Report of Independent Auditors and
Consolidated Financial Statements

MNB Holdings Corporation and Subsidiary

December 31, 2015 and 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors
MNB Holdings Corporation and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of MNB Holdings Corporation and Subsidiary (the Company), which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statement of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matter

The consolidated financial statements of MNB Holdings Corporation and Subsidiary as of December 31, 2014 and for the year then ended were audited by other auditors whose report dated April 7, 2015 expressed an unmodified opinion on those statements.

Moss Adams LLP

Sacramento, California
April 15, 2016

CONSOLIDATED FINANCIAL STATEMENTS

ASSETS

	December 31,	
	2015	2014
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 11,541,632	$ 13,106,341
Federal funds sold	10,746,000	5,633,000
Interest-bearing deposits in banks	11,214,211	2,895,711
Cash and cash equivalents	33,501,843	21,635,052
TIME DEPOSITS WITH OTHER BANKS	1,241,237	8,483,000
INVESTMENT SECURITIES		
Available-for-sale	-	18,813
Other investments	1,733,749	1,713,663
LOANS, less allowance for loan losses of		
$3,084,914 in 2015 and $3,339,590 in 2014	165,639,582	138,982,529
PREMISES AND EQUIPMENT, net	2,546,028	2,624,462
BANK-OWNED LIFE INSURANCE POLICIES	1,134,924	1,105,001
ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS	3,238,634	3,040,616
Total assets	$ 209,035,997	$ 177,603,136

 See accompanying notes to consolidated financial statements

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 2015	December 31, 2014
DEPOSITS		
Non-interest bearing	$ 53,171,242	$ 42,344,051
Interest bearing	103,804,671	107,700,675
Total deposits	156,975,913	150,044,726
ACCRUED INTEREST PAYABLE AND OTHER LIABILITIES	1,523,013	1,763,816
FEDERAL HOME LOAN BANK BORROWINGS	26,000,000	2,500,000
LONG-TERM DEBT	-	313,311
JUNIOR SUBORDINATED DEBENTURES	3,093,000	3,093,000
Total liabilities	187,591,926	157,714,853
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
SHAREHOLDERS' EQUITY		
Common stock – no par value; 10,000,000 shares authorized; 457,523 shares issued and outstanding as of December 31, 2015 and 2014	4,857,845	4,857,845
Retained earnings	16,586,226	15,028,923
Accumulated other comprehensive income, net of income taxes	-	1,515
Total shareholders' equity	21,444,071	19,888,283
Total liabilities and shareholders' equity	$ 209,035,997	$ 177,603,136

	Years Ended December 31, 2015	Years Ended December 31, 2014
INTEREST INCOME		
Interest and fees on loans	$ 8,457,051	$ 8,519,930
Interest and dividends on investment securities	155,012	123,176
Interest on federal funds sold	21,072	24,428
Interest on deposits in other banks	65,917	81,136
Total interest income	8,699,052	8,748,670
INTEREST EXPENSE		
Deposits	775,106	869,696
Borrowings	53,321	34,346
Junior subordinated debentures	89,607	96,536
Total interest expense	918,034	1,000,578
Net interest income	7,781,018	7,748,092
RECOVERY OF PROVISION FOR LOAN LOSSES	(250,000)	-
Net interest income after recovery of provision for loan losses	8,031,018	7,748,092
NON-INTEREST INCOME		
Service charges	1,055,144	1,003,979
Other income	200,320	300,953
Total non-interest income	1,255,464	1,304,932
OTHER EXPENSES		
Salaries and employee benefits	3,610,756	3,419,929
Occupancy and equipment	992,196	954,496
Other expenses	2,266,227	2,046,244
Total other expenses	6,869,179	6,420,669
Income before provision for income taxes	2,417,303	2,632,355
PROVISION FOR INCOME TAXES	860,000	924,000
Net income	$ 1,557,303	$ 1,708,355
BASIC AND DILUTED EARNINGS PER SHARE	$ 3.40	$ 3.73
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	457,523	457,711

See accompanying notes to consolidated financial statements

	Years Ended December 31, 2015	Years Ended December 31, 2014
NET INCOME	$ 1,557,303	$ 1,708,355
OTHER COMPREHENSIVE LOSS		
Unrealized holding losses on available-for-sale investment securities	(2,185)	(478)
Reclassification adjustment for realized gain included in net income	(384)	-
Tax effect	1,054	195
Total other comprehensive loss	(1,515)	(283)
Comprehensive income	$ 1,555,788	$ 1,708,072

MNB HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total Shareholders' Equity
	Shares	Amount			
BALANCE, January 1, 2014	457,773	$ 4,865,345	$ 13,320,568	$ 1,798	$ 18,187,711
Net income	-	-	1,708,355	-	1,708,355
Repurchase of shares, net of stock issued	(250)	(7,500)	-	-	(7,500)
Other comprehensive loss	-	-	-	(283)	(283)
BALANCE, December 31, 2014	457,523	4,857,845	15,028,923	1,515	19,888,283
Net income	-	-	1,557,303	-	1,557,303
Other comprehensive loss	-	-	-	(1,515)	(1,515)
BALANCE, December 31, 2015	457,523	$ 4,857,845	$ 16,586,226	$ -	$ 21,444,071

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

MNB HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,557,303	$ 1,708,355
Adjustments to reconcile net income to net cash from operating activities		
Depreciation, amortization, and accretion, net	204,010	153,403
Recovery of provision for loan losses	(250,000)	-
Gain on sale of securities available for sale	(384)	-
Deferred tax expense	176,000	122,000
(Decrease) increase in deferred loan origination fees, net	(489,568)	98,604
Increase in cash surrender value of life insurance policies	(29,923)	(29,743)
Increase in accrued interest receivable and other assets	(372,964)	(237,540)
Decrease in accrued interest payable and other liabilities	(240,803)	(753,692)
Net cash from operating activities	553,671	1,061,387
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds received from sales, calls, maturities, and principal payments of available-for-sale securities	16,556	504,810
Proceeds from time deposits with other banks	8,238,000	-
Purchases of time deposits with other banks	(996,237)	(2,595,000)
Net increase in loans	(25,917,485)	(4,795,386)
Purchase of other investments	(20,086)	(509,429)
Redemption of other investments	-	12,100
Purchase of premises and equipment, net	(125,504)	(716,870)
Net cash from investing activities	(18,804,756)	(8,099,775)

	Years Ended December 31, 2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in demand, interest bearing, and savings deposits	11,994,387	(1,258,708)
Net (decrease) increase in time deposits	(5,063,200)	3,334,277
Proceeds from sale of common stock	-	13,500
Repurchase of common stock	-	(21,000)
Payments on borrowings	(2,813,311)	(500,000)
Advances on borrowings	26,000,000	-
Net cash from financing activities	30,117,876	1,568,069
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,866,791	(5,470,319)
CASH AND CASH EQUIVALENTS, beginning of year	21,635,052	27,105,371
CASH AND CASH EQUIVALENTS, end of year	$ 33,501,843	$ 21,635,052
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest expense	$ 1,250,868	$ 930,967
Income taxes	$ 775,000	$ 1,041,000

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – MNB Holdings Corporation (MNB) was formed in 2002 as a bank holding company for the purpose of acquiring all of the outstanding shares of Mission National Bank (the Bank) in a one bank holding company reorganization. The primary operations of MNB and the Bank (collectively, the Company) are conducted through the Bank. On September 20, 2004, MNB formed a wholly-owned subsidiary, MNB Holdings Statutory Trust I (the Trust), a Delaware statutory business trust, for the purpose of issuing trust preferred securities.

