OPEN BANK
Los Angeles, California

FINANCIAL STATEMENTS
December 31, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Open Bank
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Open Bank, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Open 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

Crowe Horwath LLP

Sherman Oaks, California
March 28, 2016

OPEN BANK
BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 37,399,318	$ 64,748,042
Securities available for sale, at fair value	43,888,874	19,863,845
Securities held to maturity (fair value of $0 in 2015 and $2,955,950 in 2014)	-	2,999,002
Loans held for sale	5,579,004	5,711,343
Loans receivable, net of allowance of $6,389,745 in 2015 and $5,754,501 in 2014	500,896,100	407,772,324
Bank premises and equipment, net	5,892,133	4,953,073
Accrued interest receivable	1,561,813	1,174,846
Federal Home Loan Bank and Pacific Coast Bankers Bank stock, at cost	2,655,300	1,900,100
Servicing assets	5,550,975	4,670,462
Bank owned life insurance	10,434,961	10,081,879
Deferred tax assets	1,635,407	2,902,627
Other assets	1,856,089	1,414,464
	$ 617,349,974	$ 528,192,007
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing	$ 155,147,394	$ 174,448,960
Interest bearing:		
Savings	2,000,226	1,394,355
Money market and others	179,832,791	131,658,523
Time deposits greater than $250,000	68,389,915	71,517,594
Other time deposits	114,350,741	49,499,484
Total deposits	519,721,067	428,518,916
Federal Home Loan Bank advances	20,000,000	30,000,000
Accrued interest payable	347,136	132,168
Other liabilities	4,802,487	4,098,855
Total liabilities	544,870,690	462,749,939
Shareholders' equity		
Preferred stock – no par value; 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2015 and 2014	-	-
Common stock – no par value; 50,000,000 shares authorized; 12,682,510 and 12,411,089 shares issued and outstanding at December 31, 2015 and 2014, respectively	67,342,360	66,993,270
Additional paid-in capital	3,406,856	2,538,412
Retained earnings / (accumulated deficit)	1,962,099	(4,001,246)
Accumulated other comprehensive loss	(232,031)	(88,368)
Total shareholders' equity	72,479,284	65,442,068
	$ 617,349,974	$ 528,192,007

See accompanying notes to financial statements

OPEN BANK
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years ended December 31, 2015 and 2014

	2015	2014
Interest income		
Interest and fees on loans	$24,328,811	$17,768,505
Interest on investment securities	770,505	415,175
Other interest income	92,842	75,917
Total interest income	25,192,158	18,259,597
Interest expense		
Interest on deposits	2,605,140	1,537,435
Interest on borrowed funds	83,974	1,597
Total interest expense	2,689,114	1,539,032
Net interest income	22,503,044	16,720,565
Provision for loan losses	552,843	1,000,000
Net interest income after provision for loan losses	21,950,201	15,720,565
Noninterest income		
Service charges on deposits	1,277,879	1,340,994
Fees on international transactions	182,858	284,025
Gain on sale of loans	4,669,042	5,359,618
Other income	1,848,209	1,508,472
Total noninterest income	7,977,988	8,493,109
Noninterest expense		
Salaries and employee benefits	12,252,708	10,421,921
Occupancy and equipment	3,162,047	2,085,829
FDIC insurance and regulatory assessments	306,769	227,880
Professional fees	412,859	312,000
Data processing and communication	624,092	456,330
Promotion and advertising	532,482	468,021
Stationary and supplies	122,886	153,026
Directors' fees and stock-based compensation	783,602	743,949
Other expenses	1,597,526	1,726,104
Total noninterest expense	19,794,971	16,595,061
Income before income taxes	10,133,218	7,618,614
Income tax expense	4,169,873	3,135,000
Net income	$ 5,963,345	$ 4,483,614
Earnings per share:		
Basic	$ 0.48	$ 0.45
Diluted	$ 0.46	$ 0.42
Other comprehensive income:		
Change in unrealized gain (loss) on securities available for sale, net of tax effects of ($100,453) and $154,950 in 2015 and 2014, respectively	(143,663)	221,599
Total other comprehensive income (loss)	(143,663)	221,599
Comprehensive income	$ 5,819,682	$ 4,705,213

