

FINANCIAL STATEMENTS

December 31, 2015 and 2014

COMMONWEALTH BUSINESS BANK
Los Angeles, California

FINANCIAL STATEMENTS
December 31, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
Commonwealth Business Bank
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Commonwealth Business Bank, which comprise the statements of financial condition as of December 31, 2015 and 2014, and the related 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commonwealth Business Bank 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.



Crowe Horwath LLP

Sherman Oaks, California
March 25, 2016

COMMONWEALTH BUSINESS BANK
STATEMENTS OF FINANCIAL CONDITION
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash and due from banks	$ 7,878,325	$ 5,873,854
Interest-earning balances due from the Federal Reserve Bank ("FRB")	85,017,026	43,292,344
Total cash and cash equivalents	92,895,351	49,166,198
Interest-earning deposits with other banks	3,934,000	13,609,000
Securities held to maturity, at amortized cost (fair value of $1,424,480 and $2,130,847 at December 31, 2015 and 2014, respectively)	1,370,786	2,037,749
Securities available for sale, at fair value	2,992,450	5,019,960
Loans held for sale, at the lower of cost or fair value	17,808,650	21,266,889
Loans receivable, net of allowance for loan losses of $8,545,549 and $8,976,536 at December 31, 2015 and 2014, respectively	641,145,547	539,810,310
Premises and equipment, net	3,183,832	2,774,299
Loan servicing rights	7,765,615	5,740,835
Accrued interest receivable	2,134,548	1,819,898
FRB stock, at cost	1,745,700	1,655,950
Federal Home Loan Bank ("FHLB") stock, at cost	2,916,700	2,325,200
Other assets	8,529,998	8,223,790
Total assets	$ 786,423,177	$ 653,450,078
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 163,384,607	$ 125,892,382
Savings	8,845,315	8,805,156
Money market and others	133,343,160	152,503,265
Time deposits of $100,000 or more	298,097,811	215,490,160
Time deposits under $100,000	76,840,694	70,120,635
Total deposits	680,511,587	572,811,598
FHLB advances	10,000,000	-
Accrued interest payable	1,407,508	785,184
Other liabilities	4,517,017	3,987,377
Total liabilities	696,436,112	577,584,159
Commitments and contingent liabilities		
Shareholders' equity		
Common stock and additional paid-in capital no par value; 20,000,000 shares authorized; 8,110,630 shares and 7,766,200 shares issued and outstanding at December 31, 2015 and 2014, respectively	58,659,124	55,797,067
Retained earnings	31,332,384	20,056,998
Accumulated other comprehensive income (loss), net of tax	(4,443)	11,854
Total shareholders' equity	89,987,065	75,865,919
Total liabilities and shareholders' equity	$ 786,423,177	$ 653,450,078

See accompanying notes to financial statements.

COMMONWEALTH BUSINESS BANK
STATEMENTS OF INCOME
For the Years Ended December 31, 2015 and 2014

	2015	2014
Interest and dividend income		
Interest and fees on loans	$ 32,764,739	$ 26,560,203
Interest on investment securities	121,112	159,611
Interest on interest-earning deposits with the FRB and other banks	221,721	227,870
Dividends on FRB and FHLB stock	415,210	261,656
Total interest income	33,522,782	27,209,340
Interest expense		
Interest on deposits	4,851,414	4,221,303
Interest on FHLB advances and other borrowings	158,880	4
Total interest expense	5,010,294	4,221,307
Net interest income before provision (negative provision) for loan losses	28,512,488	22,988,033
Provision (negative provision) for loan losses	500,000	(378,075)
Net interest income after provision (negative provision) for loan losses	28,012,488	23,366,108
Noninterest income		
Service charges on deposit accounts	385,741	468,017
Gain on sales of loans	8,524,436	9,390,570
Loan service fee income, net	1,297,459	1,179,025
Other income	932,808	760,567
Total noninterest income	11,140,444	11,798,179
Noninterest expense		
Salaries and employee benefits	12,500,670	10,510,936
Occupancy and equipment	1,967,763	1,662,668
Data processing and communication	1,619,471	532,520
Directors' expenses	363,222	285,371
Professional fees	710,365	510,796
Business development	183,870	160,612
Advertising and promotion	721,393	469,149
Postage and supplies	166,907	157,367
Regulatory assessment	433,679	366,724
Other operating expenses	1,248,795	1,377,679
Total noninterest expense	19,916,135	16,033,822
Income before income tax expense	19,236,797	19,130,465
Income tax expense	7,961,411	7,956,945
Net income	$ 11,275,386	$ 11,173,520
Income per common share:		
Basic	$ 1.40	$ 1.45
Diluted	1.35	1.36
Weighted-average common shares outstanding:		
Basic	8,030,258	7,731,154
Diluted	8,339,577	8,226,152

See accompanying notes to financial statements.

COMMONWEALTH BUSINESS BANK
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2015 and 2014

	2015	2014
Net income	$ 11,275,386	$ 11,173,520
Other comprehensive income		
Unrealized gains/losses on securities		
Unrealized holding losses on available for sale securities	(27,672)	(10,601)
Tax effect	11,375	4,650
Total other comprehensive loss	(16,297)	(5,951)
Comprehensive income	$ 11,259,089	$ 11,167,569

See accompanying notes to financial statements.

COMMONWEALTH BUSINESS BANK

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2015 and 2014

	Number of Shares Outstanding	Common Stock and Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2014	6,999,218	$47,710,441	$ 15,882,696	$ 17,805	$ 63,610,942
Exercise of stock options	67,100	251,618	-	-	251,618
Share-based compensation expense	-	712,096	-	-	712,096
Tax benefit from share-based compensation plan	-	123,694	-	-	123,694
10% stock dividend	699,882	6,999,218	(6,999,218)	-	-
Net income	-	-	11,173,520	-	11,173,520
Other comprehensive loss, net of tax	-	-	-	(5,951)	(5,951)
Balance, December 31, 2014	7,766,200	55,797,067	20,056,998	11,854	75,865,919
Exercise of stock options	344,430	1,466,846	-	-	1,466,846
Share-based compensation expense	-	662,506	-	-	662,506
Tax benefit from share-based compensation plan	-	732,705	-	-	732,705
Net income	-	-	11,275,386	-	11,275,386
Other comprehensive loss, net of tax	-	-	-	(16,297)	(16,297)
Balance, December 31, 2015	8,110,630	$58,659,124	$ 31,332,384	$ (4,443)	$ 89,987,065

See accompanying notes to financial statements.

