's stock. The transaction was completed in October 2014.

NOTE 9 – JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

First ULB Statutory Trust I (the "Trust") is a Delaware business trust formed by the Company with capital of \$192,000 for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. During the fourth quarter of 2004, the Trust issued 6,200 Floating Rate Capital Trust Pass-Through Securities (Trust Preferred Securities), with a liquidation value of \$1,000 per security, for gross proceeds of \$6,200,000. The entire proceeds of the issuance were invested by the Trust in \$6,392,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") issued by the Company, with identical maturity, repricing and payment terms as the Trust Preferred Securities. The Subordinated Debentures represent the sole assets of the Trust. The Subordinated Debentures mature on September 15, 2034, bear a current interest rate of 2.84% (based on 3-month LIBOR plus 2.50%), with quarterly repricing and payments. The Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Board of Governors, on any March 15, June 15, September 15, or December 15, on or after September 15, 2009. The redemption price is par plus accrued and unpaid interest, except in the case of redemption under a special event which is defined in the debenture. The Trust Preferred Securities are subject to mandatory redemption to the extent of any early redemption of the Subordinated Debentures and upon maturity of the Subordinated Debentures on September 15, 2034.

(Continued)

NOTE 9 – JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES (Continued)

Holders of the Trust Preferred Securities are entitled to a cumulative cash distribution on the liquidation amount of \$1,000 per security. For each successive period beginning on March 15, June 15, September 15 and December 15 of each year, the rate will be adjusted to equal the 3-month LIBOR plus 2.50%. The Trust has the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures. The Trust Preferred Securities were sold and issued in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the Trust Preferred Securities.

NOTE 10 – FAIR VALUE MEASUREMENT

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of September 30, 2015, and 2014. The tables also indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair values. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 10 – FAIR VALUE MEASUREMENT (Continued)

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

Assets measured at fair value on a recurring basis are summarized below:

September 30, 2015				
	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Available-for-Sale Investment Securities</u>				
Debt securities:				
Small Business Administration				
loan-backed securities	\$ 6,254,000	\$ -	\$ 6,254,000	\$ -
Obligations of states and political				
subdivisions	9,830,000	-	9,830,000	-
Mortgage-backed securities issued				
by U.S. Government sponsored				
agencies	<u>13,103,000</u>	<u>-</u>	<u>13,103,000</u>	<u>-</u>
	<u>\$ 29,187,000</u>	<u>\$ -</u>	<u>\$ 29,187,000</u>	<u>\$ -</u>
September 30, 2014				
	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Available-for-Sale Investment Securities</u>				
Debt securities:				
Small Business Administration				
loan-backed securities	\$ 4,113,000	\$ -	\$ 4,113,000	\$ -
Obligations of states and political				
subdivisions	9,052,000	-	9,052,000	-
Mortgage-backed securities issued				
by U.S. Government sponsored				
agencies	<u>15,718,000</u>	<u>-</u>	<u>15,718,000</u>	<u>-</u>
	<u>\$ 28,883,000</u>	<u>\$ -</u>	<u>\$ 28,883,000</u>	<u>\$ -</u>

There were no transfers in or out of levels 1 and 2 during the years ended September 30, 2015 and 2014.

The fair values for available-for-sale investment securities are based on quoted market prices for similar securities.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 10 – FAIR VALUE MEASUREMENT (Continued)

Assets measured at fair value on a non-recurring basis are summarized below:

	September 30, 2015				
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains/(Losses) During the Year Ended September 30, 2015
	Fair Value				
<u>Assets</u>					
Impaired loans - commercial	\$ 682,102	\$ -	\$ 682,102	\$ -	\$ (252,284)
Real estate held for investment	983,558	-	-	983,558	(455,000)
	<u>\$ 1,665,660</u>	<u>\$ -</u>	<u>\$ 682,102</u>	<u>\$ 983,558</u>	<u>\$ (707,284)</u>

September 30, 2014					Total
		Quoted Prices in	Other	Significant	Gains/(Losses)
		Active Markets	Observable	Unobservable	During
		For Identical	Inputs	Inputs	the Year
		Assets	(Level 2)	(Level 3)	Ended
	Fair Value	(Level 1)			September 30,
					2014
Assets					
Other real estate owned	\$ 166,720	\$ -	\$ -	\$ 166,720	\$ (50,000)

The following methods were used to estimate the fair value of each class of financial instrument above:

Impaired Loans – Impaired loans measured at fair value consist of an unsecured commercial loan with a valuation allowance determined based on a recent observation of a market sale price of a similar asset with the same terms and a similar size as the impaired loan being measured resulting in a Level 2 classification.