See accompanying notes to financial statements

OPEN BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2015 and 2014

	Common Stock					
	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings / (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2014	7,233,484	$ 38,680,133	$ 1,304,611	$ (8,484,860)	$ (309,967)	$ 31,189,917
Net income	-	-	-	4,483,614	-	4,483,614
Stock issued under stock offering, net of expenses	5,000,000	28,270,177	-	-	-	28,270,177
Stock issued under stock-based compensation plans	177,605	42,960	-	-	-	42,960
Stock-based compensation	-	-	1,233,801	-	-	1,233,801
Change in unrealized gain (loss) on securities available for sale net of reclassifications and tax effects	-	-	-	-	221,599	221,599
Balance at December 31, 2014	12,411,089	$ 66,993,270	$ 2,538,412	$ (4,001,246)	$ (88,368)	$ 65,442,068
Net income	-	-	-	5,963,345	-	5,963,345
Stock issued under stock-based compensation plans	271,421	349,090	-	-	-	349,090
Stock-based compensation	-	-	868,444	-	-	868,444
Change in unrealized gain (loss) on securities available for sale net of reclassifications and tax effects	-	-	-	-	(143,663)	(143,663)
Balance at December 31, 2015	12,682,510	$ 67,342,360	$ 3,406,856	$ 1,962,099	$ (232,031)	$ 72,479,284

See accompanying notes to financial statements

OPEN BANK
STATEMENTS OF CASH FLOWS
Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net income	$ 5,963,345	$ 4,483,614
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Provision for loan losses	552,843	1,000,000
Depreciation and amortization of premises and equipment	940,404	732,130
Amortization of net premiums on securities	268,598	34,371
Stock-based compensation	868,444	1,233,801
Gain on sales of loans	(4,669,042)	(5,359,618)
Gain on called securities	(1,383)	-
Earnings on bank owned life insurance	(353,082)	(81,879)
Origination of loans held for sale	(68,291,494)	(57,832,431)
Proceeds from sales of loans held for sale	70,944,759	72,096,321
Amortization of servicing assets	1,267,603	1,043,598
Net change in:		
Accrued interest receivable	(386,967)	(355,197)
Other assets	926,048	5,588,571
Accrued interest payable	214,968	51,636
Other liabilities	703,632	2,240,024
Net cash from operating activities	8,948,676	24,874,941
Cash flows from investing activities		
Net change in loans receivable	(93,676,619)	(132,750,054)
Proceeds from calls of securities held to maturity	3,000,000	-
Proceeds from calls of securities available for sale	5,580,479	2,000,000
Purchase of securities available for sale	(30,117,837)	(12,057,302)
Purchase of premises and equipment, net	(1,879,464)	(2,537,641)
Purchase of bank owned life insurance	-	(10,000,000)
Purchase of Federal Home Loan Bank stock	(755,200)	(825,100)
Net cash from investing activities	(117,848,641)	(156,170,097)
Cash flows from financing activities		
Net change in deposits	91,202,151	119,215,726
Cash received from stock option exercises	349,090	42,960
(Repayment of) proceeds from Federal Home Loan Bank advances	(10,000,000)	30,000,000
Issuance of common stock	-	28,270,177
Net cash from financing activities	81,551,241	177,528,863
Net change in cash and cash equivalents	(27,348,724)	46,233,707
Cash and cash equivalents at beginning of year	64,748,042	18,514,335
Cash and cash equivalents at end of year	$ 37,399,318	$ 64,748,042
Supplemental cash flow information		
Cash paid during the year for:		
Income taxes	$ 2,695,000	$ 165,000
Interest	2,474,146	1,487,396

See accompanying notes to financial statements

NOTE 1 – NATURE OF OPERATIONS

Open Bank (the "Bank") is a California state-chartered and FDIC-insured financial institution, which began its operations on June 10, 2005. Headquartered in downtown Los Angeles, California, the Bank operates primarily in the traditional banking business arena that includes accepting deposits and making loans and investments. The Bank's primary deposit products are demand and time deposits, and the primary lending products are commercial business loans to small to medium sized businesses. The Bank is operating with six full service branches. There are no significant concentrations of loans to any one industry or customer. However, the Bank’s customers’ ability to repay their loans is dependent on the real estate and general economic conditions in the Bank’s market area.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Concentration of Risk: Most of the Bank's customers are located within Los Angeles County and the surrounding area. The concentration of loans originated in this area may subject the Bank to the risk of adverse impacts of economic, regulatory or other developments that could occur in Southern California.