COMMONWEALTH BUSINESS BANK
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net income	$ 11,275,386	$ 11,173,520
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	532,047	428,005
Amortization and accretion of investment securities	12,564	13,086
Provision (negative provision) for loan losses	500,000	(378,075)
Share-based compensation expense	662,506	712,096
Gain on sales of loans	(8,524,436)	(9,390,570)
Loss on sales and disposal of premises and equipment	237	5,868
Deferred income tax assets	(115,203)	(1,094,896)
Origination of loans held for sale	(110,904,943)	(112,778,818)
Proceeds from sale and pay downs of loans held for sale	119,283,697	116,222,964
Amortization of loan servicing rights	1,579,141	893,383
Increase in accrued interest receivable	(314,650)	(482,756)
Increase in other assets	(179,630)	(445,148)
Increase in accrued interest payable	622,324	195,313
Increase in other liabilities	529,640	1,199,428
Net cash and cash equivalents provided by operating activities	14,958,680	6,273,400
Cash flows from investing activities		
Proceeds from matured held to maturity securities	654,237	474,199
Proceeds from matured or called securities available for sale	4,000,000	-
Purchases of available for sale securities	(2,000,000)	-
Proceeds from sale and disposal of premises and equipment	946	319
Net increase in loans receivable	(101,835,237)	(96,825,446)
Decrease (increase) in interest-earning deposits with other banks	9,675,000	(4,983,000)
Purchase of FRB stock	(89,750)	(26,850)
Purchase of FHLB stock	(591,500)	(305,300)
Purchase of premises and equipment	(942,763)	(623,643)
Net cash and cash equivalents used in investing activities	(91,129,067)	(102,289,721)
Cash flows from financing activities		
Net increase in deposits	107,699,989	69,385,181
Proceeds from FHLB advances	10,000,000	-
Proceeds from exercise of stock options	1,466,846	251,618
Tax benefit from share-based compensation plan	732,705	123,694
Net cash and cash equivalents provided by financing activities	119,899,540	69,760,493
Net increase (decrease) in cash and cash equivalents	43,729,153	(26,255,828)
Cash and cash equivalents, beginning of year	49,166,198	75,422,026
Cash and cash equivalents, end of year	$ 92,895,351	$ 49,166,198
Supplemental cash flow information		
Interest paid	$ 4,387,970	$ 4,025,994
Income taxes paid	$ 6,713,000	$ 10,018,000

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Commonwealth Business Bank ("the Bank") is a California state-chartered commercial bank, which began its operations on March 3, 2005. The Bank has been organized as a single operating entity and operates full service branch offices in Southern California. The Bank provides a wide range of banking products and services to predominately small and midsize businesses. The Bank's revenues are primarily derived from providing financing for commercial real estate and business customers, as well as investing activities. Funding for lending and investing activities is obtained through acceptance of customer deposits and other borrowing activities.

Basic Presentation: 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.

Cash Flows: Cash and cash equivalents include cash and due from banks, deposits with other financial institutions which have original maturities of less than 90 days and federal funds sold. Net cash flows are reported for customer loan and deposit transactions and interest-earning deposits with other banks with maturities greater than 90 days that are carried at cost. The Federal Reserve Act requires banks to maintain a certain percentage of their deposits as reserves in cash or on deposit with the FRB. At December 31, 2015 and 2014, the reserve requirement was $3,296,000 and $6,223,000,respectively.

Investment Securities: Securities are classified into one of two categories and accounted for as follows:

(i) Securities that the Bank has the positive intent and ability to hold to maturity are classified as "held to maturity" and reported at amortized cost.

(ii) Securities not classified as held to maturity securities are classified as "available for sale" and reported at fair value. Unrealized gains and losses are reported as a separate component of shareholders' equity as accumulated other comprehensive income, net of taxes.

Interest income includes amortization/accretion of purchase premiums/discounts. Premiums and discounts on securities are amortized/accreted using the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

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

Loans Receivable: Loans receivable that the Bank has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding principal, reduced by the allowance for loan losses and net of deferred loan fees or costs on originated loans and unamortized premiums or unaccreted

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

discounts on retained portion of originated loans. Nonrefundable fees and direct costs associated with the origination of loans are deferred and netted against outstanding loan balances. The deferred net loan fees and costs are recognized in interest income as an adjustment to yield over the loan term using the level yield method without anticipating prepayments.

Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. Generally, all loans are placed on nonaccrual status when they become 90 days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against current earnings. In general, subsequent payments received are applied to the outstanding principal balance of the loan. A loan is returned to accrual status when the borrower has demonstrated a satisfactory payment trend subject to management's assessment of the borrower's ability to repay the loan.

Loans Held for Sale: Certain Small Business Administration ("SBA") loans that may be sold prior to their maturities are designated as held for sale at origination and are carried at the lower of cost or fair value, determined on a pool-level basis. A valuation allowance is established if the market value of such loans is lower than their cost, and operations are charged or credited for valuation adjustments. Origination fees on loans held for sale, net of certain costs of processing and closing the loans, are deferred until the time of sale and are included in the computation of the gain or loss from the sales of the related loans. A portion of the premium on sale of SBA loans is recognized as gains on sales of loans at the time of the sale. The remaining portion of the premium related to the unsold principal of the SBA loans is deferred and amortized over the remaining life of the loans as an adjustment to yield.