Real Estate Held for Investment – The fair value of real estate held for investment is estimated using a recent third party appraisal. The appraisal utilized an income approach contains unobservable market data. Therefore, such appraisals are classified as Level 3 in the fair value hierarchy. Quantitative information about such Level 3 fair value measurements contained in the appraisal is as follows as of September 30, 2015:

September 30, 2015	Fair Value	Valuation Technique	Description of Unobservable Inputs	Actual Unobservable Inputs
Real estate held for investment	\$ 938,558	Income approach	Capitalization rate	11.3%
			Vacancy and collection loss	16%

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 10 – FAIR VALUE MEASUREMENT (Continued)

Other Real Estate Owned – The fair value of other real estate owned is based primarily on the values obtained through property appraisals or similar information, less estimated selling costs. Other real estate owned is categorized as Level 3 due to the same unobservable market data factors described above for real estate held for investment. Quantitative information about such Level 3 fair value measurements contained in the appraisal is as follows as of September 30, 2014:

<u>September 30, 2014</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Description of Unobservable Inputs</u>	<u>Range of Unobservable Inputs</u>
Other real estate owned	\$ 166,720	Sales comparison approach	Adjustment for differences between the comparable sales	(25)% to 7%

The carrying amounts and estimated fair values of financial instruments, at September 30, 2015 and 2014 were as follows:

		<u>Fair Value Measurements at September 30, 2015 using:</u>			
	<u>Carrying Amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:					
Cash and cash equivalents	\$ 90,957,342	\$ 90,957,342	\$ -	\$ -	\$ 90,957,342
CD investments in other banks	1,734,000	-	1,734,000	-	1,734,000
Investment securities	29,228,552	-	29,237,000	-	29,237,000
Loans held for sale	3,677,000	-	3,950,000	-	3,950,000
Loans, net	238,088,848	-	682,102	235,121,898	235,804,000
Federal Home Loan Bank stock	1,889,000	-	-	-	N/A
Equity Investment	59,000	-	-	59,000	59,000
Accrued interest receivable	1,093,545	-	167,196	926,349	1,093,545
Financial liabilities:					
Deposits	342,390,415	321,371,688	21,092,000	-	342,463,688
Other borrowings	8,529,290	-	2,689,000	6,621,000	9,310,000
Accrued interest payable	193,280	-	164,476	28,804	193,280
Junior subordinated deferrable interest debentures	6,392,000	-	-	4,511,000	4,511,000

		<u>Fair Value Measurements at September 30, 2014 using:</u>			
	<u>Carrying Amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:					
Cash and cash equivalents	\$ 93,137,902	\$ 93,137,902	\$ -	\$ -	\$ 93,137,902
CD investments in other banks	4,655,000	-	4,655,000	-	4,655,000
Investment securities	28,932,503	-	28,941,000	-	28,941,000
Loans, net	212,436,637	-	-	210,652,993	210,652,993
Federal Home Loan Bank stock	1,887,800	-	-	-	N/A
Equity Investment	100,000	-	-	100,000	100,000
Accrued interest receivable	1,022,530	-	153,495	869,035	1,022,530
Financial liabilities:					
Deposits	309,793,092	281,017,154	28,807,000	-	309,824,154
Other borrowings	8,602,624	-	8,848,000	-	8,848,000
Accrued interest payable	64,644	-	55,551	9,093	64,644
Junior subordinated deferrable interest debentures	6,392,000	-	-	4,433,000	4,433,000

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 10 – FAIR VALUE MEASUREMENT (Continued)

The following methods and assumptions were used by management to estimate the fair value of its financial instruments at September 30, 2015 and 2014:

Cash and Cash Equivalents: The carrying amounts of cash and cash equivalents approximate fair values and are classified as level 1.

CD Investments in Other Banks: The fair value of CD investments in banks is estimated by discounting their future cash flows using rates at the reporting date for instruments with similar remaining maturities offered by comparable financial institutions.

Investment Securities: For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers. The carrying amount of accrued interest receivable approximates its fair value.

Loans: Fair values of loans other than the impaired loans discussed previously are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price. The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a level 2 classification.

Investment in Federal Home Loan Bank Stock: It is not practicable to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability.

Equity Investments: The fair value of the equity investment approximates the book value of the investment after the conversion and reverse stock split in connection with the reorganization and merger of the company in 2015. A Level 3 classification is used because of the inability to trade the investment in the open market, as the investment is not traded on an exchange.