The Company has been certified by the U.S. Department of the Treasury and is now designated as a Community Development Financial Institution (CDFI). As a CDFI, the Company will be providing capital to rebuild economically distressed communities through targeted lending and investments in accordance to MNB's mission statement. The Company will be qualified to apply for technical assistance and financial assistance awards to help sustain and expand services. The Company will also be qualified to receive monetary rewards, new markets tax credit, and participate in a bond guarantee program.

The Company is engaged in the general commercial banking business in the City and County of San Francisco and in the City of Berkeley in the East Bay Area of the San Francisco Bay Area. The Company provides traditional commercial and retail banking services, which include accepting demand, savings, and time deposits and making commercial, consumer, and real estate loans. It also offers revolving lines of consumer credit and other installment and term loans.

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. The more significant of these policies applied in the preparation of the accompanying consolidated financial statements are discussed below.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of MNB and its wholly-owned subsidiary, Mission National Bank. Significant intercompany transactions and balances have been eliminated in consolidation.

For financial reporting purposes, the Company's investment in the Trust is accounted for as an unconsolidated subsidiary under the equity method as the Company is not the primary beneficiary of the Trust, and is included in accrued interest receivable and other assets on the consolidated balance sheet. The junior subordinated debentures issued and guaranteed by the Company and held by the Trust are reflected as debt in the Company's consolidated balance sheet.

Subsequent events – Management has evaluated all events occurring from December 31, 2015 through April 15, 2016, the date the consolidated financial statements were available to be issued.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include: the allowance for loan losses, the recognition of non-accrual and impaired loans, and determination of the fair value of financial instruments. Actual results could differ from these estimates.

Cash and cash equivalents – For the purpose of the consolidated statement of cash flows, cash and due from banks, federal funds sold, and interest-bearing deposits in banks with original maturities less than 90 days are considered to be cash equivalents. Generally, federal funds are sold for one day periods.

Investment securities – Investment securities are classified into the following categories: available-for-sale and held-to-maturity. Available-for-sale securities are reported at fair value with unrealized gains and losses excluded from net income and reported in other comprehensive income, net of taxes. Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

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

Gains or losses on the sale of securities are computed using the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

An investment security is impaired when its amortized cost is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security or it is more likely than not that the Company will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other investments – The Company has restricted securities in the form of capital stock invested in the Federal Home Loan Bank of San Francisco, the Federal Reserve Bank of San Francisco, the Pacific Coast Bankers' Bank, and The Independent Bankers' Bank. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest additional amounts. Investment in bank stocks is carried at cost, classified as restricted securities, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. The Company's review of their most recent financial statements and capital position resulted in our conclusion that the investments are not impaired based on financial information as of December 31, 2015.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at principal balances outstanding, adjusted for deferred loan origination fees and costs. Interest is accrued daily based upon outstanding loan balances. For all loans past due 90 days or more, interest is discontinued, unless the loan is well secured and in the process of collection. However, when, in the opinion of management, loans are considered to be impaired and it is not probable that the Company will fully collect contractual principal or interest, such loans are placed on non-accrual status and the accrual of interest income is suspended prior to the 90 days. Past due status is based on the contractual term of the loan. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on non-accrual loans for which the ultimate collectibility of principal is not in doubt, are applied first to earned but unpaid interest and then to principal. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including both principal and interest, according to the contractual terms of the original loan agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

Loan origination fees, commitment fees, direct loan origination costs, and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized or accreted to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans. Salaries and employee benefits totaling $168,203 and $139,151 have been deferred as loan origination costs for the years ended December 31, 2015 and 2014, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for loan losses – The allowance for loan losses is an estimate of probable credit losses in the Company's loan portfolio that have been incurred as of the balance sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components: specific reserves related to impaired loans and general reserves for inherent losses related to loans that are not impaired. Loans determined to be impaired are individually evaluated for impairment. Large groups of smaller balance homogeneous loans, such as installment loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

The determination of the general reserve for loans that are not impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses for the last three years by portfolio class, internal asset classifications, and qualitative factors. Management evaluates the directional impact on credit quality of significant qualitative factors that have been derived from an annual assessment of such factors by industry specialists. The primary qualitative factors include: the volume and trend of delinquent, non-accrual, or other problem loans; credit concentrations; general local economic conditions; lending policies, systems and personnel; loan review and oversight; external factors related to competition, legal and regulatory matters; and the underlying changes in collateral values.

The Company maintains a separate allowance for each portfolio class (loan type). The allowance for loan losses attributable to each portfolio class, which includes both impaired loans and loans that are not impaired, is combined to determine the Company's overall allowance.

The Company assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company's regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, as defined below.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for loan losses (continued) –

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

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

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

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

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

Substantially all of the loans originated by the Company require some form of real estate as collateral. Within each portfolio class, management assesses repayment risk within the industry in which the business operates. The primary source of repayment is the cash flow from the operating businesses and not from the sale of the real estate. The significant industries in which the Company's lending customers operate and the related repayment risks are described below.

***Multi-family* –** These loans are provided to Apartment or Single Room Occupancy (SRO) hotel owners. The latter serve primarily the residential hotel market in San Francisco and are considered to be a part of affordable housing stock in the city. The properties operate with high occupancy level and are not affected by the level of tourism or consumer spending. Trends in employment and government spending impact the credit quality of these loans.

***Single-family* –** These loans include the owner occupied residential properties and investor type income properties. The primary source of repayment is from employment for the Owner Occupied and from rental income for the investor type properties. Trends in repayment risk are driven by local economic conditions including employment rates and changes in collateral value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for loan losses (continued) –

Commercial & Industrial – These businesses operate in various industries and include municipal lease transactions. Repayment for these loans generally comes from the operation of the business and individual businesses are impacted by a wide range of factors. Overall, these loans are diverse, but subject to various local economic conditions including employment, income, and local competition.