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. The allowance is increased by provisions charged to earnings and reduced by charge-offs, net of recoveries. Management estimates the allowance balance required using previous loan loss experience, current economic conditions, volume, growth, and composition of the loan portfolio; including the value of collateral, delinquencies, change in non-performing loans and other relevant factors.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

The Bank considers a loan to be impaired when it is probable that all amounts due (principal plus interest) will not be collected according to the contractual terms of the loan agreement. Factors considered by management include payment status, collateral value, and probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower.

The allowance for impaired loans is determined based on the present value of the estimated cash flows or on the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measured fair value is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses, or alternatively, a specific allocation will be established. Although management uses available information to recognize credit losses on loans, because of uncertainties associated with

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. Risk factors impacting loans in each of the portfolio segments include broad deterioration of property values, reduced consumer and business spending as a result of continued high unemployment and reduced credit availability and lack of confidence in a sustainable recovery. The following portfolio segments have been identified: real estate, construction, commercial, and consumer and other loans.

The Bank considers loan performance and collateral values in assessing risk for each segment in the loan portfolio, as follows:

- Real estate loans are affected by the local real estate market, the local economy, and movement in interest rates. The Bank evaluates the borrower's repayment ability through a review of credit reports and debt to income ratios. Appraisals are obtained to support the loan amount.

- Construction loans are dependent on the industries tied to these loans as well as the local commercial real estate market. The loans are secured by the real estate, and appraisals are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination and periodically updated during the life of the loan.

- Commercial loans are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial loans are advanced for equipment purchases or to provide working capital or meet other financing needs of the business. These loans may be secured by accounts receivable, inventory, equipment or other business assets. Financial information is obtained from the borrower to evaluate the debt service coverage and ability to repay the loans.

- Consumer and other loans are dependent on the local economy. Consumer loans are generally secured by consumer assets, but may be unsecured. The Bank evaluates the borrower's repayment ability through a review of credit scores and an evaluation of debt to income ratios.

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. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

Credit Risk and Concentrations: A significant portion of the Bank's real estate loans are secured by real properties located in California. Declines in the California economy and in real estate values could have a

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

significant effect on the collectability of the Bank's loans and on the level of the required allowance for loan losses.

FHLB Stock: As a member of the FHLB of San Francisco, the Bank is required to own common stock in the FHLB of San Francisco based upon the balance of membership asset value and outstanding FHLB advances. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends received are reported as interest income.

FRB Stock: As a member of the FRB of San Francisco, the Bank is required to maintain stock in the FRB of San Francisco based on a specified ratio relative to our capital. FRB stock is carried at cost, classified as a restricted security. Cash dividends received are reported as interest income.

Loan Servicing Rights: When loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is determined at a tranche level, based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, prepayment speeds and default rates and losses. The Bank compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Servicing rights are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Bank 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 to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Fees earned for servicing loans is included in loan service fee income, net. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of servicing rights and changes in valuation allowances on servicing rights are netted against loan servicing fee income. Late fees and ancillary fees related to loan servicing are not material.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Bank, 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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment: Bank premises and equipment are stated at cost, less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Equipment and furnishings are depreciated over 3 to 10 years and leasehold improvements are amortized over the lesser of the terms of the respective leases or the estimated useful lives. The straight-line method is used for both financial reporting and income tax purposes. Repairs and maintenance are charged to operating expenses as incurred. Costs of improvement are added to the applicable property accounts.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Affordable Housing Investments: The Bank has invested in limited partnerships formed to develop and operate affordable housing units for lower income tenants throughout California. These investments are included in other assets in the Bank's statement of financial condition. The partnership interests are accounted for utilizing the proportional amortization method with amortization expense and tax benefits recognized through the income tax provision.

Share-Based Compensation: Compensation cost is recognized for stock options and restricted stocks issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period.

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 the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

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 Bank recognizes interest and/or penalties related to income tax matters in income tax expense.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized holding gains and losses on securities available for sale which are also recognized as separate components of equity.

Equity: Stock dividends in excess of 20% are reported by transferring the par value of the stock issued from retained earnings to common stock. Stock dividends for 20% or less are reported by transferring the fair value, as of the ex-dividend date, of the stock issued from retained earnings to common stock and additional paid-in capital. Fractional share amounts are paid in cash with a reduction in retained earnings.

All share and per share data has been retroactively adjusted to reflect the 10% stock dividend, which was effective February 14, 2014, and the two-for one stock split, which was effective March 20, 2015.

Earnings per Common Share ("EPS"): Basic EPS is computed by dividing earnings available to common shareholders' by the weighted-average number of common shares outstanding during 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 from issuance of common stock that then shared in the earnings of the Bank.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the estimates.

Reclassifications: Certain reclassifications were made to the prior year's presentation to conform to the current year's presentation.

Subsequent Events: The Bank has evaluated subsequent events for recognition and disclosure through March 25, 2016, which is the date the financial statements were available to be issued.

NOTE 2 - INVESTMENT SECURITIES

The following is a summary of investment securities held to maturity at:

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
December 31, 2015				
GSE mortgage-backed securities-residential	$ 1,370,786	$ 53,694	$ -	$ 1,424,480
December 31, 2014				
GSE mortgage-backed securities-residential	$ 2,037,749	$ 93,098	$ -	$ 2,130,847

The following is a summary of investment securities available for sale at:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
U.S. government agencies	$ 3,000,000	$ -	$ (7,550)	$ 2,992,450
December 31, 2014				
U.S. government agencies	$ 4,999,838	$ 38,083	$ (17,961)	$ 5,019,960

Accrued interest receivable on investment securities totaled $11,686 and $27,663 at December 31, 2015 and 2014, respectively. There were no sales of securities during 2015 and 2014.

NOTE 2 - INVESTMENT SECURITIES (Continued)

The amortized costs and estimated fair values of investment securities at December 31 2015, by contractual maturities, are shown below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	3,000,000	2,992,450	184,767	191,692
Due after five years through ten years	-	-	437,248	457,363
Due after ten years	-	-	748,771	775,425
Total	$ 3,000,000	$ 2,992,450	$ 1,370,786	$ 1,424,480

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities with carrying values of $994,670 and $5,019,960 as of December 31, 2015 and 2014, respectively, were pledged to secure public deposits, future borrowings, and for other purposes as required or permitted by law.

