PBB BANCORP AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders of
PBB Bancorp and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of PBB Bancorp and Subsidiary (the "Company"), which are comprised of the consolidated statements of financial condition as of December 31, 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PBB Bancorp and Subsidiary as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP
Laguna Hills, California
March 28, 2016

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PBB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2015 AND 2014

ASSETS	2015	2014
Cash and Due from Banks	$ 3,504,200	$ 3,211,682
Interest Bearing Deposits at Other Banks	30,243,225	30,474,341
TOTAL CASH AND CASH EQUIVALENTS	33,747,425	33,686,023
Investment Securities Available for Sale	1,636,776	-
Loans Held for Sale	2,258,797	-
Loan Receivable, Net	233,292,730	181,650,262
Federal Home Loan Bank Stock, at Cost	1,620,000	1,410,000
Premises and Equipment	135,376	248,288
Deferred Tax Asset	932,000	2,272,000
Accrued Interest and Other Assets	1,246,902	607,284
TOTAL ASSETS	$ 274,870,006	$ 219,873,857
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-Bearing Demand	$ 42,936,109	$ 29,483,961
Money Market, NOW and Savings	55,753,503	57,121,722
Time Deposits Under $250,000	80,304,015	72,079,174
Time Deposits $250,000 and Over	9,339,592	6,676,175
TOTAL DEPOSITS	188,333,219	165,361,032
Federal Home Loan Bank Borrowings	60,000,000	30,000,000
Accrued Interest and Other Liabilities	803,027	709,741
TOTAL LIABILITIES	249,136,246	196,070,773
Commitments and Contingencies - Note D and L	-	-
Shareholders' Equity:		
Preferred Stock - 5,000,000 Shares Authorized, None Outstanding	-	-
Common Stock No Par Value; 10,000,000 Shares Authorized;		
Issued and Outstanding: 3,396,550 in 2015 and 2014	26,985,142	26,985,142
Additional Paid-in Capital	1,366,343	1,296,143
Accumulated Deficit	(2,608,225)	(4,478,201)
Accumulated Other Comprehensive Income (Loss) - Unrealized Loss		
on Available-for-Sale Securities, Net of Taxes of ($6,601) in 2015	(9,500)	-
TOTAL SHAREHOLDERS' EQUITY	25,733,760	23,803,084
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 274,870,006	$ 219,873,857

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

PBB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
INTEREST INCOME		
Interest and Fees on Loans	$10,579,348	$ 7,406,084
Interest on Investment Securities	3,906	-
Interest on Federal Funds Sold and Other	248,608	149,891
TOTAL INTEREST INCOME	10,831,862	7,555,975
INTEREST EXPENSE		
Interest on Money Market, NOW and Savings Accounts	206,355	222,920
Interest on Time Deposits	922,890	646,364
Interest on Other Borrowings	460,552	238,924
TOTAL INTEREST EXPENSE	1,589,797	1,108,208
NET INTEREST INCOME	9,242,065	6,447,767
Provision for Loan Losses	255,000	150,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,987,065	6,297,767
NONINTEREST INCOME		
Service Charges, Fees and Other Income	188,551	212,724
Gain on Sale of Loans	706,233	115,013
TOTAL NONINTEREST INCOME	894,784	327,737
NONINTEREST EXPENSE		
Salaries and Benefits	4,202,979	3,355,477
Occupancy and Equipment Expenses	579,846	548,699
Data Processing	167,869	156,423
Other Expenses	1,568,109	1,299,256
TOTAL NONINTEREST EXPENSE	6,518,803	5,359,855
INCOME BEFORE INCOME TAXES	3,363,046	1,265,649
Income Tax Expense	1,493,070	533,350
NET INCOME	$ 1,869,976	$ 732,299
Per Share Data:		
Net Income - Basic	$ 0.55	N/A
Net Income - Diluted	$ 0.54	N/A