Gas stations **–** These businesses combine retail gas and convenience store services. Over two thirds of these loans are to operators that own and operate multiple gas stations. Trends in consumer spending, gas prices, and competition from national gas retailers impact the credit quality of these loans.

Hotels – These businesses provide accommodations for business and personal travelers. The portfolio includes properties operated under franchise agreements and non-affiliated properties operating independently. The primary source of repayment is from cash flow generated from the operation of the properties. These businesses are impacted by the level of local competition and factors impacting tourism and general business activity.

Care homes **–** These loans are generally provided to care home owners that operate multiple residential care homes and whose clients are covered by government programs that serve the developmentally disabled. Trends in reimbursement rates from government programs and the level of people covered by such programs contribute to repayment risk associated with these loans.

Other loans – This category includes a number of different commercial real estate loan types and a small amount of consumer loans. These loans are subject to overall economic conditions with individual loans impacted by individualized factors. The commercial real estate loans in this group are generally paid from property cash flow generated from rents. The repayment risk is generally tied to occupancy levels and rental rates.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for credit losses on off-balance-sheet credit exposures – The Company also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. This allowance totaled $28,029 at December 31, 2015 and 2014, and is included in accrued interest payable and other liabilities on the consolidated balance sheets.

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

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

Income taxes – The Company files consolidated federal and combined state income tax returns. Income tax expense or benefit is the total of the current year income tax payable or refundable and the change in the deferred tax assets and liabilities (excluding deferred tax assets and liabilities related to components of other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates.

Deferred income tax assets and liabilities are determined using the asset or liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in the rates and laws. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The Company records a valuation allowance if it believes, based on all available evidence, that it is "more likely than not" that the future tax assets will not be realized. The Company evaluates its ability to generate sufficient future taxable income or use eligible tax carrybacks, if any, to determine the need for a valuation allowance. At December 31, 2015 and 2014, the Company did not have a valuation allowance against its deferred tax assets. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-based compensation – The Company issues stock options under a shareholder approved stock-based compensation plan. The MNB Holdings Corporation 2006 Stock Option Plan does not provide for the settlement of awards in cash, and new shares are issued upon exercise of the options. The plan requires that the option price may not be less than the fair value of the stock at the date the option is granted, and that the stock must be paid for in full at the time the option is exercised. The options expire on a date determined by the Board of Directors, but not later than ten years from the date of grant. The vesting period is determined by the Board of Directors and is generally over a three to five year period. Under the stock option plan, 100,000 shares of common stock are reserved for issuance to employees and directors, of which 89,000 shares are available for future grants.

At December 31, 2015 and 2014, there were no stock options outstanding. There were no options granted, vested, or exercised during the years ended December 31, 2015 and 2014. Additionally, there was no recognized or unrecognized compensation expense during the years ended December 31, 2015 and 2014.

Earnings per share – Earnings per share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which share in the earnings of the Company. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS. Diluted EPS is the same as basic earnings per share for the years ended December 31, 2015 and 2014, as there were no securities or contracts to issue common shares outstanding in either period.

Comprehensive income – Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale, which are also recognized as separate components of shareholders' equity.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent accounting pronouncements – In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-01, *Recognition and Measurement of Financial Assets and Liabilities*. The main objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendment eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. This amendment is effective for years beginning after December 15, 2017 for the Company, with early adoption of some provisions permitted. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. From the lessee's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for lessees. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance, or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor doesn't convey risks and rewards or control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

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

NOTE 2 – INVESTMENT SECURITIES

Available-for-sale – There were no available-for-sale investment securities at December 31, 2015. Gross proceeds from the sale of investment securities were $12,887 for the year ending December 31, 2015. There were no losses on sales or transfers of available-for-sale investment securities for the year ended December 31, 2015.

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2014 consisted of the following:

	2014			
Description	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
DEBT SECURITIES				
U.S. government sponsored mortgage-backed securities, residential	$ 16,244	$ 2,569	$ -	$ 18,813

Net unrealized gains on available-for-sale investment securities totaling $2,569 were recorded, net of $1,054 in tax expense, as accumulated other comprehensive income within shareholders' equity at December 31, 2014. There were no sales or transfers of available-for-sale investment securities for the year ended December 31, 2014. At December 31, 2014, all investment securities were pledged to secure local agency deposits, borrowing arrangements and treasury tax and loan accounts.

Other investments at December 31 consisted of the following:

	2015	2014
Federal Home Loan Bank stock	$ 813,500	$ 795,400
The Independent Bankers' Bank stock	108,799	106,813
Federal Reserve Bank stock	261,450	261,450
Pacific Coast Bankers' Bank stock	550,000	550,000
	$ 1,733,749	$ 1,713,663

NOTE 3 – LOANS

Outstanding loans at December 31 are summarized below:

	2015	2014
Multi-family	$ 22,702,386	$ 22,219,842
Single-family	31,243,427	3,040,287
Commercial & industrial	8,255,126	3,707,781
Gas stations	36,425,976	40,984,788
Hotels	43,081,687	44,345,536
Care homes	9,615,546	10,638,170
Other loans	17,189,550	17,664,485
	$ 168,513,698	$ 142,600,889
Deferred loan fees, net	210,798	(278,770)
Allowance for loan losses	(3,084,914)	(3,339,590)
	$ 165,639,582	$ 138,982,529

Certain loans have been pledged to secure borrowing arrangements (see Note 9).

Significant concentrations of credit risk – The Company grants loans to customers throughout the greater San Francisco Bay Area. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the strength of the real estate market in the Company’s primary service areas. At December 31, 2015 and 2014, approximately 94% and 86%, respectively, of the Bank’s loans were real estate related. Should the real estate market experience an overall decline in property values or should other events occur, including, but not limited to, adverse economic conditions (which may or may not affect real property values), the ability of the borrowers to make timely scheduled principal and interest payments on the Company’s loans may be adversely affected, and in turn may result in increased delinquencies and foreclosures. Management monitors this risk by industry, geographical region, and other factors on an ongoing basis in order to identify portfolio trends and take corrective action, if necessary, in a timely manner. Personal and business income represents the primary source of repayment for a majority of these loans.