At December 31, 2015, there was one security available for sale with a carrying value of $994,670 with an unrealized loss of $5,330 that has been in a continuous unrealized loss position for 12 months or longer. There were two securities available for sale with a total carrying value of $1,981,980 with unrealized losses of $17,961 that have been in continuous unrealized loss positions for 12 months or longer at December 31, 2014. The Bank believes that the unrealized losses are temporary, arising mainly from fluctuations in interest rates and did not reflect a deterioration of credit quality of the issuers. In analyzing an issuer's financial condition, the Bank may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The fair value is expected to recover as the securities approach maturity.

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of loans by major category at December 31:

	2015	2014
Real estate loans	$ 502,678,517	$ 418,070,683
Construction loans	10,577,448	4,088,142
Commercial loans	131,868,698	122,861,442
Consumer and other loans	3,153,455	2,666,483
Total gross loans	648,278,118	547,686,750
Less: Allowance for loan losses	(8,545,549)	(8,976,536)
Deferred loan costs, net	1,412,978	1,100,096
Loans receivable, net	$ 641,145,547	$ 539,810,310

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance for Loan Losses:

The activity in the allowances for loan losses for the years ended December 31, is as follows:

	Real Estate Loans	Construction Loans	Commercial Loans	Consumer and Other Loans	Unallocated	Total
2015						
Allowance for loan losses:						
Beginning of year	$ 6,667,952	$ 534,320	$ 1,741,710	$ 15,721	$ 16,833	$ 8,976,536
Provision (negative provision) for loan losses	(1,210,738)	564,677	1,135,123	12,221	(1,283)	500,000
Loans charged off	-	-	(1,253,425)	-	-	(1,253,425)
Recoveries of charge-offs	67,150	-	255,288	-	-	322,438
Balance, end of year	$ 5,524,364	$ 1,098,997	$ 1,878,696	$ 27,942	$ 15,550	$ 8,545,549
2014						
Allowance for loan losses:						
Beginning of year	$ 5,787,802	$ 1,029,810	$ 2,004,322	$ 15,329	$ 87,884	$ 8,925,147
Provision (negative provision) for loan losses	772,961	(495,490)	(844,887)	392	(71,051)	(638,075)
Loans charged off	(155,600)	-	(422,639)	-	-	(578,239)
Recoveries of charge-offs	262,789	-	1,004,914	-	-	1,267,703
Balance, end of year	$ 6,667,952	$ 534,320	$ 1,741,710	$ 15,721	$ 16,833	$ 8,976,536

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

December 31, 2015	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
Allowance for loan losses attributable to:			
Real estate loans	$ 345,405	$ 5,178,959	$ 5,524,364
Construction loans	-	1,098,997	1,098,997
Commercial loans	37,705	1,840,991	1,878,696
Consumer and other loans	-	27,942	27,942
Unallocated	-	15,550	15,550
Total	$ 383,110	$ 8,162,439	$ 8,545,549
Loans:			
Real estate loans	$ 6,106,161	$ 496,572,356	$ 502,678,517
Construction loans	-	10,577,448	10,577,448
Commercial loans	1,402,065	130,466,633	131,868,698
Consumer and other loans	-	3,153,455	3,153,455
Total	$ 7,508,226	$ 640,769,892	$ 648,278,118

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2014	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
Allowance for loan losses attributable to:			
Real estate loans	$ 479,912	$ 6,188,040	$ 6,667,952
Construction loans	-	534,320	534,320
Commercial loans	51,833	1,689,877	1,741,710
Consumer and other loans	-	15,721	15,721
Unallocated	-	16,833	16,833
Total	$ 531,745	$ 8,444,791	$ 8,976,536
Loans:			
Real estate loans	$ 6,747,510	$ 411,323,173	$ 418,070,683
Construction loans	-	4,088,142	4,088,142
Commercial loans	1,507,371	121,354,071	122,861,442
Consumer and other loans	-	2,666,483	2,666,483
Total	$ 8,254,881	$ 539,431,869	$ 547,686,750

Impaired Loans:

Individually evaluated impaired loans were as follows:

	2015	2014
Year-end loans with no allocated allowance for loan losses	$ 3,921,696	$ 2,820,970
Year-end loans with allocated allowance for loan losses	3,586,530	5,433,911
Total	$ 7,508,226	$ 8,254,881
Amount of the allowance for loan losses allocated	$ 383,110	$ 531,745
Average balance of individually evaluated impaired loans during year	$ 8,748,957	$ 10,012,974

Interest income recognized on impaired loans and cash-basis income recognized on impaired loans was not material for the years ended December 31, 2015 and 2014.

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2015 and 2014:

December 31, 2015	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
With no related allowance recorded:			
Real estate loans	$ 5,098,540	$ 3,001,764	$ -
Construction loans	-	-	-
Commercial loans	3,371,083	919,932	-
Consumer and other loans	-	-	-
	8,469,623	3,921,696	-
With an allowance recorded:			
Real estate loans	3,104,397	3,104,397	345,405
Construction loans	-	-	-
Commercial loans	912,419	482,133	37,705
Consumer and other loans	-	-	-
	4,016,816	3,586,530	383,110
Total	$ 12,486,439	$ 7,508,226	$ 383,110
December 31, 2014			
With no related allowance recorded:			
Real estate loans	$ 2,625,919	$ 2,066,318	$ -
Construction loans	-	-	-
Commercial loans	802,751	754,652	-
Consumer and other loans	-	-	-
	3,428,670	2,820,970	-
With an allowance recorded:			
Real estate loans	4,681,192	4,681,192	479,912
Construction loans	-	-	-
Commercial loans	767,753	752,719	51,833
Consumer and other loans	-	-	-
	5,448,945	5,433,911	531,745
Total	$ 8,877,615	$ 8,254,881	$ 531,745