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

PBB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Net Income	$1,869,976	$ 732,299
OTHER COMPREHENSIVE LOSS:		
Unrealized Losses on Securities Available for Sale	(16,101)	-
Less Income Tax Benefit	(6,601)	-
TOTAL OTHER COMPREHENSIVE LOSS	(9,500)	-
TOTAL COMPREHENSIVE INCOME	$1,860,476	$ 732,299

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

PBB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Common Stock		Additional		Accumulated Other	
	Shares Outstanding	Amount	Paid-in Capital	Accumulated Deficit	Comprehensive Income (Loss)	Total
Balance, January 1, 2014	2,851,063	$24,031,343	$ 1,254,623	$(5,210,500)	$ -	$20,075,466
Net Income				732,299		732,299
Stock-Based Compensation			41,520			41,520
Issuance of Common Stock, Net of Expenses of $46,380	545,487	2,953,799				2,953,799
Balance, December 31, 2014	3,396,550	26,985,142	1,296,143	(4,478,201)	-	23,803,084
Net Income				1,869,976		1,869,976
Other Comprehensive Loss, Net of Taxes					(9,500)	(9,500)
Stock-Based Compensation			70,200			70,200
Balance, December 31, 2015	3,396,550	$26,985,142	$ 1,366,343	$(2,608,225)	$(9,500)	$25,733,760

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

PBB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING ACTIVITIES		
Net Income	$ 1,869,976	$ 732,299
Adjustments to Reconcile Net Income to		
Net Cash From Operations:		
Depreciation and Amortization	138,769	140,979
Provision for Loan Losses	255,000	150,000
Gain on Sale of Loans	(706,233)	(115,013)
Loans Originated for Sale	(11,037,435)	(1,422,500)
Proceeds from the Sale of Loans	9,732,866	1,585,660
Deferred Taxes	1,347,000	526,000
Stock-based Compensation	70,200	41,520
Net Change in Accrued Interest, Other Assets and Other Liabilities	(348,936)	161,487
NET CASH FROM OPERATING ACTIVITIES	1,321,207	1,800,432
INVESTING ACTIVITIES		
Purchase of Securities Available for Sale	(1,653,156)	-
Purchase of Federal Home Loan Bank Stock	(210,000)	(517,000)
Net Change in Loans	(52,342,979)	(47,185,862)
Purchase of Premises and Equipment	(25,857)	(50,105)
NET CASH FROM INVESTING ACTIVITIES	(54,231,992)	(47,752,967)
FINANCING ACTIVITIES		
Net Change in Demand, Money Market, NOW and Savings Deposits	12,083,929	18,366,215
Net Change in Time Deposits	10,888,258	11,533,101
Net Change in Federal Home Loan Bank Borrowings	30,000,000	11,000,000
Proceeds from Issuance of Common Stock, Net of Expenses	-	2,953,799
NET CASH FROM FINANCING ACTIVITIES	52,972,187	43,853,115
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	61,402	(2,099,420)
Cash and Cash Equivalents at Beginning of Period	33,686,023	35,785,443
Cash and Cash Equivalents at End of Period	$ 33,747,425	$ 33,686,023
Supplemental Disclosure of Cash Flow Information		
Interest Paid	$ 1,541,328	$ 1,095,418
Income Taxes Paid	$ 278,000	$ 3,000

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements included the accounts of PBB Bancorp and its wholly-owned subsidiary, Premier Business Bank (the "Bank"), collectively referred to herein as the "Company". All significant intercompany transactions have been eliminated. The Company has no significant business activities other than its investment in the Bank and, therefore, no separate financial information on the Company is provided.

Nature of Operations

The Bank was incorporated in the State of California and organized as a single operating segment that operates two full-service offices in Los Angeles and Palos Verdes, California, and one loan production office in Torrance, California. The Bank's primary source of revenue is providing loans to customers, who are predominantly small and middle-market business and individuals.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 28, 2016, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and cash equivalents includes cash, noninterest-earning deposits and federal funds sold. Generally, federal funds are sold for one-day periods.