The Bank has significant concentration in commercial real estate loans. The Bank obtains what it believes to be sufficient collateral to secure potential losses. The extent and value of the collateral obtained varies based upon the details underlying each loan agreement.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with original maturities less than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Pacific Coast Bankers Bank ("PCBB") Stock: The Bank is a member of PCBB. PCBB 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 are reported as income.

Loans Held for Sale: Certain Small Business Administration ("SBA") loans that may be sold prior to maturity are designated as held for sale at origination and are recorded at the lower of their cost or fair value less costs to sell, determined on an aggregate 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. These loans are generally sold with servicing retained.

Loans Receivable: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. The recorded investment in loans includes accrued interest receivable, deferred loan fees and costs, and unearned income.

The accrual of interest income on commercial real estate and other commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All interest accrued but not received for loans placed on nonaccrual status is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement.

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 Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

Factors considered by management in determining impairment include payment status, collateral value, and the 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, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial real estate and construction loans. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Income recognition on impaired loans materially conforms to the method the Bank uses for income recognition on nonaccrual loans.

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. For consumer loans, management will generally charge off the balance if the loan is 90 days or more past due.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The general component of the allowance covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent two years. For those portfolio segments that the Bank does not have sufficient historical data available to track the loss migration, the loss factors are based on the actual loss history experienced by the Bank over the most recent three years. 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. Related to the current national and local economic conditions, the Bank has considered risk factors including the broad deterioration of property values, reduced consumer and business spending as a result of high unemployment and reduced credit availability, and the lack of confidence in a sustainable recovery.

The following portfolio segments have been identified in the Bank's loan portfolio, and are also representative of the classes within the portfolio: commercial real estate, SBA loans – real estate, SBA loans – non-real estate, commercial, trade finance, and consumer. The Bank reviews the credit risk exposure of all its portfolio segments by internally assigned grades. The Bank categorizes loans into risk grades 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. For the consumer portfolio segments, the Bank's primary monitoring tool is reviewing past due listings to determine if the loans are performing.

The determination of the allowance for loan losses is based on estimates that are particularly susceptible to changes in the economic environment and market conditions. Management believes that as of December 31, 2015 and 2014 the allowance for loan losses is adequate based on information currently available. If the deterioration in the economy of the Bank's principal market area occurs, the Bank's loan portfolios could be adversely impacted and higher charge-offs and increases in non-performing assets could result. Such an adverse impact could also require a larger allowance for loan losses.

Servicing Assets: When SBA loans are sold with servicing retained, servicing assets are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is 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 assets are subsequently measured using the amortization method which requires servicing assets 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 assets are evaluated for impairment based upon the fair value of the assets as compared to their carrying amount. Impairment is recognized through a valuation allowance 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, a reduction of the valuation allowance may be recorded as an increase to income. Changes in the valuation allowances are reported with other income on the income statement. The fair values of servicing rights are subject to fluctuations as a result of changes in estimated and actual prepayment speeds, default rates, and losses.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing fee income, which is reported on the income statement as other income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of servicing assets is netted against loan servicing fee income. Late fees and ancillary fees related to loan servicing are not material.

Bank Owned Life Insurance: The Bank 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.

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: Premises and equipment are stated at cost, less accumulated depreciation. 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 of depreciation is used for financial reporting purposes. Repairs and maintenance are charged to operating expenses as incurred.

Other Real Estate Owned, Net: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when the legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through the completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at the lower of their cost or fair value less estimated costs to sell. If their fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

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.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees based on the fair value of the awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Bank's common stock at the date of the grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Stock options and restricted stock awards are considered outstanding for this calculation unless unearned. Diluted earnings per common shares includes the dilutive effect of additional potential common shares issuable under stock-based compensation plans. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

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 does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

The Bank recognizes interest and/or penalties related to income tax matters in income tax expense. There were no interest or penalties recognized in 2015 or 2014.

Comprehensive Income/(Loss): Comprehensive income/(loss) 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 equity, net of tax.

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.

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.

Operating Segments: While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Discrete financial information is not available other than on a Company-wide basis.