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

Past Due and Nonaccrual Loans:

The following table represents the aging of the recorded investment in past due loans as of December 31:

2015	30-59	60-89	Total Accruing Past Due	Non-accrual	Current	Total
Real estate	$ -	$ -	$ -	$ 2,758,477	$ 499,920,040	$ 502,678,517
Construction	-	-	-	-	10,577,448	10,577,448
Commercial	175,233	-	175,233	408,887	131,284,578	131,868,698
Consumer	-	-	-	-	3,153,455	3,153,455
Total loans	$ 175,233	$ -	$ 175,233	$ 3,167,364	$ 644,935,521	$ 648,278,118

2014	30-59	60-89	Total Accruing Past Due	Non-accrual	Current	Total
Real estate	$ 18,093	$ -	$ 18,093	$ 2,066,318	$ 415,986,272	$ 418,070,683
Construction	-	-	-	-	4,088,142	4,088,142
Commercial	18,496	41,084	59,580	165,983	122,635,879	122,861,442
Consumer	-	5,000	5,000	-	2,661,483	2,666,483
Total loans	$ 36,589	$ 46,084	$ 82,673	$ 2,232,301	$ 545,371,776	$ 547,686,750

At December 31, 2015 and 2014, there were no loans past due over 90 days and still accruing. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Troubled Debt Restructurings:

TDRs on accrual status at December 31, 2015 were comprised of 3 commercial real estate loans totaling $3,347,684 and 5 commercial business loans totaling $993,178. TDRs on accrual status at December 31, 2014 were comprised of 5 commercial real estate loans totaling $4,931,137 and 4 commercial business loans totaling $1,091,443. As of December 31, 2015 and 2014, total non-accruing TDR loans were $2,602,856 and $1,798,435, respectively.

The Bank has allocated $378,222 and $516,961 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of year-end 2015 and 2014. The Bank has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ended December 31, 2015, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving payment deferrals were for periods six months to one year. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from five to seven years. Modifications involving an extension of the maturity date were for periods ranging from one to seven years.

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2015:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Real estate loans	1	$ 1,097,400	$ 1,097,400
Commercial loans	2	48,229	44,738
Total	3	$ 1,145,629	$ 1,142,138

During the year ended December 31, 2015, the troubled debt restructurings described above increased the allowance for loan losses by $25,647 with no charge-offs.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within 12 months following the modification during the year ending December 31, 2015:

	Number of Loans	Recorded Investment
Troubled Debt Restructurings:		
Real estate loans	1	$ 1,097,400
Commercial loans	1	29,826
Total	2	$ 1,127,226

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. The troubled debt restructurings that subsequently defaulted described above increased the allowance for loan losses by $18,677 with no charge-offs during the year ending December 31, 2015. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2014:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Real estate loans	1	$ 168,756	$ 168,756
Commercial loans	-	-	-
Total	1	$ 168,756	$ 168,756

During the year ended December 31, 2014, the troubled debt restructurings described above had no additional allowance for loan losses or charge-offs.

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. As of December 31, 2014, there were no loans that were previously modified as a troubled debt restructuring within the previous 12 months that subsequently defaulted during the year ended December 31, 2014.

Credit Quality Indicators:

The Bank 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, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis. The risk category of homogeneous loans is evaluated when a loan becomes delinquent. The Bank uses the following definitions for risk ratings:

Special Mention – Loans classified as special mention have 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 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.

Doubtful – Loans classified as 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 existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

As of December 31, 2015 and 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2015	Pass Rated Loans	Special Mention	Substandard	Doubtful	Not Rated	Total
Real estate loans	$ 497,540,959	$ 101,384	$ 5,036,174	$ -	$ -	$ 502,678,517
Construction loans	10,577,448	-	-	-	-	10,577,448
Commercial loans	127,388,669	2,219,763	2,260,266	-	-	131,868,698
Consumer and other loans	3,153,455	-	-	-	-	3,153,455
Total	$ 638,660,531	$ 2,321,147	$ 7,296,440	$ -	$ -	$ 648,278,118

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2014	Pass Rated Loans	Special Mention	Substandard	Doubtful	Not Rated	Total
Real estate loans	$ 410,277,878	$ 2,255,818	$ 5,536,987	$ -	$ -	$ 418,070,683
Construction loans	4,088,142	-	-	-	-	4,088,142
Commercial loans	120,422,784	808,556	1,630,102	-	-	122,861,442
Consumer and other loans	2,666,483	-	-	-	-	2,666,483
Total	$ 537,455,287	$ 3,064,374	$ 7,167,089	$ -	$ -	$ 547,686,750

NOTE 4 - PREMISES AND EQUIPMENT

The composition of Bank premises and equipment is as follows at December 31:

	2015	2014
Leasehold improvements	$ 3,437,087	$ 2,890,289
Furniture and fixtures	827,030	548,914
Equipment and others	1,549,040	1,375,975
Construction in progress	18,144	74,780
Total premises and equipment	5,831,301	4,889,958
Less accumulated depreciation and amortization	(2,647,469)	(2,115,659)
Premises and equipment, net	$ 3,183,832	$ 2,774,299

Depreciation and amortization expense included in occupancy and equipment expenses were $532,047 and $428,005 for the years ended December 31, 2015 and 2014, respectively.

NOTE 5 – LOAN SERVICING RIGHTS

Changes in loan servicing rights, net of amortization, are as follows for the years ended December 31:

	2015	2014
Balance, beginning of year	$ 5,740,835	$ 3,430,469
Additions	3,603,921	3,203,749
Amortization	(1,579,141)	(893,383)
Balance, end of year	$ 7,765,615	$ 5,740,835

As of December 31, 2015 and 2014, the Bank serviced SBA loans sold to unaffiliated parties in the amount of $330,972,450 and $264,857,567, respectively. All of loan servicing rights are related to the servicing of SBA loans for the years ended December 31, 2015 and 2014.