NOTE 4 – ALLOWANCE FOR LOAN LOSSES

The following table shows the allocation of the allowance for loan losses at and for the year ended December 31, 2015 by portfolio class and by impairment methodology:

Allowance for Loan Losses	Multi-family	Single-family	Commercial & industrial	Gas stations	Hotels	Care homes	Other loans	Unallocated	Total
Beginning balance	$ 225,166	$ 23,535	$ 68,680	$ 659,778	$ 580,331	$ 341,932	$ 1,023,257	$ 416,911	$ 3,339,590
Charge-offs	-	-	(19,554)	-	-	-	-	-	(19,554)
Recoveries	-	-	14,878	-	-	-	-	-	14,878
(Recovery of) provision	(9,150)	304,790	87,590	(28,643)	6,093	(5,412)	(560,887)	(44,381)	(250,000)
Ending balance	$ 216,016	$ 328,325	$ 151,594	$ 631,135	$ 586,424	$ 336,520	$ 462,370	$ 372,530	$ 3,084,914
Ending balance, individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 140,592	$ -	$ -	$ 140,592
Ending balance, collectively evaluated for impairment	$ 216,016	$ 328,325	$ 151,594	$ 631,135	$ 586,424	$ 195,928	$ 462,370	$ 372,530	$ 2,944,322
Loans									
Ending balance	$ 22,702,386	$ 31,243,427	$ 8,255,126	$ 36,425,976	$ 43,081,687	$ 9,615,546	$ 17,189,550		$ 168,513,698
Ending balance, individually evaluated for impairment	$ -	$ -		$ 782,650	$ -	$ 921,590	$ 1,419,310		$ 3,123,550
Ending balance, collectively evaluated for impairment	$ 22,702,386	$ 31,243,427	$ 8,255,126	$ 35,643,326	$ 43,081,687	$ 8,693,956	$ 15,770,240		$ 165,390,148

NOTE 4 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table shows the allocation of the allowance for loan losses at and for the year ended December 31, 2014 by portfolio class and by impairment methodology:

Allowance for Loan Losses	Multi-family	Single-family	Commercial & industrial	Gas stations	Hotels	Care homes	Other loans	Unallocated	Total
Beginning balance	$ 246,597	$ 37,716	$ 84,458	$ 1,002,695	$ 486,908	$ 151,932	$ 1,055,479	$ 226,022	$ 3,291,807
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	47,783	-	-	-		-	47,783
(Recovery of) provision	(21,431)	(14,181)	(63,561)	(342,917)	93,423	190,000	(32,222)	190,889	-
Ending balance	$ 225,166	$ 23,535	$ 68,680	$ 659,778	$ 580,331	$ 341,932	$ 1,023,257	$ 416,911	$ 3,339,590
Ending balance, individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 249,590	$ 490,766	$ -	$ 740,356
Ending balance, collectively evaluated for impairment	$ 225,166	$ 23,535	$ 68,680	$ 659,778	$ 580,331	$ 92,342	$ 532,491	$ 416,911	$ 2,599,234
Loans									
Ending balance	$ 22,219,842	$ 3,040,287	$ 3,707,781	$ 40,984,788	$ 44,345,536	$ 10,638,170	$ 17,664,485		$ 142,600,889
Ending balance, individually evaluated for impairment	$ -	$ -	$ 5,475	$ 1,236,597	$ -	$ 1,049,590	$ 1,591,933		$ 3,883,595
Ending balance, collectively evaluated for impairment	$ 22,219,842	$ 3,040,287	$ 3,702,306	$ 39,748,191	$ 44,345,536	$ 9,588,580	$ 16,072,552		$ 138,717,294

NOTE 4 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables show the loan portfolio allocated by management's internal risk rating at December 31:

2015	Multi-family	Single-family	Commercial & industrial	Gas stations	Hotels	Care homes	Other loans	Total
GRADE								
Pass	$ 21,940,739	$ 29,928,764	$ 8,127,975	$ 36,425,976	$ 42,713,100	$ 8,693,956	$ 13,849,455	$ 161,679,965
Special mention	761,647	1,314,663	127,151	-	-	-	842,458	3,045,919
Substandard	-	-	-	-	368,587	921,590	2,497,637	3,787,814
Doubtful	-	-	-	-	-	-	-	-
Total	$ 22,702,386	$ 31,243,427	$ 8,255,126	$ 36,425,976	$ 43,081,687	$ 9,615,546	$ 17,189,550	$ 168,513,698

2014	Multi-family	Single-family	Commercial & industrial	Gas stations	Hotels	Care homes	Other loans	Total
GRADE								
Pass	$ 22,120,925	$ 3,040,287	$ 3,669,954	$ 39,748,191	$ 43,964,802	$ 9,071,588	$ 14,870,581	$ 136,486,327
Special mention	98,917	-	32,352	-	-	516,992	-	648,261
Substandard	-	-	5,475	1,236,597	380,734	1,049,590	2,793,904	5,466,300
Doubtful	-	-	-	-	-	-	-	-
Total	$ 22,219,842	$ 3,040,287	$ 3,707,781	$ 40,984,788	$ 44,345,536	$ 10,638,170	$ 17,664,485	$ 142,600,889

NOTE 4 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables show an aging analysis of the loan portfolio by the time past due at December 31:

	2015						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Non-accrual
Multi-family	$ -	$ -	$ -	$ -	$ 22,702,386	$ 22,702,386	$ -
Single-family	-	-	-	-	31,243,427	31,243,427	-
Commercial & industrial	-	-	-	-	8,255,126	8,255,126	-
Gas stations	-	-	-	-	36,425,976	36,425,976	-
Hotels	-	-	-	-	43,081,687	43,081,687	-
Care homes	-	-	-	-	9,615,546	9,615,546	921,590
Other loans	1,202,519	-	-	1,202,519	15,987,031	17,189,550	1,419,310
Total	$ 1,202,519	$ -	$ -	$ 1,202,519	$ 167,311,179	$ 168,513,698	$ 2,340,900

	2014						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Non-accrual
Multi-family	$ -	$ -	$ -	$ -	$ 22,219,842	$ 22,219,842	$ -
Single-family	-	-	-	-	3,040,287	3,040,287	-
Commercial & industrial	-	-	-	-	3,707,781	3,707,781	5,475
Gas stations	-	-	-	-	40,984,788	40,984,788	1,236,597
Hotels	-	-	-	-	44,345,536	44,345,536	-
Care homes	-	-	-	-	10,638,170	10,638,170	1,049,590
Other loans	-	-	-	-	17,664,485	17,664,485	1,591,933
Total	$ -	$ -	$ -	$ -	$ 142,600,889	$ 142,600,889	$ 3,883,595

NOTE 4 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

There were no loans accruing interest that were past due 90 days or more for the years ended December 31, 2015 and 2014. Foregone interest on non-accrual loans totaled $199,211 and $316,520 for the years ended December 31, 2015 and 2014, respectively.