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount resulting in a Level 1 classification. Fair values for fixed-rate certificates of deposits are estimated using a discounted cash flow analysis using interest rates offered at each reporting date by the Bank for certificates with similar remaining maturities resulting in a Level 2 classification. The carrying amount of accrued interest payable approximates its fair value.

Other Borrowings: The fair value of FHLB borrowings is estimated using a discounted cash flow analysis using interest rates currently available to the Company for similar debt instruments resulting in a Level 2 classification. The fair value of the other long-term borrowing is determined based on trades and/or discounted cashflow analysis using interest rates offered in inactive markets for instruments of a similar maturity and structure resulting in a Level 3 classification. The carrying amount of accrued interest payable approximates its fair value.

Junior Subordinated Deferrable Interest Debentures: The fair value of junior subordinated deferrable interest debentures is determined based on trades and/or discounted cashflow analysis using interest rates offered in inactive markets for instruments of a similar maturity and structure resulting in a Level 3 classification.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 11 – SHAREHOLDERS' EQUITY

Stock repurchase: During the year ended September 30, 2015, the Company repurchased and subsequently retired 425,710 shares of its common stock on various dates totaling \$8,066,541, including capitalized legal costs \$20,569. The repurchase amounts ranged from \$16.00 to \$19.10 per share with a weighted average of \$18.95 per share.

Stock Issuance: During the year ended September 30, 2015, the Company issued 10,000 shares of its common stock to a director at a price of \$16.00 per share for total proceeds of \$160,000. During the year ended September 30, 2014, the Company issued 209,608 shares of its common stock on various dates to investors through private placements. The issuance prices ranged from \$15.54 per share to \$18.15 per share with a weighted average of \$16.16 per share, resulting in proceeds to the Company of \$3,387,150. Offering and stock issuance costs were not significant in 2015 or 2014.

Dividends: Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The OCC restricts the total dividend payment of any bank in any calendar year to the net income for that year to date plus retained earnings for the preceding two years. No dividends were declared or paid during the years ended September 30, 2015 and 2014.

Regulatory Capital: The Bank is subject to certain regulatory capital requirements administered by the OCC. Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. As of September 30, 2015 and 2014, the most recent notice from the OCC categorized the Bank as well capitalized under these guidelines. There are no conditions or events since that notification that management believes have changed the Bank's category.

2015	Amount	<u>Actual</u> Ratio	Required for Capital <u>Adequacy Purposes</u>		To Be Well Capitalized Under Prompt Corrective <u>Action Regulations</u>	
			Amount	Ratio	Amount	Ratio
Total Capital to risk weighted assets	\$ 38,182,000	15.30%	\$19,965,000	8.00%	\$24,957,000	10.00%
Tier 1 (Core) Capital to risk weighted assets	\$ 35,062,000	14.05%	\$14,974,000	6.00%	\$19,965,000	8.00%
Common Equity Tier 1 Capital To risk-weighted assets	\$ 35,062,000	14.05%	\$11,230,000	4.50%	\$16,222,000	6.50%
Tier 1 (Core) Capital to average assets	\$ 35,062,000	9.03%	\$15,527,000	4.00%	\$19,409,000	5.00%

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 11 – SHAREHOLDERS' EQUITY (Continued)

2014	<u>Actual</u>		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Total Risk-Based Capital	\$ 36,204,000	16.70%	\$17,395,000	8.00%	\$21,744,000	10.00%
Tier 1 Risk-Based Capital Ratio	\$ 33,462,000	15.40%	\$8,698,000	4.00%	\$13,047,000	6.00%
Core Capital	\$ 33,462,000	9.50%	\$14,118,000	4.00%	\$17,648,000	5.00%

Quantitative measures established by the regulations to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to total assets. Each of these components is defined in the regulations. Management believes that the Bank meets all its capital adequacy requirements as of September 30, 2015.

NOTE 12 – EMPLOYEE BENEFIT PLAN

401(k) Plan: Effective January 1, 1995, the Company adopted the United Business Bank 401(k) Plan. Employees are eligible for membership in the plan upon completion of twelve months of continuous employment (during which at least 1,000 hours of service have been completed). The participants may contribute up to 100% of their pretax income and the Company matches 100% of the participants' contributions up to 15% of their eligible compensation subject to the maximum allowable by law. The Company's contributions to the plan were \$461,809 and \$403,870 for the years ended September 30, 2015 and 2014, respectively.