(Continued)

NOTE 3 – SECURITIES

The following table summarizes the amortized cost, fair value, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss and gross unrecognized gains and losses for available for sale securities at December 31, 2015 and 2014 and held to maturity securities at December 31, 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2015				
Available for sale				
U.S. Government sponsored agency securities	$ 7,978,221	$ 26,850	$ (56,093)	$ 7,948,978
Mortgage-backed securities: residential	22,615,113	-	(171,518)	22,443,595
Collateralized mortgage obligations	13,689,813	-	(193,512)	13,496,301
Total available for sale	$ 44,283,147	$ 26,850	$ (421,123)	$ 43,888,874

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2014				
Available for sale				
U.S. Government sponsored agency securities	$ 9,972,648	$ 19,446	$ (162,034)	$ 9,830,060
Mortgage-backed securities: residential	10,041,354	-	(7,569)	10,033,785
Total available for sale	$ 20,014,002	$ 19,446	$ (169,603)	$ 19,863,845

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity				
U.S. Government sponsored agency securities	$ 2,999,002	$ -	$ (43,052)	$ 2,955,950
Total held to maturity	$ 2,999,002	$ -	$ (43,052)	$ 2,955,950

(Continued)

NOTE 3 – SECURITIES (Continued)

The amortized cost and estimated fair value of securities available for sale at December 31, 2015, by contractual maturity, are shown below. Securities without a contractual maturity are shown separately.

	Amortized Cost	Fair Value
Available for sale		
One to five years	$ 5,978,221	$ 5,961,019
Five to ten years	2,000,000	1,987,959
Mortgage-backed securities: residential	22,615,113	22,443,595
Collateralized mortgage obligations	13,689,813	13,496,301
Total	$ 44,283,147	$ 43,888,874

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

The following table summarizes securities with unrealized losses at December 31, 2015 and 2014, aggregated by length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2015:						
Available for sale						
U.S. Government sponsored agency securities	$ 2,984,477	$ (14,177)	$2,956,589	$ (41,916)	$ 5,941,066	$ (56,093)
Mortgage-backed securities	22,443,595	(171,518)	-	-	22,443,595	(171,518)
Collateralized mortgage obligations	13,496,301	(193,512)	-	-	13,496,301	(193,512)
Total available for sale	$ 38,924,373	$ (379,207)	$2,956,589	$ (41,916)	$ 41,880,962	$ (421,123)

NOTE 3 – SECURITIES (Continued)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2014:						
Available for sale						
U.S. Government sponsored agency securities	$ -	$ -	$ 6,833,920	$ (162,034)	$ 6,833,920	$ (162,034)
Mortgage-backed securities	10,033,785	(7,569)	-	-	10,033,785	(7,569)
Total available for sale	$ 10,033,785	$ (7,569)	$6,833,920	$ (162,034)	$ 16,867,705	$ (169,603)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held to maturity						
U.S. Government sponsored agency securities	$ 982,240	$ (17,591)	$1,973,710	$ (25,461)	$ 2,955,950	$ (43,052)
Total held to maturity	$ 982,240	$ (17,591)	$1,973,710	$ (25,461)	$ 2,955,950	$ (43,052)

The Bank believes that the unrealized losses are temporary, arising mainly from fluctuations in interest rates and do 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. Management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery.

Securities with fair values of approximately $11,802,486 and $13,988,255 were pledged to secure public deposits, borrowings, and for other purposes as required or permitted by law at December 31, 2015 and 2014, respectively.

NOTE 4 – LOANS

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

	2015	2014
Real estate:		
Commercial real estate	$ 272,892,985	$ 210,774,026
SBA loans – real estate	74,616,225	67,176,684
Total real estate	347,509,210	277,950,710
SBA loans – non-real estate	6,724,133	5,891,330
Commercial	67,492,447	57,682,912
Trade finance	3,186,682	5,235,034
Home mortgage	76,744,362	58,162,355
Consumer	4,958,152	7,941,303
Gross loans receivable	506,614,986	412,863,644
Deferred loan costs, net	670,859	663,181
Allowance for loan losses	(6,389,745)	(5,754,501)
Loans receivable, net	$ 500,896,100	$ 407,772,324

The Bank did not have any loans outstanding to related parties as of December 31, 2015 or 2014.