The following table shows information related to impaired loans at and for the year ended December 31, 2015:

	2015					
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Charge Off	Interest Income Recognized
WITH NO RELATED ALLOWANCE RECORDED						
Multi-family	$ -	$ -	$ -	$ -	$ -	$ -
Single-family	-	-	-	-	-	-
Commercial & industrial	-	-	-	-	-	-
Gas stations	782,650	782,650	-	1,077,501	-	50,265
Hotels	-	-	-	-	-	-
Care homes	-	-	-	-	-	-
Other loans	1,663,736	1,419,310	-	1,695,110	-	-
WITH AN ALLOWANCE RECORDED						
Multi-family	$ -	$ -	$ -	$ -	$ -	$ -
Single-family	-	-	-	-	-	-
Commercial & industrial	-	-	-	-	-	-
Gas stations	-	-	-	-	-	-
Hotels	-	-	-	-	-	-
Care homes	1,065,539	921,590	140,590	1,104,709	-	-
Other loans	-	-	-	-	-	-
TOTAL						
Multi-family	$ -	$ -	$ -	$ -	$ -	$ -
Single-family	-	-	-	-	-	-
Commercial & industrial	-	-	-	-	-	-
Gas stations	782,650	782,650	-	1,077,501	-	50,265
Hotels	-	-	-	-	-	-
Care homes	1,065,539	921,590	140,590	1,104,709	-	-
Other loans	1,663,736	1,419,310	-	1,695,110	-	-

NOTE 4 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table shows information related to impaired loans at and for the year ended December 31, 2014:

	2014					
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Charge Off	Interest Income Recognized
WITH NO RELATED ALLOWANCE RECORDED						
Multi-family	$ -	$ -	$ -	$ -	$ -	$ -
Single-family	-	-	-	-	-	-
Commercial & industrial	-	-	-	-	-	-
Gas stations	1,372,351	1,236,597	-	1,101,414	-	13,916
Hotels	-	-	-	-	-	-
Care homes	-	-	-	-	-	-
Other loans	-	-	-	-	-	-
WITH AN ALLOWANCE RECORDED						
Multi-family	$ -	$ -	$ -	$ -	$ -	$ -
Single-family	-	-	-	-	-	-
Commercial & industrial	-	-	-	-	-	-
Gas stations	-	-	-	-	-	-
Hotels	-	-	-	-	-	-
Care homes	1,143,879	1,049,590	249,590	751,489	-	28,763
Other loans	1,726,483	1,597,408	490,766	1,761,588	-	189
TOTAL						
Multi-family	$ -	$ -	$ -	$ -	$ -	$ -
Single-family	-	-	-	-	-	-
Commercial & industrial	-	-	-	-	-	-
Gas stations	1,372,351	1,236,597	-	1,101,414	-	13,916
Hotels	-	-	-	-	-	-
Care homes	1,143,879	1,049,590	249,590	751,489	-	28,763
Other loans	1,726,483	1,597,408	490,766	1,761,588	-	189

Troubled debt restructurings – There was one loan modified as a troubled debt restructure during the year ended December 31, 2015, in which a payment deferral and modified payment plan was granted. The total balance of the troubled debt restructure was $1,099,590 both pre- and post-modification. There was no increase to the allowance for loan loss or charge offs as a result of the modification. There were no loans modified as troubled debt restructurings during the year ended December 31, 2014. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. For the years ended December 31, 2015 and 2014, there were no modified loans in default that increased the allowance for loan losses or resulted in charge offs.

NOTE 4 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Troubled debt restructurings (continued) – The terms of certain other loans were modified during the years ended December 31, 2015 and 2014 that did not meet the definition of a troubled debt restructuring. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment ranging from one to six months that was considered to be insignificant.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment at December 31 consisted of the following:

	2015	2014
Land	$ 205,000	$ 205,000
Building and improvements	3,248,060	3,228,911
Furniture, fixtures, and equipment	1,834,898	1,728,542
Leasehold improvements	310,496	310,496
	5,598,454	5,472,949
Less accumulated depreciation and amortization	(3,052,426)	(2,848,487)
	$ 2,546,028	$ 2,624,462

Depreciation and amortization included in occupancy and equipment expense totaled $203,938 and $153,823 for the years ended December 31, 2015 and 2014, respectively.

NOTE 6 – INTEREST BEARING DEPOSITS

Interest bearing deposits at December 31 consisted of the following:

	2015	2014
Savings	$ 9,870,302	$ 8,466,706
Money market	19,515,336	19,104,682
NOW accounts	13,290,179	13,937,233
Time that meets or exceeds FDIC insurance limit	8,681,125	10,441,418
Other time	52,447,729	55,750,636
	$ 103,804,671	$ 107,700,675

NOTE 6 – INTEREST BEARING DEPOSITS (CONTINUED)

The Company obtained a letter of credit from the FHLB in the amount of $3,000,000 to secure public deposits at December 31, 2015 and 2014.

Aggregate annual maturities of time deposits are as follows:

Years ending December 31,	
2016	$ 28,391,263
2017	21,639,184
2018	5,616,031
2019	5,309,277
2020	173,099
	$ 61,128,854

Interest expense recognized on interest bearing deposits for the years ended December 31, 2015 and 2014 consisted of the following:

	2015	2014
Savings	$ 9,095	$ 8,670
Money market	47,944	55,448
NOW accounts	17,911	17,408
Time that meets or exceeds FDIC insurance limit	128,343	143,344
Other time	571,813	644,826
	$ 775,106	$ 869,696

NOTE 7 – INCOME TAXES

Provision for income taxes consisted of the following for the years ended December 31, 2015 and 2014:

	2015	2014
Current		
Federal	$ 502,000	$ 835,000
State	182,000	(33,000)
	684,000	802,000
Deferred		
Federal	157,000	(19,000)
State	19,000	141,000
	176,000	122,000
Provision for income taxes	$ 860,000	$ 924,000

Deferred tax assets (liabilities) consisted of the following at December 31:

	2015	2014
DEFERRED TAX ASSETS		
Allowance for loan losses	$ 1,114,000	$ 1,217,000
Deferred compensation	303,000	296,000
Interest on non-accrual loans	9,000	175,000
State taxes	74,000	39,000
Other	291,000	110,000
Total deferred tax assets	1,791,000	1,837,000
DEFERRED TAX LIABILITIES		
Premises and equipment	(221,000)	(108,000)
Deferred loan costs	(114,000)	(82,000)
Prepaid expenses	(66,000)	(81,000)
Federal Home Loan Bank stock	(48,000)	(48,000)
Unrealized gains on available-for-sale investment securities	-	(1,000)
Total deferred tax liabilities	(449,000)	(320,000)
Net deferred tax assets	$ 1,342,000	$ 1,517,000

NOTE 7 – INCOME TAXES (CONTINUED)

The provision for income taxes differs from amounts computed by applying the statutory federal income tax rates to operating income before income taxes. The significant items comprising these differences consisted of the following for the years ended December 31, 2015 and 2014:

	2015		2014	
	Amount	Rate	Amount	Rate
Federal income tax expense, at statutory rate	$ 821,892	34.0 %	$ 895,001	34.0 %
State franchise tax benefit, net of federal tax effect	177,311	7.3	71,280	2.7
Other	(139,203)	-5.7	(42,281)	-1.7
Total income tax expense	$ 860,000	35.6% %	$ 924,000	35.0 %

The Company conducted an analysis to assess the need of a valuation allowance against deferred tax assets at December 31, 2015 and 2014. As part of this assessment, all available evidence, including both positive and negative, was considered to determine whether based on the weight of such evidence, a valuation allowance for deferred tax assets was needed. A valuation allowance is deemed to be needed when, based on the weight of the available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or all of a deferred tax asset will not be realized. Management determined that a valuation allowance was not required at December 31, 2015 or 2014.