Deferred Compensation Plans: The Company has established a deferred compensation plan (the United Business Bank Director Deferred Compensation Plan) for certain directors as well as a plan for members of management (the United Business Bank Executive Deferred Compensation Plan) for the purpose of providing the opportunity for participants to defer compensation. Participants in the Director Plan are able to defer up to 100% of their director fees. Additionally, the Company may make a discretionary matching contribution, however there were no such contributions made by the Company for the years ended September 30, 2015 and 2014. Participants in the Executive Plan are able to defer up to 100% of their salary as well as 100% of their performance-based compensation. The Company bears all administrative costs for the plans and funds the interest earned on participant deferrals at a rate equal to the Wall Street Journal Prime Rate which was 3.25% at September 30, 2015 and 2014. Deferred compensation earned interest in the amount of approximately \$38,000 and \$35,000 for the years ended September 30, 2015 and 2014. Deferred compensation, including interest earned, totaled approximately \$1,332,000 and \$1,181,000 at September 30, 2015 and 2014, respectively and is included on the consolidated balance sheet in accrued interest payable and other liabilities.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 12 – EMPLOYEE BENEFIT PLAN (Continued)

Performance Driven Plan: In December 2009, the Bank adopted a Performance Driven Plan (“Performance Plan”) through which, beginning in September, 2010, the Bank contributes funds (“Awards”) for the benefit of certain employees and non-executive directors. The Awards for employees are based on age, base compensation and the achievement of performance targets. The Awards for directors are based upon directors’ fees and performance targets. The Performance Plan provides that the annual performance targets can be amended in the sole discretion of the Bank. Each Award vests separately at the rate of 20% per year (a rolling vesting) commencing in 2011. The Company’s Performance Plan liability totaled approximately \$1,108,000 and \$961,000 at September 30, 2015 and 2014, respectively, and is included on the consolidated balance sheet in accrued interest payable and other liabilities. The Company’s expense related to the Performance Plan was approximately \$170,000 and \$90,000 during the year ended September 30, 2015 and 2014, respectively.

NOTE 13 – INCOME TAXES

Income tax (benefit) expense for the years ended September 30, 2015 and 2014 consisted of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2015</u>			
Current	\$ (585,000)	\$ (120,000)	\$ (705,000)
Deferred	<u>533,000</u>	<u>131,000</u>	<u>664,000</u>
Income tax (benefit) expense	<u>\$ (52,000)</u>	<u>\$ 11,000</u>	<u>\$ (41,000)</u>
<u>2014</u>			
Current	\$ 674,000	\$ 255,000	\$ 929,000
Deferred	<u>(693,000)</u>	<u>(121,000)</u>	<u>(814,000)</u>
Income tax (benefit) expense	<u>\$ (19,000)</u>	<u>\$ 134,000</u>	<u>\$ 115,000</u>

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 13 – INCOME TAXES (Continued)

The components of deferred income tax assets and liabilities at September 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Deferred tax assets:		
Allowance for loan losses	\$ 877,000	\$ 1,601,000
Depreciation on premises and equipment	289,000	283,000
Other real estate owned	185,000	234,000
Loss carryovers	24,000	458,000
Credit carryovers	2,000	8,000
Deferred compensation	541,000	482,000
Performance driven plan	450,000	391,000
Accrued expenses and other	<u>390,000</u>	<u>333,000</u>
Gross deferred tax assets	<u>2,758,000</u>	<u>3,790,000</u>
Less: Valuation allowance	<u>(2,000)</u>	<u>(458,000)</u>
Total deferred tax assets	2,756,000	3,332,000
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends	(155,000)	(156,000)
Unrealized gains on available-for-sale investment securities	(290,000)	(201,000)
Deferred loan costs	(195,000)	(109,000)
Other	<u>(453,000)</u>	<u>(450,000)</u>
Total deferred tax liabilities	<u>(1,093,000)</u>	<u>(916,000)</u>
Net deferred tax assets	<u>\$ 1,663,000</u>	<u>\$ 2,416,000</u>

During the years ended September 30, 2015 and 2014, the Company recorded a full valuation allowance against certain deferred tax assets as a result of California capital loss carryforwards since it is more likely than not that these deferred tax assets will not be realized due to the lack of anticipated capital gain income.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 13 – INCOME TAXES (Continued)

The Company's reported income tax expense differs from the amount of tax expense that would result from applying the Federal statutory tax rates to pretax income for the years ended September 30, 2015 and 2014, primarily as a result of the following:

	<u>September 30,</u>	
	<u>2015</u>	<u>2014</u>
Federal	34.0%	34.0%
State, net of federal benefits	3.4%	6.5%
Bank owned life insurance	-26.2%	-3.8%
Tax exempt interest	-40.0%	-6.3%
Gain from bargain purchase	0.0%	-34.4%
Nondeductible expenses and other	<u>9.4%</u>	<u>12.5%</u>
Effective Tax Rate	<u><u>-19.4%</u></u>	<u><u>8.5%</u></u>