NOTE 4 – LOANS (Continued)

The activity in the allowance for loan losses for the years ended December 31, 2015 and 2014 was as follows:

	Commercial Real Estate	SBA Loans Real Estate	SBA Loans Non-Real Estate	Commercial	Trade Finance	Home Mortgage	Consumer	Total
2015:								
Beginning balance	$ 2,480,934	$ 745,363	$ 128,772	$ 1,512,348	$ 87,246	$ 709,581	$ 90,257	$ 5,754,501
Provision for loan losses	750,676	(42,125)	(7,015)	(276,136)	(59,413)	226,700	(39,844)	552,843
Charge-offs	-	-	(7,880)	-	-	-	-	(7,880)
Recoveries	-	851	14,900	70,530	-	-	4,000	90,281
Ending balance	$ 3,231,610	$ 704,089	$ 128,777	$ 1,306,742	$ 27,833	$ 936,281	$ 54,413	$ 6,389,745
2014:								
Beginning balance	$ 2,068,965	$ 771,531	$ 94,639	$ 1,824,618	$ 90,399	$ 314,289	$ 63,971	$ 5,228,412
Provision for loan losses	411,969	412,348	61,757	(290,740)	(3,153)	395,292	12,527	1,000,000
Charge-offs	-	(438,515)	(38,638)	(45,530)	-	-	-	(522,683)
Recoveries	-	-	11,014	24,000	-	-	13,758	48,772
Ending balance	$ 2,480,934	$ 745,363	$ 128,772	$ 1,512,348	$ 87,246	$ 709,581	$ 90,257	$ 5,754,501

(Continued)

NOTE 4 – LOANS (Continued)

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:

2015:	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
Allowance for loan losses:			
Commercial real estate	$ –	$ 3,231,610	$ 3,231,610
SBA loans – real estate	–	704,089	704,089
SBA loans – non-real estate	47,183	81,594	128,777
Commercial	723,911	582,831	1,306,742
Trade finance	–	27,833	27,833
Home mortgage	–	936,281	936,281
Consumer	–	54,413	54,413
Total	$ 771,094	$ 5,618,651	$ 6,389,745
Loans:			
Commercial real estate	$ –	$ 272,988,843	$ 272,988,843
SBA loans – real estate	–	75,910,333	75,910,333
SBA loans – non-real estate	47,183	6,786,760	6,833,943
Commercial	723,911	66,878,565	67,602,476
Trade finance	–	3,199,186	3,199,186
Home mortgage	–	77,182,692	77,182,692
Consumer	–	4,951,772	4,951,772
Total	$ 771,094	$ 507,898,151	$ 508,669,245
2014:			
Allowance for loan losses:			
Commercial real estate	$ –	$ 2,480,934	$ 2,480,934
SBA loans – real estate	–	745,363	745,363
SBA loans – non-real estate	46,804	81,968	128,772
Commercial	1,042,113	470,235	1,512,348
Trade finance	–	87,246	87,246
Home mortgage	–	709,581	709,581
Consumer	–	90,257	90,257
Total	$ 1,088,917	$ 4,665,584	$ 5,754,501
Loans:			
Commercial real estate	$ –	$ 210,827,132	$ 210,827,132
SBA loans – real estate	–	68,398,253	68,398,253
SBA loans – non-real estate	165,267	5,811,090	5,976,357
Commercial	1,114,574	56,596,144	57,710,718
Trade finance	–	5,255,188	5,255,188
Home mortgage	–	58,510,956	58,510,956
Consumer	–	7,939,263	7,939,263
Total	$ 1,279,841	$ 413,338,026	$ 414,617,867

NOTE 4 – LOANS (Continued)

The following table presents information related to impaired loans by class of loans as of and for the years ended December 31, 2015 and 2014. The difference between the unpaid principal balance (net of partial charge-offs) and the recorded investment in the loans is not considered to be material.