The Company files income tax returns in the U.S. federal and California jurisdictions. With few exceptions, the Company is no longer subject to tax examination by U.S. federal taxing authorities for years ended before December 31, 2012 and by state and local taxing authorities for years ended before December 31, 2011.

Uncertain tax positions – The Company has no material uncertain tax positions or associated interest and penalties at December 31, 2015 and 2014. The unrecognized tax benefit totaled $61,000 at December 31, 2015 and 2014, and if recognized, would not have a material impact on the annual effective tax rate. The Company does not anticipate any significant changes with respect to unrecognized tax benefit within the next twelve months.

The unrecognized tax benefits relate to the state exposure for the 2014 and 2015 tax years, which are subject to examination by the Franchise Tax Board.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Operating leases – The Company leases one of its branch offices under non-cancelable operating leases. Future minimum lease payments are as follows:

Years ending December 31,	
2016	$ 112,425
2017	34,790
	$ 147,215

Rental expense included in occupancy and equipment expense totaled $152,719 and $118,155 for the years ended December 31, 2015 and 2014, respectively.

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

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

The following financial instruments represent off-balance sheet credit risk at December 31, 2015 and 2014:

	2015	2014
Commitments to extend credit	$ 4,497,874	$ 3,957,000
Standby letters of credit	$ 153,400	$ 210,000

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include savings accounts, accounts receivable, inventory, equipment, and deeds of trust on residential real estate and income-producing commercial properties.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Financial instruments with off-balance sheet risk (continued) – Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to these standby letters of credit, which represent fees received for issuing the guarantees, was not significant at December 31, 2015 and 2014. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

Correspondent banking agreements – The Company maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. The Company's uninsured deposits with correspondent banks totaled approximately $2,853,178 at December 31, 2015.

Federal reserve requirements – The Company is required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The Company's vault cash fulfilled its reserve requirement at December 31, 2015 and 2014.

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

NOTE 9 – BORROWING ARRANGEMENTS

Correspondent Bank Lines of Credit – The Company has a total of $11,500,000 in unsecured federal funds lines of credit with three of its correspondent banks to meet short-term liquidity needs. No borrowings were outstanding under these lines at December 31, 2015 and 2014.

Federal Home Loan Bank – The Company has a secured line of credit available with the FHLB, which allows the Company to borrow up to 25% of its total assets based on specified percentages of collateral pledged. At December 31, 2015, the Bank could borrow up to $45.9 million based on loans pledged totaling $56.4 million. There were seven borrowings under these arrangements at December 31, 2015 and two borrowings under these arrangements at December 31, 2014. During 2015, the Bank prepaid the advances that were outstanding as of December 21, 2014 and incurred a prepayment penalty.

NOTE 9 – BORROWING ARRANGEMENTS (CONTINUED)

The following FHLB borrowings were outstanding as of December 31:

	2015		2014	
Maturity Date	Amount	Rate	Amount	Rate
January 29, 2016	$ -	- %	$ 1,000,000	0.65 %
December 8, 2016	1,700,000	0.95	-	-
December 30, 2016	5,000,000	0.93	-	-
October 27, 2017	3,100,000	0.87	-	-
December 8, 2017	3,000,000	1.19	-	-
January 29, 2018	-	-	1,500,000	1.15
October 29, 2018	7,200,000	1.12	-	-
December 10, 2018	3,000,000	1.47	-	-
October 27, 2020	3,000,000	1.63	-	-
	$ 26,000,000	1.15 %	$ 2,500,000	0.95 %

Long-term debt – In May 2012, the Company executed an unsecured promissory note payable in favor of two shareholders totaling $313,311 bearing a fixed interest rate of 3.25% and a maturity date of May 15, 2017. The Company pays one payment at maturity of principal and interest. The proceeds of the note were used by the Company to pay off a loan with one of its correspondent banks. The long-term debt was paid in full during 2015 and as of December 31, 2015, there is no balance outstanding.

NOTE 10 – JUNIOR SUBORDINATED DEBENTURES

MNB Holdings Statutory Trust I (the Trust) is a Delaware business trust formed by the Company with capital of $93,000 for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. During the third quarter of 2004, the Trust issued 3,000 Floating Rate Capital Trust Pass-Through Securities (Trust Preferred Securities), with a liquidation value of $1,000 per security, for gross proceeds of $3,000,000. The entire proceeds of the issuance along with the capital from the Company were invested by the Trust in $3,093,000 of Floating Rate Junior Subordinated Debentures (the Subordinated Debentures) issued by the Company, with identical maturity, repricing and payment terms as the Trust Preferred Securities. The Subordinated Debentures represent the sole assets of the Trust. The Subordinated Debentures mature on September 20, 2034, bear a current interest rate of 2.74% (based on three-month LIBOR plus 2.5%), with repricing and payments due quarterly. The Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Board of Governors on any December 15, March 15, June 15, or September 15. The redemption price is par plus accrued and unpaid interest, except in the case of redemption under a special event, which is defined in the debenture. The Trust Preferred Securities are subject to mandatory redemption to the extent of any early redemption of the Subordinated Debentures and upon maturity of the Subordinated Debentures on September 20, 2034.

NOTE 10 – JUNIOR SUBORDINATED DEBENTURES (CONTINUED)

Holders of the Trust Preferred Securities are entitled to a cumulative cash distribution on the liquidation amount of $1,000 per security. For each successive period beginning on December 15, March 15, June 15, and September 15 of each year, the rate will be adjusted to equal the three-month LIBOR plus 2.5%. The Trust has the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures. The Company has given notice of deferral to each of the past four quarterly payment periods. The Trust Preferred Securities were sold and issued in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the Trust Preferred Securities.