Cash and Due from Banks

Banking regulations require that all banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Company complied with the reserve requirements as of December 31, 2015 and 2014.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment Securities

Bonds, notes and debentures for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity. Investments not classified as trading securities nor as held to maturity securities are classified as available-for-sale securities and recorded at fair value. Unrealized gains or losses on available-for-sale securities are excluded from net income and reported as an amount net of taxes as a separate component of other comprehensive income included in shareholders' equity. Premiums and discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method. Realized gains or losses of held-to-maturity or available-for-sale securities are recorded using the specific identification method.

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

Loan Held for Sale

Government Guaranteed loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains or losses realized on the sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold, adjusted for any servicing asset or liability. Gains and losses on sales of loans are included in noninterest income.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Loan origination fees and certain direct origination costs are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans - Continued

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

Allowance for Loan Losses

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses - Continued

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

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

Federal Home Loan Bank ("FHLB") Stock

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

Premises and Equipment

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

Advertising Costs

The Company expenses the costs of advertising in the period incurred.

Stock-Based Compensation

Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period. See Note J for additional information on the Company’s stock option plan.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loan Sales and Servicing of Financial Assets

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

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

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

Income Taxes

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Transfers of Financial Assets

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

Earnings Per Share ("EPS")

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The treasury stock method has been applied to determine the dilutive effect of stock options in computing diluted EPS. Prior to 2015 the Company's stock was not traded or listed on any exchange, and accordingly was not required to disclose EPS for 2014.

Comprehensive Income

Changes in unrealized gains and losses on available-for-sale securities are the only component of accumulated other comprehensive income for the Company.

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

See Note O for more information and disclosures relating to the Company's fair value of financial instruments.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Instruments

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

Reclassification

Certain reclassifications have been made in the 2014 financial statements to conform to the presentation used in 2015. These classifications are of a normal recurring nature.

Adopted Accounting Guidance

In January 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-04, *Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*, a consensus of the FASB Emerging Issues Task Force. This Update provides clarification as to when an in-substance repossession or foreclosure has occurred, i.e., the creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan and, therefore, the loan receivable should be derecognized and the real estate property should be recognized. Under ASU No. 2014-04, a creditor has received physical possession of residential real estate property collateralizing a consumer mortgage loan upon either (1) the creditor obtaining legal title to the property upon completion of a foreclosure or (2) the borrower conveying all interest in the property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or a similar legal agreement. The Update also will require disclosure in annual and interim financial statements of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2014. Adoption of this Update did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Guidance Not Yet Effective

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent Accounting Guidance Not Yet Effective - Continued

On January 5, 2016, the FASB issued Accounting Standards Update 2016-01, *Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is generally effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the effects of ASU 2016-01 on its financial statements and disclosures, if any.

On February 25, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2018 for public business entities and one year later for all other entities. The Company is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures.

NOTE B - INVESTMENT SECURITIES

Debt securities have been classified in the balance sheets according to management's intent. The carrying amount of securities available for sale and their approximate fair values at December 31 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
Available-for-Sale Securities:				
Mortgage Backed Securities	$ 1,652,877	$ -	$(16,101)	$ 1,636,776
Total Available-for-Sale Securities	$ 1,652,877	$ -	$(16,101)	$ 1,636,776

The amortized cost and estimated fair value of all investment securities as of December 31, 2015 by contractual maturities are shown below. Contractual maturities may differ from contractual actual because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale Securities	
	Amortized Cost	Fair Value
Due after Ten Years	1,652,877	1,637,776
	$ 1,652,877	$ 1,637,776

As of December 31, 2015, the Company had one investment security that has been in an unrealized loss position for less than twelve months. Unrealized losses on debt securities have not been recognized into income because the issuers' bonds are above investment grade, management does not intend to sell and it is not more likely than not that management would be required to sell the security prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach maturity.