	Recorded Investment	Allowance Allocated	Average Recorded Investment	Interest Income Recognized
2015:				
With no related allowance recorded:				
SBA loans – non-real estate	$ –	$ –	$ 59,078	$ –
Commercial	–	–	–	–
With an allowance recorded:				
SBA loans – non-real estate	47,183	47,183	47,147	5,618
Commercial	723,911	723,911	883,012	14,860
	$ 771,094	$ 771,094	$ 989,237	$ 20,478
2014:				
With no related allowance recorded:				
SBA loans – non-real estate	$ 109,547	$ –	$ 130,019	$ 6,610
Commercial	72,461	–	82,257	–
With an allowance recorded:				
SBA loans – non-real estate	55,720	46,804	68,515	3,596
Commercial	1,042,113	1,042,113	1,117,744	15,385
	$ 1,279,841	$ 1,088,917	$ 1,398,535	$ 25,591

The difference between interest income recognized and cash basis interest recognized was immaterial.

The following table presents the recorded investment in nonaccrual loans and loans past due greater than 90 days still accruing interest by class of loans as of December 31, 2015 and 2014:

	Nonaccrual	Loans >90 Days Past Due & Still Accruing	Total
2015:			
SBA loans – non-real estate	$ 315,305	$ –	$ 315,305
Commercial	341,855	–	341,855
Total	$ 657,160	$ –	$ 657,160
2014:			
SBA loans – non-real estate	$ 109,547	$ –	$ 109,547
Commercial	717,376	–	717,376
Total	$ 826,923	$ –	$ 826,923

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

NOTE 4 – LOANS (Continued)

The following table represents the aging of the recorded investment in past due loans as of December 31, 2015 and 2014:

	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
2015:						
Commercial real estate	$ –	$ –	$ –	$ –	$ 272,988,843	$ 272,988,843
SBA – real estate	–	–	–	–	75,910,333	75,910,333
SBA – non-real estate	85,660	63,512	315,305	464,477	6,369,466	6,833,943
Commercial	–	–	–	–	67,602,476	67,602,476
Trade finance	–	–	–	–	3,199,186	3,199,186
Home mortgage	–	–	–	–	77,182,692	77,182,692
Consumer	–	–	–	–	4,951,772	4,951,772
	$ 85,660	$ 63,512	$ 315,305	$ 464,477	$ 508,204,768	$ 508,669,245
2014:						
Commercial real estate	$ –	$ –	$ –	$ –	$ 210,827,132	$ 210,827,132
SBA – real estate	–	–	–	–	68,398,253	68,398,253
SBA – non-real estate	–	71,594	234,070	305,664	5,670,693	5,976,357
Commercial	–	–	–	–	57,710,718	57,710,718
Trade finance	–	–	–	–	5,255,188	5,255,188
Home mortgage	–	–	–	–	58,510,956	58,510,956
Consumer	–	–	–	–	7,939,263	7,939,263
	$ –	$ 71,594	$ 234,070	$ 305,664	$ 414,312,203	$ 414,617,867

Troubled Debt Restructurings: As of December 31, 2015 and 2014, the Bank had a recorded investment in troubled debt restructurings of $723,911 and $1,224,121. The Bank has allocated $723,911 and $1,042,113 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2015 and 2014. The Bank has not committed to lend any additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

Modifications made were primarily extensions of existing payment modifications on loans previously identified as troubled debt restructurings. There were no new loans identified as trouble debt restructurings during 2015 or 2014. There were no payment defaults during 2015 or 2014 of loans that had been modified as troubled debt restructurings within the previous twelve months.

NOTE 4 – LOANS (Continued)

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. For consumer loans, a credit grade is established at inception, and generally only adjusted based on performance. Information about payment status is disclosed elsewhere. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis. The Bank uses the following definitions for risk ratings:

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Bank'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:

	Pass	Special Mention	Substandard	Doubtful	Total
2015:					
Commercial real estate	$ 272,988,843	$ –	$ –	$ –	$ 272,988,843
SBA loans – real estate	75,910,333	–	–	–	75,910,333
SBA loans – non-real estate	6,647,997	–	185,946	–	6,833,943
Commercial	65,378,565	1,500,000	723,911	–	67,602,476
Trade finance	3,199,186	–	–	–	3,199,186
Home mortgage	77,182,692	–	–	–	77,182,692
Consumer	4,951,772	–	–	–	4,951,772
	$ 506,259,388	$ 1,500,000	$ 909,857	$ –	$ 508,669,245
2014:					
Commercial real estate	$ 210,827,132	$ –	$ –	$ –	$ 210,827,132
SBA loans – real estate	67,823,212	–	575,041	–	68,398,253
SBA loans – non-real estate	5,930,405	–	45,952	–	5,976,357
Commercial	56,596,143	–	1,114,575	–	57,710,718
Trade finance	5,255,188	–	–	–	5,255,188
Home mortgage	58,510,956	–	–	–	58,510,956
Consumer	7,939,263	–	–	–	7,939,263
	$ 412,882,299	$ –	$ 1,735,568	$ –	$ 414,617,867