Interest expense recognized by the Company for the years ended December 31, 2015 and 2014 related to the Subordinated Debentures was $89,607 and $96,536, respectively. There were no deferred costs at December 31, 2015 and 2014. The Company had recorded accrued and unpaid interest payments of $4,399 and $281,236 at December 31, 2015 and 2014, respectively.

NOTE 11 – REGULATORY MATTERS

Regulatory agreements – On March 22, 2012, the Board of Directors of the Company entered into a Stipulation and Consent to the Issuance of a Consent Order (Consent Order) with the OCC to correct certain deficiencies identified by the OCC in its examination of the Company in September 2011. The Consent Order was terminated by the OCC on January 23, 2015.

On August 23, 2012, the Board of Directors of the Company entered into a Written Agreement with the Federal Reserve Bank of San Francisco (Reserve Bank), the terms of which required the Company to obtain the Reserve Bank's prior approval to take dividends from the Bank, declare or pay dividends or make other capital distributions to its shareholders, before declaring or paying interest on the Company's junior subordinated debentures, and before incurring, renewing, increasing, or guaranteeing any debt. In addition, the Company could not purchase or redeem any shares of its stock without the prior written approval of the Federal Reserve Bank. The Written Agreement was terminated by the Reserve Bank on June 8, 2015.

Regulatory capital – The Company is subject to certain regulatory capital requirements administered by the Federal Deposit Insurance Corporation (FDIC). Failure to meet these minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

NOTE 11 – REGULATORY MATTERS (CONTINUED)

Regulatory capital (continued) – Under capital adequacy guidelines, the Company and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. These quantitative measures are established by regulation and require that minimum amounts and ratios of total and Common Equity Tier 1 capital ratio, Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets (leverage ratio) be maintained. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Management believes that the Company and Bank met all its capital adequacy requirements as of December 31, 2015 and 2014.

The Company and Bank are also subject to additional capital guidelines under the regulatory framework for prompt corrective action. To be categorized as well capitalized under these guidelines, the Company and Bank must maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1, and Tier 1 leverage ratios as set forth in the table below. At December 31, 2014, the Bank could not be categorized as well capitalized under the regulatory framework for prompt corrective action because it was operating under the Consent Order. However, as noted above, the Consent Order was terminated on January 23, 2015. The Bank was categorized as well capitalized under the regulatory framework for prompt corrective action as of December 31, 2015. There are no conditions or events since that notification that management believes have changed the Company's category.

On July 2, 2013, the federal banking regulators approved the final proposed rules that revise the regulatory capital ratios to incorporate certain revisions by the Basel Committee on Banking Supervision to the Basel capital framework (BASEL III). The phase-in period for the final rules began on January 1, 2015, with full compliance with the final rules entire requirement phase in by January 1, 2019. The final rules, among other things, include a new common equity Tier 1 capital ("CETI") to risk-weighted assets ratio, including a capital conservation buffer, which increases from 4.5% this year to 7.0% on January 1, 2019. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from currently 6.0% to 8.5% on January 1, 2019, as well as require a minimum leverage ratio of 4.0%.

NOTE 11 – REGULATORY MATTERS (CONTINUED)

	2015		2014	
	Amount	Ratio	Amount	Ratio
TIER 1 LEVERAGE RATIO				
Mission National Bank	$ 24,215,000	12.5%	$ 23,262,000	12.7%
To be well capitalized	$ 9,726,000	5.0%	N/A	N/A
Minimum regulatory requirement	$ 7,781,000	4.0%	$ 7,308,000	4.0%
COMMON EQUITY TIER 1 RISK-BASED CAPITAL RATIO				
Mission National Bank	$ 24,215,000	15.3%	N/A	N/A
To be well capitalized	$ 10,264,000	6.5%	N/A	N/A
Minimum regulatory requirement	$ 7,106,000	4.5%	N/A	N/A
TIER 1 RISK-BASED CAPITAL RATIO				
Mission National Bank	$ 24,215,000	15.3%	$ 23,262,000	16.2%
To be well capitalized	$ 12,633,000	8.0%	N/A	N/A
Minimum regulatory requirement	$ 9,475,000	6.0%	$ 5,753,000	4.0%
TOTAL RISK-BASED CAPITAL RATIO				
Mission National Bank	$ 26,203,000	16.6%	$ 25,079,000	17.4%
To be well capitalized	$ 15,791,000	10.0%	N/A	N/A
Minimum regulatory requirement	$ 12,633,000	8.0%	$ 11,505,000	8.0%

Dividends – The shareholders of the Company will be entitled to receive dividends when and as declared by its Board of Directors, out of funds legally available for the payment of dividends, as provided in the California General Corporation Law. The California General Corporation Law provides that a corporation may make a distribution to its shareholders if retained earnings immediately prior to the dividend payout is at least equal to the amount of the proposed distribution. In the event that sufficient retained earnings are not available for the proposed distribution, a corporation may, nevertheless, make a distribution, if it meets both the "quantitative solvency" and the "liquidity" tests. In general, the quantitative solvency test requires that the sum of the assets of the corporation equal at least 125% of its liabilities. The liquidity test generally requires that a corporation have current assets at least equal to current liabilities, or, if the average of the earnings of the corporation before taxes on income and before interest expenses for the two preceding fiscal years was less than the average of the interest expense of the corporation for such fiscal years, then current assets must equal at least 125% of current liabilities.

Under applicable federal laws, the Office of the Comptroller of the Currency (OCC) restricts the total dividend payments of any national banking association in any calendar year to the net income of the year, as defined, combined with the net income for the two preceding years, less distributions made to shareholders during the same three-year period. Furthermore, if accumulated losses equal or exceed undivided profits, then no dividend payment shall be made. Under these restrictions, the Bank had $6,820,000 available for dividend payments to the Company.

NOTE 12 – RELATED PARTY TRANSACTIONS

In the normal course of business, the Company makes loans to and receives deposits from its directors, executive officers, principal shareholders, and their associates. In management's opinion, these transactions are on substantially the same terms as comparable transactions with other customers of the Company. The Company's related party loans for the years ended December 31 follows:

	2015	2014
Beginning balance	$ 1,978,162	$ 1,110,034
Disbursements	930,000	900,000
Amounts repaid	(934,122)	(31,872)
Ending balance	$ 1,974,040	$ 1,978,162
Undisbursed commitments	$ 105,500	$ 135,300

Related party deposits amount to $10,185,089 and $9,611,469 at December 31, 2015 and 2014.