NOTE C - LOANS

The Company's loan portfolio consists primarily of loans to borrowers within Los Angeles County, California. Although the Company seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Bank's market area and, as a result, the Company's loan and collateral portfolios are, to some degree, concentrated in those industries. The Company has pledged loans totaling approximately $150.5 million to secure a line of credit with the Federal Home Loan Bank of San Francisco as discussed in Note F.

The composition of the Company's loan portfolio at December 31 was as follows:

	2015	2014
Real Estate Loans:		
Construction Loans	$ 19,614,736	$ 14,537,531
Residential Real Estate	64,165,345	35,659,684
Home Equity	16,358,958	23,292,489
Multifamily	31,332,051	18,411,341
Commercial Real Estate - Owner Occupied	23,274,890	22,410,868
Commercial Real Estate - Non-Owner Occupied	57,702,055	46,843,517
Commercial Loans	22,673,794	22,205,163
Consumer Loans	140,882	-
	235,262,711	183,360,593
Deferred Loan Origination Costs Net of Loan Origination Fees	150,019	154,669
Allowance for Loan Losses	(2,120,000)	(1,865,000)
Loans Receivable, Net	$233,292,730	$181,650,262

The Company also originates SBA loans for potential sale to institutional investors. A portion of the Company's revenues are from origination of loans guaranteed by the Small Business Administration under its various programs and sale of the guaranteed portions of the loans. Funding for these loans depends on annual appropriations by the U.S. Congress. The Bank was servicing approximately $9,872,000 and $ 1,397,000 in SBA loans previously sold as of December 31, 2015 and 2014, respectively.

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

	2015	2014
Balance at Beginning of Year	$ 1,865,000	$ 1,715,000
Provision for Loan Losses	255,000	150,000
Recoveries on Loans Charged-Off	-	-
	2,120,000	1,865,000
Less Loans Charged-Off	-	-
Ending Balance	$ 2,120,000	$ 1,865,000

NOTE C - LOANS - Continued

The following table presents the activity in the allowance for loan losses for the years 2015 and 2014, and the recorded investment in loans and impairment method as of December 31, 2015 and 2014 by portfolio segment:

December 31, 2015	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	$ 1,603,912	$ 261,088	$ -	$ 1,865,000
Provisions	128,431	126,569	-	255,000
Charge-offs	-	-	-	-
Recoveries	-	-	-	-
End of Year	$ 1,732,343	$ 387,657	$ -	$ 2,120,000
Reserves:				
Specific	$ -	$ -	$ -	$ -
General	1,732,343	387,657	-	2,120,000
	$ 1,732,343	$ 387,657	$ -	$ 2,120,000
Loans Evaluated for Impairment:				
Individually	$ -	$ -	$ -	$ -
Collectively	212,448,035	22,673,794	140,882	235,262,711
	$212,448,035	$22,673,794	$ 140,882	$235,262,711
December 31, 2014				
Allowance for Loan Losses:				
Beginning of Year	$ 1,258,575	$ 456,425	$ -	$ 1,715,000
Provisions	345,337	(195,337)	-	150,000
Charge-offs	-	-	-	-
Recoveries	-	-	-	-
End of Year	$ 1,603,912	$ 261,088	$ -	$ 1,865,000
Reserves:				
Specific	$ -	$ -	$ -	$ -
General	1,603,912	261,088	-	1,865,000
	$ 1,603,912	$ 261,088	$ -	$ 1,865,000
Loans Evaluated for Impairment:				
Individually	$ -	$ -	$ -	$ -
Collectively	161,155,430	22,205,163	-	183,360,593
	$161,155,430	$22,205,163	$ -	$183,360,593