The Company files income tax returns in the U.S. federal, California and New Mexico jurisdictions. The Company is not subject to U.S. federal, state, or local income tax examinations by tax authorities for tax years before 2009. The amount of unrecognized tax benefits as of September 30, 2015 and 2014 is not considered material.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Leases: The Company leases certain branches under noncancellable operating leases with future minimum lease payments as follows:

<u>Year Ending</u> <u>September 30,</u>	
2016	\$ 221,822
2017	172,064
2018	<u>53,676</u>
	<u><u>\$ 447,562</u></u>

Rental expense included in occupancy and equipment expense totaled \$557,402 and \$404,971 for the years ended September 30, 2015 and 2014, respectively.

Financial Instruments With Off-Balance-Sheet Risk: The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheet.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

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

The following financial instruments represent off-balance-sheet credit risk.

	<u>September 30,</u>	
	<u>2015</u>	<u>2014</u>
Commitments to extend credit	\$ 12,708,000	\$ 7,921,000
Standby letters of credit	\$ -	\$ 171,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include deeds of trust on residential real estate and income-producing commercial properties, accounts receivable, inventory and equipment.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liabilities related to these standby letters of credit, which is represented by the fees received for issuing the guarantees, was not significant at September 30, 2015 and 2014. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

The commitments disclosed above are primarily commercial loan commitments and are generally unsecured or secured by collateral other than real estate and have variable interest rates.

Significant Concentrations of Credit Risk: The Company grants real estate mortgage, commercial and consumer loans to customers primarily throughout the State of California. A substantial portion of its portfolio is secured by residential (single-family and multi-family) and commercial real estate.

At September 30, 2015, in management's judgment, a concentration of real estate loans existed. At that date, commercial real estate, and multi-family residential real estate loans represented 55%, and 28% of total loans, respectively.

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

Although management believes that the loans within these concentrations have no more than the normal risk of collectability, a substantial decline in the performance of the economy in general or a decline in real estate values in the Company's primary service areas, in particular, could have an adverse impact on collectability, increase the level of real estate related non-performing loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on the financial condition of the Company.

Federal Reserve Requirements: Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The Company was required to maintain a reserve balance of \$10,818,000 at September 30, 2015.

Correspondent Banking Agreements: The Company maintains uninsured funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits totaled approximately \$21,481,000 at September 30, 2015.

Collective Bargaining Agreement: Approximately 38% of the Company's employees are members of the Office and Professional Employees International Union, Local 29. The collective bargaining agreement between the Company and the Union expires on December 31, 2015. Approximately 5% of the Company's employees are members of the United Food and Commercial Workers, Local 1564. The collective bargaining agreement between the Company and the Union expires November 30, 2016.

Contingencies: The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Company.

NOTE 15 – OTHER EXPENSE

Other expense consisted of the following:

	<u>September 30,</u>	
	<u>2015</u>	<u>2014</u>
Regulatory assessments	\$ 373,874	\$ 301,753
Professional fees	686,685	629,748
Travel and auto	245,960	259,065
Dues, meals and entertainment	380,151	260,402
Postage and courier expenses	212,447	200,665
Other real estate owned	4,330	(42,811)
Director fees	201,091	236,984
Data processing	1,103,175	1,501,048
Telephone	295,512	360,662
Marketing and advertising	193,276	157,573
Surety bond insurance premiums	144,476	157,910
Loan boarding and collection expenses	32,825	7,923
Correspondent bank charges	40,748	41,225
Stationery and supplies	109,735	250,300
Impairment of real estate held for investment	455,000	-
Other operating expenses	<u>317,554</u>	<u>316,996</u>
	<u>\$ 4,796,839</u>	<u>\$ 4,639,443</u>

(Continued)

FIRST ULB AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE 16 – RELATED-PARTY TRANSACTIONS

The Bank enters into transactions with related parties, including directors, executive officers and affiliates. Aggregate amount of all extensions of credit to all directors, executive officers and related parties totaled \$2,349,588 and \$2,592,962 at September 30, 2015 and 2014, respectively.

	<u>September 30,</u>	
	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 2,592,962	\$ 2,247,416
Advances	796,299	900,229
Repayments	<u>(1,039,673)</u>	<u>(554,683)</u>
Ending balance	<u>\$ 2,349,588</u>	<u>\$ 2,592,962</u>

There were no unfunded commitments to related parties at September 30, 2015 and 2014.