NOTE 13 – EMPLOYEE BENEFIT PLANS

Salary continuation plan – A salary continuation plan is in place for one retired officer. In addition, similar plans have been frozen for three executive officers who have left the Company. Under these plans, the executive officers, or their designated beneficiaries, will receive monthly payments for ten years after retirement or death. These benefits are substantially equivalent to those available under insurance policies that have been purchased by the Company on the lives of the executive officers. In addition, the estimated present value of these future benefits is accrued over the period from the effective dates of the plans until their expected retirement dates. The expense recognized under these plans for the years ended December 31, 2015 and 2014 was $31,755 and $34,085, respectively, resulting in a deferred compensation liability of $691,408 and $719,654 at December 31, 2015 and 2014, respectively.

The Company holds single premium life insurance policies with cash surrender values totaling $1,134,924 and $1,105,001 at December 31, 2015 and 2014, respectively. Income earned on these policies, net of expenses, totaled $29,923 and $29,743 for the years ended December 31, 2015 and 2014, respectively.

NOTE 13 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Savings plan – The Mission National Bank 401 (k) Savings Plan commenced in 1997 and is available to employees meeting certain service requirements. Under the plan, employees may defer a selected percentage of their annual compensation. The Company's contribution to the plan is discretionary and is allocated as follows:

- A matching contribution to be determined by the Board of Directors each plan year under which the Company will match a percentage of each participant's contribution.

- The Company may make additional contributions to the plan at the discretion of the Board of Directors that shall be allocated in the same ratio as each participant's compensation bears to total compensation.

Company contributions totaled $20,365 and $20,651 for the years ended December 31, 2015 and 2014, respectively.

NOTE 14 – OTHER EXPENSES

Other expenses for the years ended December 31, 2015 and 2014 consisted of the following:

	2015	2014
Data processing	$ 541,245	$ 470,895
Professional services	291,717	299,208
Director's fees	180,000	149,200
Telephone and postage	150,447	146,085
FDIC assessment	113,625	228,337
OCC assessment	71,584	123,791
Loan related expenses	60,901	43,908
Other operating expenses	856,708	584,820
	$ 2,266,227	$ 2,046,244

NOTE 15 – FAIR VALUE

Fair value of financial instruments – The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

		Fair Value Measurements at December 31, 2015			
	Carrying Amount	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS					
Cash and due from banks	$ 33,501,843	$ 33,501,843	$ -	$ -	$ 33,501,843
Other investments	1,733,749	-	1,733,749	-	1,733,749
Loans, net	165,428,784	-	-	168,167,000	168,167,000
Accrued interest receivable	612,869	-	-	612,869	612,869
FINANCIAL LIABILITIES					
Deposits	$ 156,975,913	$ 96,112,000	$ 61,954,000	$ -	$ 158,066,000
FHLB borrowings	26,000,000	-	-	25,760,000	25,760,000
Junior subordinated debentures	3,093,000	-	-	3,093,000	3,093,000
Accrued interest payable	112,628	-	108,229	4,399	112,628

		Fair Value Measurements at December 31, 2014			
	Carrying Amount	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS					
Cash and due from banks	$ 30,118,052	$ 30,118,052	$ -	$ -	$ 30,118,052
Available-for-sale investment securities	18,813	-	18,813	-	18,813
Other investments	1,713,663	-	1,713,663	-	1,713,663
Loans, net	139,261,298	-	-	143,502,000	143,502,000
Accrued interest receivable	42,473	-	-	42,473	42,473
FINANCIAL LIABILITIES					
Deposits	$ 150,044,726	$ 84,094,000	$ 67,152,000	$ -	$ 151,246,000
Long-term debt	313,311	-	-	296,000	296,000
FHLB borrowings	2,500,000	-	-	2,513,000	2,513,000
Junior subordinated debentures	3,093,000	-	-	3,093,000	3,093,000
Accrued interest payable	445,462	-	164,380	281,082	445,462

These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

NOTE 15 – FAIR VALUE (CONTINUED)

The following methods and assumptions were used by the Bank to estimate the fair value of its financial instruments.

Cash and cash equivalents – The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Investment securities – Fair values for Level 1 available-for-sale investment securities are based on quoted market prices for the securities. Fair values for Level 2 available-for-sale investment securities are based on quoted market prices for similar securities.

Other investments – The carrying amounts of the stock the Company owns in Federal Home Bank, The Independent Bankers' Bank, Federal Reserve Bank, and Pacific Coast Bankers' Bank approximate their fair value and are considered a Level 2 valuation.

Loans – Fair values of loans, excluding impaired loans, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification.

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 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 experience, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the customer and customer'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 Loan Department 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.

Accrued interest receivable/payable – The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification based on the related asset or liability classification.

NOTE 15 – FAIR VALUE (CONTINUED)

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 1 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow 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.

Long-term debt and junior subordinated debentures – The fair values of the Company's long-term debt as estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification. The fair values of the Company's Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements. A market borrowing rate cannot be estimated due to the lack of similar type borrowing arrangements, resulting in a Level 3 classification. Therefore, the subordinated debentures' fair value is estimated at carrying value.

Commitments and contingencies – The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, and are not significant and, therefore, are not included in the above table.

Fair value hierarchy – The Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 – Quoted market prices for identical instruments traded in active exchange markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

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

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

NOTE 15 – FAIR VALUE (CONTINUED)

Assets recorded at fair value – There were no assets measured at fair value on a recurring basis as of December 31, 2015. The following table presents information about the Company's assets measured at fair value on a recurring basis as of December 31, 2014:

	December 31, 2014			
Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities				
Debt securities				
U.S. government sponsored agencies mortgage-backed securities, residential	$ 18,813	$ -	$ 18,813	$ -
Total assets measured at fair value	$ 18,813	$ -	$ 18,813	$ -

The following table presents information about the Company's assets measured at fair value on a non-recurring basis as of December 31, 2015 and 2014:

	December 31, 2015			
Description	Fair Value	Level 1	Level 2	Level 3
Impaired loans				
Care homes	$ 781,000	$ -	$ -	$ 781,000
	December 31, 2014			
	Fair Value	Level 1	Level 2	Level 3
Impaired loans				
Care homes	$ 800,000	$ -	$ -	$ 800,000

There were no liabilities measured on a recurring or non-recurring basis as of December 31, 2015 and 2014. During the year ended December 31, 2014, there were no transfers in or out of Levels 1 or 2.

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

Impaired loans – Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $921,590, with a valuation allowance of $140,590 at December 31, 2015, resulting in no additional provision for loan losses for the year ended December 31, 2015. At December 31, 2014, impaired loans had a principal balance of $1,049,590, with a valuation allowance of $249,590 at December 31, 2014, resulting in no additional provision for loan losses for the year ended December 31, 2014.

At December 31, 2015 and 2014, the Company relied solely on appraisals to measure the fair value of loans carried at fair value on a non-recurring basis. The valuation technique used was the sales comparison approach method. Unobservable inputs include adjustment for estimated selling costs and unpaid taxes, which has a weighted average discount of 15%.