NOTE C - LOANS - Continued

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

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

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

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

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

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

December 31, 2015	Pass	Special Mention	Substandard	Impaired	Total
Real Estate Loans:					
Construction and Land Development	$ 19,614,736	$ -	$ -	$ -	$ 19,614,736
Residential Real Estate	64,165,345	-	-	-	64,165,345
Home Equity	16,358,958	-	-	-	16,358,958
Multifamily	31,332,051	-	-	-	31,332,051
Commercial Real Estate - Owner Occupied	23,274,890	-	-	-	23,274,890
Commercial Real Estate - Non-Owner Occupied	57,702,055	-	-	-	57,702,055
Commercial	22,673,794	-	-	-	22,673,794
Consumer	140,882	-	-	-	140,882
	$235,262,711	$ -	$ -	$ -	$235,262,711

NOTE C - LOANS - Continued

The risk category of loans by class of loans was as follows as of December 31, 2014:

December 31, 2014	Pass	Special Mention	Substandard	Impaired	Total
Real Estate Loans:					
Construction and Land Development	$ 14,537,531	$ -	$ -	$ -	$ 14,537,531
Residential Real Estate	35,659,684	-	-	-	35,659,684
Home Equity	23,292,489	-	-	-	23,292,489
Multifamily	18,411,341	-	-	-	18,411,341
Commercial Real Estate - Owner Occupied	22,410,868	-	-	-	22,410,868
Commercial Real Estate - Non-Owner Occupied	43,950,037	-	2,893,480	-	46,843,517
Commercial	22,010,871	9,135	185,157	-	22,205,163
	$180,272,821	$ 9,135	$ 3,078,637	$ -	$183,360,593

The Company had no past due loans or nonaccrual loans as of December 31, 2015 and 2014.

The Company did not have any impaired loans during 2015 or 2014.

NOTE D - PREMISES AND EQUIPMENT

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

	2015	2014
Furniture, Fixtures and Equipment	$ 677,353	$ 651,496
Leasehold Improvements	550,278	550,278
	1,227,631	1,201,774
Less Accumulated Depreciation and Amortization	(1,092,255)	(953,486)
	$ 135,376	$ 248,288

The Company leases its main office, branch locations and loan production office for its operations in Southern California. The lease of the downtown Los Angeles branch office and expires in 2016. The downtown Los Angeles office lease may be terminated prior to the expiration with a six month notice. The Palos Verdes leases expire in 2025 and 2026, respectively. The leases include provisions for periodic rent increases as well as payment by the lessee of certain operating expenses. The Company also leases a loan production office in Torrance on a month to month basis.

NOTE D - PREMISES AND EQUIPMENT - Continued

At December 31, 2015, the future lease rental payable under the above operating leases is as follows:

2016	$ 321,000
2017	226,931
2018	226,931
2019	226,931
2020	226,931
Thereafter	1,296,957
	$ 2,525,681

The minimum rental payments shown above are given for the existing lease obligation and are not a forecast of future rental expense. Total rental expense, recognized on a straight-line basis, was approximately $262,000 and $260,000 for the years ended December 31, 2015 and 2014, respectively.

NOTE E - DEPOSITS

At December 31, 2015, the scheduled maturities of time deposits are as follows:

2016	$ 45,096,592
2017	34,852,749
2018	9,445,266
2019	249,000
	$ 89,643,607

The Company has eleven deposit relationships that represent approximately 37.1% of the total outstanding deposits as of December 31, 2015.

NOTE F - BORROWING ARRANGEMENTS

The Company may borrow up to $8 million overnight on an unsecured basis from three of its correspondent banks. As of December 31, 2015 and 2014, no amounts were outstanding under these arrangements.

As of December 31, 2015, the Company had an available line of credit with the Federal Home Loan Bank of San Francisco ("FHLBSF") secured by the assets of the Bank. Under this line, the Company may borrow up to approximately $114.9 million subject to providing adequate collateral and fulfilling other conditions of the credit facility. As of December 31, 2015, the Company had pledged loans totaling approximately $150.5 million to secure the above line of credit.