Management periodically evaluates loan servicing rights for impairment. At December 31, 2015, the fair value of loan servicing rights was determined using a weighted-average discount rate of 6.0% and prepayment speed of 8.1%. At December 31, 2014, the fair value of loan servicing rights was determined using a weighted-average discount rate of 6.1% and prepayment speed of 9.2%. For purposes of measuring impairment, loan servicing rights are stratified by loan type. Impairment is recognized if the

NOTE 5 – LOAN SERVICING RIGHTS (Continued)

carrying value of loan servicing rights exceeds the fair value of the stratum. At December 31, 2015 and 2014, no stratum required a valuation allowance. The fair values of loan servicing rights were approximately $9,862,431 and $7,448,330 at December 31, 2015 and 2014, respectively.

The estimated annual amortization of servicing assets for each of the succeeding five fiscal years as of December 31 are as follows:

2016	$ 1,073,307
2017	940,454
2018	822,115
2019	716,620
2020	622,520
Thereafter	3,590,599
Total amortization of servicing assets	$ 7,765,615

NOTE 6 - DEPOSITS

The scheduled maturities of time deposits as of December 31 are as follows:

2016	$ 354,691,902
2017	8,885,244
2018	10,368,359
2019	993,000
Total	$ 374,938,505

Included in time deposits of $100,000 or more are $64,500,000 and $55,000,000 in California State Treasurer's deposits at December 31, 2015 and 2014, respectively. The California State Treasurer's deposits are subject to withdrawal based on the State's periodic evaluations. The Bank is required to pledge eligible collateral of at least 110% of outstanding deposits. At December 31, 2015 and 2014, securities with carrying values of approximately $994,670 and $5,019,960, respectively, were pledged. In addition, $70,250,000 and $56,500,000 of standby letters of credit issued by the FHLB were pledged as collateral for the California State Treasurer's deposits at December 31, 2015 and 2014, respectively. Also included in time deposits balance as of December 31, 2015 and 2014 were brokered deposits of $18,807,783 and $17,289,187, respectively.

The aggregate amount of time deposits in denominations of $250,000 or more was $111,875,111 and $98,101,898 at December 31, 2015 and 2014, respectively.

NOTE 6 – DEPOSITS (Continued)

Summary of interest expense related to deposits are as follows for the years ended December 31:

	2015	2014
Interest-bearing demand	$ 1,540	$ 645
Money market accounts and savings	1,398,767	1,679,888
Time deposits of $100,000 or more	2,551,570	1,721,281
Time deposits under $100,000	899,537	819,489
Total	$ 4,851,414	$ 4,221,303

NOTE 7 – FHLB ADVANCES AND OTHER BORROWINGS

At year-end, advances from the Federal Home Loan Bank were as follows:

	2015	2014
Maturity in January 2020, fixed rates from 1.59% to 1.69%, averaging 1.65%	$ 10,000,000	$ -
Total FHLB advances	$ 10,000,000	$ -

Each advance is payable at its maturity date, with a prepayment penalty. There were no outstanding FHLB advances in 2014. Interest expense on FHLB advances was $158,878 for the year ended December 31, 2015.

The Bank has pledged loans receivable with market values of $229,250,021 and $189,833,403 at December 31, 2015 and 2014, respectively, as collateral with the FHLB for this borrowing facility. The total borrowing capacity available from the collateral that has been pledged was $192,410,319, of which $112,160,319 remained available as of December 31, 2015. The Bank has pledged loans receivable with carrying values of $120,376,788 and $94,148,337 at December 31, 2015 and 2014, respectively, as collateral for the FRB's Discount Window. The total borrowing capacity available from the collateral that has been pledged was $97,924,359, of which all was available for use as there were no borrowings.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

At December 31 minimum future rental payments for all leases are as follows:

2016	$ 922,833
2017	923,471
2018	929,143
2019	852,657
2020	874,132
Thereafter	3,096,605
Total	$ 7,598,841

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

The Bank leases its facilities from nonaffiliated parties, with expiration dates ranging through December 2024. Rental expense recorded under such leases amounted to $896,087 and $762,503 for the years ended December 31, 2015 and 2014, respectively.

The Bank is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and other commercial letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of financial condition. The Bank's exposure to credit loss in the event of nonperformance by the other party to commitments to extend credit and standby letters of credit and other commercial letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for extending loan facilities to customers. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable; inventory; property, plant and equipment; and income-producing properties.

Commitments at December 31, 2015 and 2014 are summarized as follows:

	2015	2014
Commitments to extend credit	$106,720,487	$ 103,040,016
Standby letters of credit	1,089,617	1,326,925
Other commercial letters of credit	2,635,086	1,343,288
Others	143,000	195,000
Total	$ 110,588,190	$ 105,905,229

As of December 31, 2015 and 2014, the reserve for unfunded commitments and letters of credit amounted to $981,453 for both years. These amounts are included in other liabilities on the statements of financial condition.

NOTE 9 - INCOME TAXES

A summary of income tax provision for years ended December 31 is as follows:

	2015	2014
Current provision:		
Federal	$ 6,214,105	$ 6,842,247
State	1,862,509	2,143,513
	8,076,614	8,985,760
Deferred benefit:		
Federal	(100,891)	(841,167)
State	(14,312)	(187,648)
	(115,203)	(1,028,815)
Income tax expense	$ 7,961,411	$ 7,956,945

NOTE 9 - INCOME TAXES (Continued)

A reconciliation of the provision for income taxes computed at the statutory federal corporate tax rate of 35% for 2015 and 2014, to the income tax expense in the statements of operations follows:

	2015	2014
Provision computed at the statutory federal tax rate	$ 6,732,879	$ 6,695,663
Effect of:		
State income taxes, net of federal benefit	1,232,052	1,205,271
Nondeductible expenses	58,158	50,611
Other	(61,678)	5,400
Total	$ 7,961,411	$ 7,956,945

The net deferred income tax assets included in the statement of financial condition include the following components at December 31:

	2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 3,800,430	$ 3,981,838
Non-accrual interest income	386,686	277,498
Stock compensation	747,974	648,880
Incentive from lessor	622,437	456,736
Organization and start-up costs	32,715	40,358
Section 475 MTM	718,252	977,127
State income taxes	73,062	173,448
Net unrealized loss on securities available for sale	3,107	-
Other	1,001,349	959,952
	7,386,012	7,515,837
Deferred tax liabilities:		
Property and equipment	(321,903)	(570,038)
Net unrealized gain on securities available for sale	-	(8,268)
	(321,903)	(578,306)
Net deferred tax assets	$ 7,064,109	$ 6,937,531

At December 31, 2015 and December 31, 2014, the Bank had no unrecognized tax benefits recorded. The Bank does not expect the amount of unrecognized tax benefits to significantly change within the next 12 months. The Bank is subject to U.S. federal income tax as well as income tax of the states of California, Texas, Georgia, and Colorado. The tax years 2011-2015 are open to examination by the U.S. taxing authorities. The tax years 2010-2015 are open to examination by the various states.

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. As of December 31, 2015 and 2014, the Bank had no valuation allowance.

NOTE 10 - STOCK OPTION PLAN

Share-Based Compensation: The Bank established the 2004 Stock Option Plan (the "2004 Plan") that provides for incentive and non-qualified stock options for employees, directors and organizers of the Bank. The 2004 Plan authorizes the issuance of up to 1,270,500 shares. The 2004 Plan expired at December 31, 2014 and there were no options available to be granted under the Plan at December 31, 2015. Stock options are issued at the fair value of the Bank stock on the date of grant with a three-year or four-year vesting period for directors and employees, respectively. The Bank issues new shares upon the exercise of stock options. Options granted to organizers were vested immediately.

On June 20, 2008, the Bank has established the 2008 Stock Option Plan (the "2008 Plan") that provides for the issuance of options to purchase up to 681,772 shares to employees, directors, and consultants. The total number of options available to be granted under the 2008 Plan was 598,772 at December 31, 2015.

The Bank recorded $662,506 and $712,096 of share-based compensation costs for years ended December 31, 2015 and 2014, respectively.

As summary of activity for the Bank's stock options as of and for the year ended December 31, 2015 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of year	898,880	$ 6.92	5.69 years
Granted	87,000	11.56	
Forfeited	(40,350)	8.55	
Expired	-	-	
Exercised	(304,830)	4.81	
Outstanding at end of period	640,700	$ 8.45	7.19 years
Vested and expected to vest at year end	634,420	$ 8.54	7.29 years
Exercisable at year end	326,680	$ 6.86	6.10 years

The fair value of each option granted in 2015 and 2014 is estimated on the date of grant using a Black-Scholes valuation model that uses the assumptions noted in the following table. The Bank used its historical data for determining the volatility and expected life assumptions in the model. The expected term of options granted was estimated using the historical exercise behavior of employees. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury strips in effect at the time of grant.

	2015	2014
Expected term	5 years	5 years
Expected volatility	44.30%	52.21%
Expected dividend yield	0%	0%
Risk-free interest rate	1.51%	1.72%

NOTE 10 - STOCK OPTION PLAN (Continued)

During the years ended December 31, 2015 and 2014, information related to stock options is as follows:

	2015	2014
Weighted-average fair value of stock options granted during the year	$ 11.56	$ 5.12
Total intrinsic value of options exercised during the year	2,035,734	259,592
Cash received on option exercises	1,466,846	251,618

As of December 31, 2015 and 2014, unrecognized compensation costs were $ 1,158,112 and $1,374,159, respectively. The remaining unrecognized compensation cost is expected to be recognized over a weighted average period of 2.31 years.

On June 23, 2011, the Bank established the 2011 Restricted Stock Plan (the "2011 Plan") that provides for the issuance of restricted stock to directors and employees of the Bank upon vesting. The awards are time-based and vest over a period of time based on the Bank meeting set targets. The table below provides information for restricted stock awards. The 2011 Plan was frozen as of December 31, 2013 and as a result no new shares will be granted under the plan.

	2015	
	Weighted-Average Grant Date	
	Number of Shares	Fair Value per Share
Outstanding at beginning of year	123,640	$ 4.99
Granted	-	-
Forfeited	(11,220)	6.93
Vested	(39,600)	5.12
Total	72,820	$ 4.99

NOTE 11 - EMPLOYEE BENEFIT PLAN

On April 1, 2005, the Bank established a 401(k) profit sharing plan which is open to all eligible employees who are 18 years old or over. The plan provides for the Bank's discretionary matching contribution up to 50% of participants' deferral not to exceed 4% of their compensation during the year. Vesting in employer contribution is 33% after one year of service, 66% after two years and 100% after three years. Total employer contributions to the plan amounted to $164,651 and $125,002 for the years ended December 31, 2015 and 2014, respectively.

NOTE 12 - FAIR VALUE

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

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

NOTE 12 - FAIR VALUE (Continued)

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 reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made, usually every six months in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Bank. Once received, a member of the management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On a semi-annual basis, the Bank compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value.

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

	Fair Value Measurements at December 31, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2015			
Assets:			
Available for sale securities:			
U.S. government agencies	$ -	$ 2,992,450	$ -
2014			
Assets:			
Available for sale securities:			
U.S. government agencies	$ -	$ 5,019,960	$ -

There were no transfers between Level 1 and Level 2 during 2015 and 2014.