At December 31, 2015, outstanding FHLBSF advances under the borrowing arrangement consisted of the following:

Maturity	Weighted-Average Rate	Amount
2016	0.50%	$ 28,000,000
2017	1.43%	11,000,000
2018	1.24%	18,000,000
2019	1.35%	3,000,000
		$ 60,000,000

NOTE G - INCOME TAXES

Income tax expense included in the statements of income consist of the following:

	2015	2014
Current:		
Federal	$ 120,441	$ -
State	25,629	7,350
	146,070	7,350
Deferred	1,347,000	526,000
	$ 1,493,070	$ 533,350

NOTE G - INCOME TAXES – Continued

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

	2015		2014	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 1,143,000	34.0%	$ 430,000	34.0%
State Tax, Net of Federal Benefit	260,000	7.7%	93,000	7.3%
Nondeductible Merger Expenses	75,000	2.2%	-	-
Other Items, Net	15,070	0.5%	10,350	0.8%
	$ 1,493,070	44.4%	$ 533,350	42.1%

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition. The Company's principal timing differences are from loan loss provision accounting, nonqualified stock options, loan fees, net operating loss carryovers and depreciation differences.

The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying statements of condition:

	2015	2014
Deferred Tax Assets:		
Net Operating Loss Carryforwards	$ 47,000	$ 1,485,000
Allowance for Loan Losses	675,000	570,000
Unamortized Pre-opening Expenses	169,000	196,000
Reserves	126,000	183,000
Depreciation	51,000	28,000
Other Items, Net	103,000	56,000
	1,171,000	2,518,000
Deferred Tax Liabilities:		
Other Items, Net	(239,000)	(246,000)
	(239,000)	(246,000)
Net Deferred Tax Assets	$ 932,000	$ 2,272,000

The Company has net operating loss carryforwards of approximately $659,000 for California franchise tax purposes. California net operating loss carryforwards, to the extent not used will begin to expire in 2028.

NOTE G - INCOME TAXES – Continued

The Company is subject to federal income tax and franchise tax of the state of California. Income tax returns for the years ended after December 31, 2011 and 2010 are open to audit by the Federal and California state authorities, respectively. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

NOTE H - EARNINGS PER SHARE ("EPS")

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

	2015	
	Income	Shares
Net Income as Reported	$ 1,869,976	
Weighted Average Shares Outstanding During the Year		3,396,550
Used in Basic EPS	1,869,976	3,396,550
Dilutive Effect of Outstanding Stock Options and Stock Grants		76,409
Used in Dilutive EPS	$ 1,869,976	3,472,959

NOTE I - OTHER EXPENSES

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

	2015	2014
Legal and Professional	$ 548,168	$ 594,445
Regulatory Assessments	170,373	151,569
Loan-related Costs	53,984	97,090
Advertising and Promotion	237,169	127,123
Office Expenses	121,701	114,845
Insurance Costs	47,421	41,419
Other	389,293	172,765
	$ 1,568,109	$ 1,299,256

NOTE J - STOCK - BASED COMPENSATION PLAN

The Bank's 2006 Stock Option Plan was approved by its shareholders in September 2006 and assumed by the Company in 2014. Under the terms of the 2006 Stock Option Plan, officers and key employees may be granted both nonqualified and incentive stock options. Directors and other individuals who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase up to 607,703 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of the grant. Stock options expire no later than ten years from the date of the grant and generally vest over three to five years. The Plan provides for accelerated vesting if there is a change in control, as defined in the Plan. The Company recognized stock-based compensation expense of $70,200 and $41,520 in 2015 and 2014, respectively.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions for stock options granted in 2014 are presented below. There were no stock options granted in 2015:

	2014
Risk Free Interest Rate	1.97%
Estimated Average Life	7.5 Years
Expected Dividend Rates	0.00%
Expected Stock Volatility	25.00%
Option Value	$ 1.80

Since the Company has a limited amount of historical stock activity the expected volatility is based on the historical volatility of similar banks that have a longer trading history. The expected term represents the estimated average period of time that the options remain outstanding. Since the Company does not have sufficient historical data on the exercise of options, the expected term is based on the "simplified" method that measures the expected term as the average of the vesting period and the contractual term. The risk free rate of return reflects the grant date interest rate offered for a comparable U.S. Treasury bonds over the expected term of the options.

NOTE J - STOCK - BASED COMPENSATION PLAN - Continued

A summary of the status of the Company's stock option plan as of December 31, 2015 and changes during the year ended thereon is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	323,545	$ 5.05		
Granted	-	$ -		
Forfeited	-	$ -		
Expired	-	$ -		
Outstanding at End of Year	323,545	$ 5.05	7.8 Years	$1,682,000
Options Exercisable	189,445	$ 4.87	7.3 Years	$1,020,000

As of December 31, 2015, there was $228,072 of total unrecognized compensation cost related to nonvested stock options that will be recognized over a weighted-average period of 2.3 years.

NOTE K - EMPLOYEE BENEFIT PLAN

The Bank adopted a 401(k) for its employees in 2006. Under the plan, eligible employees may defer a portion of their salaries. The plan also provides for discretionary Bank profit sharing contributions. The Bank made contributions of $61,700 and $46,600 for 2015 and 2014, respectively.

NOTE L - COMMITMENTS

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

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

As of December 31, 2015 and 2014, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2015	2014
Commitments to Extend Credit	$33,766,000	$27,068,000
Standby Letters of Credit	22,000	22,000
	$33,788,000	$27,090,000

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

NOTE M - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to certain officers and directors and the companies with which they are associated. As of December 31, 2015 and 2014, there was approximately $526,000 and $12,000 in outstanding balances, respectively. Unused loan commitments to these related parties totaled approximately $3,680,000 and $2,250,000 at December 31, 2015 and 2014, respectively.

Also, in the ordinary course of business, certain executive officers, directors and companies with which they are associated have deposits with the Company. The balance of these deposits at December 31, 2015 and 2014 was approximately $13,280,000 and $6,268,000, respectively.

NOTE N - REGULATORY MATTERS

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

In July, 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. The new rules became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule, and fully phased in by January 1, 2019. The rules include a new common equity Tier 1 ("CET1") capital to risk-weighted assets ratio with minimums for capital adequacy and prompt corrective action purposes of 4.5% and 6.5%, respectively. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Capital amounts and ratios for December 31, 2014 are calculated using Basel I rules.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and CET1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well-capitalized, the Bank must maintain minimum ratios as set forth in the table below.

NOTE N - REGULATORY MATTERS - Continued

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

	Actual Capital		Amount of Capital Required: To Be Adequately Capitalized		Amount of Capital Required: To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
Total Capital to Risk-Weighted Assets	$ 27,419	12.4%	$ 17,623	8.0%	$ 22,029	10.0%
Tier 1 Capital to Risk-Weighted Assets	$ 25,254	11.5%	$ 8,812	6.0%	$ 13,217	8.0%
CET1 Capital to Risk-Weighted Assets	$ 25,254	11.5%	$ 9,913	4.5%	$ 14,319	6.5%
Tier 1 Capital to Average Assets	$ 25,254	9.3%	$ 10,826	4.0%	$ 13,533	5.0%
As of December 31, 2014						
Total Capital to Risk-Weighted Assets	$ 24,505	13.9%	$ 14,086	8.0%	$ 17,607	10.0%
Tier 1 Capital to Risk-Weighted Assets	$ 22,595	12.8%	$ 7,043	4.0%	$ 10,564	6.0%
Tier 1 Capital to Average Assets	$ 22,595	11.3%	$ 7,975	4.0%	$ 9,969	5.0%

The Company is not subject to similar regulatory capital requirements because its consolidated assets do not exceed $1 billion, the minimum asset size criteria for bank holding companies subject to those requirements.