NOTE 12 - FAIR VALUE (Continued)

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

	Fair Value Measurements at December 31, Using		
2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans:			
Commercial loans	$ -	$ -	$ 274,923
Real estate loans	-	-	1,097,400
Total	$ -	$ -	$ 1,372,323
2014			
Assets:			
Impaired loans:			
Commercial loans	$ -	$ -	$ 31,542
Real estate loans	-	-	301,015
Total	$ -	$ -	$ 332,557

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

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans:				
Commercial loans	$ 250,240	Sales comparison	Adjustment for differences between sales and expected sales amounts	-49.0% to 51.0%
Commercial loans	$ 24,683	Market valuation	Adjustment for differences in the estimated liquidation value and estimated market value	-36%
Real estate loans	$ 1,097,400	Sales comparison	Adjustment for differences between sales and expected sales amounts	-14.0% to 26.0%

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2014:

NOTE 12 - FAIR VALUE (Continued)

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans:				
Real estate loans	$ 301,015	Income Approach	Adjustment for differences in comparable rental income	-30% to 0%

The following represent impairment charges recognized during the period:

At December 31, 2015 and 2014, $1,372,323 and $301,015, respectively, of impaired loans have had charge-offs taken and are carried at fair value measured on a non-recurring basis. Gross charge-offs related to these loans amounted to $1,227,599 and $155,600 for the years ended December 31, 2015 and 2014, respectively. There was no additional provision for loan losses recorded on impaired loans for the years ended December 31, 2015.and 2014, respectively.

Carrying amount and estimated fair values of financial instruments, not previously presented, at year end were as follows:

		2015		2014	
	Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets					
Cash and cash equivalents	Level 1	$ 92,895,351	$ 92,895,351	$ 49,166,198	$ 49,166,198
Interest-bearing deposits with banks	Level 1	3,934,000	3,932,000	13,609,000	13,623,000
Securities held to maturity	Level 2	1,370,786	1,424,480	2,037,749	2,130,847
Securities available for sale	Level 2	2,992,450	2,992,450	5,019,960	5,019,960
Federal Reserve Bank stock	N/A	1,745,700	N/A	1,655,950	N/A
Federal Home Loan Bank stock	N/A	2,916,700	N/A	2,325,200	N/A
Loans held for sale	Level 2	17,808,650	18,093,588	21,266,889	21,522,091
Loan receivable, net	Level 3	641,145,547	644,023,412	539,810,310	541,954,909
Accrued interest receivable	Level 2/3	2,134,548	2,134,548	1,819,898	1,819,898
Liabilities					
Non-interest bearing deposits	Level 1	163,384,607	163,384,607	125,892,382	125,892,382
Interest bearing deposits	Level 2	517,126,980	514,125,000	446,919,216	444,555,000
FHLB advances	Level 2	10,000,000	10,742,000	-	-
Accrued interest payable	Level 2	1,407,508	1,407,508	785,184	785,184

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value are explained below:

NOTE 12- FAIR VALUE (Continued)

Cash and Cash Equivalents: The carrying amounts approximate fair value due to the short-term nature of these instruments resulting in a level 1 classification.

Interest-Bearing Deposits with Other Banks: The carrying amounts approximate fair value due to the short-term nature of these instruments resulting in a level 1 classification.

Securities Held to Maturity: The fair values of investment securities are determined by matrix pricing, which a mathematical technique is used to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities resulting in level 2 classifications.

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

Loans Held for Sale: Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics resulting in a level 2 classification.

Loans Receivable, Net: The fair values are estimated for portfolios of loans with similar financial characteristics, primarily fixed and adjustable rate interest terms. The fair values of fixed rate loans are based on discounted cash flows utilizing applicable risk-adjusted spreads relative to the current pricing of similar fixed rate loans that approximate the pricing of loans collateralized by similar commercial properties. The estimated fair value is net of allowance for loan losses resulting in a level 3 classification.

Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification.

The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

FHLB advances: The fair values of the Bank's FHLB advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a level 2 classification.

Accrued Interest Receivable/Payable: The carrying amounts of accrued interest approximate fair value resulting in a level 2/3 classification consistent with its underlying assets/liabilities.

NOTE 13 - 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 the regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and regulatory framework for prompt corrective actions, the Bank must meet specific capital guidelines that involve quantitative measures of the

NOTE 13 - REGULATORY MATTERS (Continued)

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 weighting, and other factors.

In July 2013, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation approved the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revised minimum capital requirements and adjusted prompt corrective action thresholds. The rules also revised the regulatory capital elements, added a new common equity Tier I capital ratio, and increased the minimum Tier I capital ratio requirement. The revisions permit banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. Additionally, the rules implement a new capital conservation buffer. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the capital conservation buffer amount. The rules became effective January 1, 2015 for smaller, non-complex banking organizations and the capital conservation buffer will be fully phased in at the beginning of 2019.

The actual capital amounts and ratios of the Bank at December 31, 2015 and 2014 are as follows:

	Actual		Minimum Regulatory Requirement		Minimum to be Categorized as "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015						
Total capital (to risk-weighted assets)	$ 98,244	14.51%	$ 54,153	8.00%	$ 67,692	10.00%
Tier I capital (to risk-weighted assets)	89,769	13.26%	40,615	6.00%	54,153	8.00%
Common equity Tier I capital (to risk-weighted assets)	89,769	13.26%	30,461	4.50%	44,000	6.50%
Tier I capital (to average assets)	89,769	11.68%	30,746	4.00%	38,433	5.00%
December 31, 2014						
Total capital (to risk-weighted assets)	$ 83,077	14.45%	$ 46,008	8.00%	$ 57,510	10.00%
Tier I capital (to risk-weighted assets)	75,854	13.19%	23,004	4.00%	34,506	6.00%
Tier I capital (to average assets)	75,854	11.75%	25,819	4.00%	32,274	5.00%

NOTE 14– EARNINGS PER COMMON SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted per share computations at December 31, 2015 and 2014.

	Net Income (Numerator)	Weighted Average Common Shares (Denominator)	Per-Share Amount
2015			
Basic EPS – income available to common shareholders	$11,275,386	8,030,258	$ 1.40
Effect of dilutive securities – stock options	-	309,319	-
Diluted EPS – income available to common shareholders	$11,275,386	8,339,577	$ 1.35
2014			
Basic EPS – income available to common shareholders	$11,173,520	7,731,154	$ 1.45
Effect of dilutive securities – stock options	-	494,998	-
Diluted EPS – income available to common shareholders	$11,173,520	8,226,152	$ 1.36