The Bank is restricted as to the amount of dividends that can be paid to the holding company. Dividends declared in excess of the lesser of the Bank's undivided profits or the Bank's net income for its last three fiscal years less the amount of any distribution made to the Bank's shareholders during the same period must be approved by the Department of Business Oversight. With certain exceptions, the Company may not pay a dividend to its shareholders unless its retained earnings equal at least the amount of the proposed dividend.

NOTE O - FAIR VALUE MEASUREMENTS

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

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

NOTE O - FAIR VALUE MEASUREMENTS - Continued

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

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
December 31, 2015				
Assets measured at fair value on a recurring basis				
Securities Available for Sale	$ -	$ 1,636,776	$ -	$ 1,636,776

NOTE P - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

Cash and Short-term Investments

The carrying amounts reported in the statement of financial condition for cash and due from banks, interest-bearing deposits approximate their fair value.

Investment Securities

Fair value for securities is based on quoted market prices, when available, or on quoted market process for similar instruments. See Note O for the fair value of securities.

NOTE P - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Loans

For variable-rate loans that re-price frequently and have experienced no significant change in credit risk, fair value is based on carrying value. Fair value for all other loans is estimated based on discounted cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. Prepayments prior to the re-pricing date are not expected to be significant. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Federal Home Loan Bank Stock

It was not practicable to determine the fair value of the Federal Home Loan Bank stock due to restrictions placed on its transferability.

Deposits

The fair values disclosed for demand deposits, including interest and non-interest demand accounts, savings, and certain types of money market accounts are, by definition based on carrying value. Fair value for fixed-rate certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities on time deposits. Early withdrawal of fixed-rate certificates of deposit is not expected to be significant.

Other Borrowings

Fair value for other borrowings is estimated using a discounted cash flow calculation of future interest and principal payments at current interest rates.

Accrued Interest Receivable and Payable

The fair value of accrued interest receivable and payable approximates their carrying amounts.

Off-Balance Sheet Financial Instruments

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

NOTE P - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The estimated fair value of significant financial instruments at December 31, 2015 and 2014 summarized is as follows (dollar amounts in thousands):

		2015		2014	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and Cash Equivalents	Level 1	$ 33,747	$ 33,747	$ 33,686	$ 33,686
Investment Securities	Level 2	1,637	1,637	-	-
Loans Held for Sale	Level 2	2,259	2,259	-	-
Loans, net	Level 3	233,293	229,967	181,650	181,307
FHLB Bank Stock	Level 2	1,620	N/A	1,410	N/A
Accrued Interest Receivable	Level 2	579	579	404	404
Liabilities:					
Deposits	Level 2	188,333	188,340	165,361	165,544
Federal Home Loan Bank Borrowings	Level 2	60,000	60,044	30,000	30,083
Accrued Interest Payable	Level 2	114	114	66	66

NOTE Q - FORMATION OF PBB BANCORP

During 2014, Premier Business Bank became a wholly-owned subsidiary of PBB Bancorp in an exchange of stock between entities under common control. PBB Bancorp issued 3,396,550 shares of common stock in exchange for the surrender of all outstanding shares of the Bank's common stock. There was no cash involved in this transaction. The acquisition was accounted for like a pooling of interest and the consolidated financial statements contained herein have been restated to give full retroactive effect to this transaction.

NOTE R - SUBSEQUENT EVENTS

On June 22, 2015, the Company signed a definitive agreement to acquire First Mountain Bank, a California state-chartered bank with 3 branches located in Big Bear Lake, California and the surrounding area. The acquisition was completed January 29, 2016, whereby the Company acquired $148 million in total assets, $101 million in loans and $134 million in total deposits. Under the terms of the merger agreement, each share of First Mountain Bank stock was converted into the right to receive one share of Company common stock and $1.05 in cash. The value of the deal consideration was approximately $16 million. The Company has not completed the fair value assessment of the acquired net assets as of March 28, 2016.