NOTE 5 - BANK PREMISES AND EQUIPMENT

The Bank's premises and equipment consisted of the following at December 31:

	2015	2014
Leasehold improvements	$ 4,802,411	$ 3,641,852
Furniture and fixtures	2,384,651	1,968,899
Equipment and others	1,399,181	1,306,939
Total cost	8,586,243	6,917,690
Accumulated depreciation	(2,694,110)	(1,964,617)
Net book value	$ 5,892,133	$ 4,953,073

Total depreciation expense included in occupancy and equipment expenses was $940,404 and $732,130 for the years ended December 31, 2015 and 2014, respectively.

NOTE 6 – SERVICING ASSETS

Activity for loan servicing assets during the years ended December 31 is as follows:

	2015	2014
Beginning of year	$ 4,670,462	$ 3,649,047
Additions	2,148,116	2,065,013
Amortized to expense	(1,267,603)	(1,043,598)
End of year	$ 5,550,975	$ 4,670,462

There was no valuation allowance recorded against the carrying value of the servicing assets as of December 31, 2015 or 2014.

The fair value of the servicing assets was $8,337,920 at December 31, 2015. Fair value of the servicing assets at year-end 2015 was determined using discount rates ranging from 4.03% to 11.33% and prepayment speeds ranging from 7.20% to 9.00%, depending on the stratification of the specific assets.

The fair value of the servicing assets was $6,827,501 at December 31, 2014. Fair value of the servicing assets at year-end 2014 was determined using discount rates ranging from 4.19% to 11.71% and prepayment speeds ranging from 8.80% to 9.40%, depending on the stratification of the specific assets.

NOTE 7 – DEPOSITS

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at year-end 2015 and 2014 were $68,389,915 and $71,517,594, respectively.

The scheduled maturities of time deposits were as follows at December 31, 2015:

2016	$ 172,082,113
2017	10,465,147
2018	193,396
Total	$ 182,740,656

Deposits from principal officers, directors, and their affiliates at year-end 2015 and 2014 were $797,994 and $878,243, respectively.

NOTE 8 – BORROWING ARRANGEMENTS

As of December 31, 2015, the Bank had $20 million advances outstanding from the Federal Home Loan Bank of San Francisco. The maturity dates of these advances were June 2, 2016 through August 6, 2016. Interest rates on these advances were fixed rates varying from 0.49% to 0.57%, averaging 0.53%.

The Bank had available borrowings from the following institutions as of December 31, 2015:

Federal Home Loan Bank – San Francisco	$ 159,369,000
Federal Reserve Bank	45,101,000
Pacific Coast Bankers Bank	4,000,000
Zions Bank	5,500,000
Total	$ 213,970,000

In addition, the Bank has a letter of credit with the FHLB in the amount of $31,900,000 as collateral to secure a public deposit.

The Bank has pledged approximately $426,061,000 of loans and $11,802,000 of securities as collateral for these lines of credit as of December 31, 2015.

NOTE 9 – INCOME TAXES

Income tax expense/(benefit) was as follows:

	2015	2014
Current federal expense	$ 2,534,570	$ 233,858
Current state expense	267,629	201,294
	$ 2,802,199	$ 435,152
Deferred federal expense	$ 538,824	$ 2,036,142
Deferred state expense	828,850	663,706
	$ 1,367,674	$ 2,699,848
Total	$ 4,169,873	$ 3,135,000

Effective tax rates differ from the federal statutory rate of 34% applied to income before taxes due to the following:

	2015	2014
Federal statutory rate times financial statement income	$ 3,445,294	$ 2,590,329
Effect of:		
Meals and entertainment	29,622	28,658
State income taxes, net of federal tax benefit	656,476	497,111
Stock option expense	43,664	47,536
Other, net	(5,183)	(28,634)
Total	$ 4,169,873	$ 3,135,000

NOTE 9 – INCOME TAXES (Continued)

The net deferred tax asset included in the statement of financial position includes the following components at December 31:

	2015	2014
Deferred tax assets:		
Pre-opening expense	$ 107,529	$ 131,876
Net operating loss carry-forwards	–	928,831
Allowance for loan losses	1,148,132	722,087
Loans held for sale	217,202	252,205
Stock-based compensation	376,057	377,815
Accrued compensation	88,794	54,034
Accrued contributions	216,286	328,632
Accrued rent	782,016	710,985
Tax credits	–	549,251
Net unrealized loss on securities available for sale	162,243	61,789
Nonaccrual loan interest income	111,161	98,271
Other	50,142	17,566
Total deferred tax assets	3,259,562	4,233,342
Deferred tax liabilities:		
Loan origination costs	(401,818)	(358,460)
Depreciation	(1,137,845)	(937,585)
Other	(84,492)	(34,670)
Total deferred tax liabilities	(1,624,155)	(1,330,715)
Net deferred tax asset	$ 1,635,407	$ 2,902,627

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. At December 31, 2015, management reevaluated all positive and negative evidence that existed and concluded all deferred tax assets are realizable. Therefore, no valuation allowance is necessary.

As of December 31, 2015, the Bank has no federal or state net operating loss carryforwards. The Bank generated taxable income in 2015 and was able to fully utilize all of its federal and state net operating loss carryforwards during 2015.

In addition, during 2015, the Bank was able to fully utilize all federal and state tax credit carryforwards. Therefore, at December 31, 2015, the Bank has no federal or state credit carryforwards.

The Bank is subject to U.S. Federal income tax as well as various state taxing jurisdictions. The Bank is no longer subject to examination by Federal taxing authorities for tax years prior to 2012 and for state taxing authorities for tax years prior to 2011.

There were no significant unrealized tax benefits recorded as of December 31, 2015 and 2014, and the Bank does not expect any significant increase in unrealized tax benefits in the next twelve months.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Lease Commitments: The Bank leases its headquarters and branch facilities from nonaffiliated parties under operating leases. Rent expense was $1,489,736 and $977,289 for 2015 and 2014, respectively. Rent commitments related to the lease of the Bank's main office and branch facilities, before considering renewal options and additional lessor charges, were as follows:

2016	1,242,844
2017	1,459,557
2018	1,424,241
2019	1,350,888
2020	1,385,189
Thereafter	5,992,379
Total	$ 12,855,098

Off-Balance-Sheet Credit Risk: The commitments and contingent liabilities include various commitments to extend credit and standby letters of credit, which arise in the normal course of business. Commitments to extend credit are legally binding loan commitments with set expiration dates. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. They are intended to be disbursed, subject to certain conditions, upon request of the borrower.

The Bank evaluates the creditworthiness of each customer. Collateral, if deemed necessary by the Bank upon the extension of credit, is obtained based on management's evaluation of the borrower. Collateral for commercial loans may vary, but may include securities, accounts receivable, inventory, property, plant and equipment, and income producing commercial or other properties.

The Bank had loan commitments granted and undisbursed of approximately $52,410,000 and $48,428,000; commitments under outstanding commercial letters of credit of approximately $603,000 and $1,251,000; and standby letters of credit and guarantee of approximately $3,166,000 and $3,101,000 at December 31, 2015 and 2014, respectively. The majority of these off-balance sheet commitments have a variable interest rate. Management does not anticipate any material losses as a result of these transactions.

NOTE 11 – STOCK-BASED COMPENSATION

The Bank has three stock-based compensation plans currently in effect as of December 31, 2015, as described further below. Total compensation cost that has been charged against earnings for these plans in 2015 and 2014 was $868,444 and 1,233,801, respectively.

2005 Plans: In 2005, the Board of Directors and shareholders of the Bank approved two stock option plans, one for the benefit of the founders of the Bank, and another for the benefit of directors and employees of the Bank (collectively, the "2005 Plans"). Under the 2005 Plans, the Bank is authorized to grant options to purchase up to 814,000 shares of the Bank's common stock. The exercise prices of the options may not be less than 100 percent of the fair value of the Bank's stock at the date of grant.

The options, when granted, vest either immediately or ratably over five years from the date of the grant and expire after ten years if not exercised. The Bank has the policy of issuing new shares to satisfy option exercises.

NOTE 11 – STOCK-BASED COMPENSATION (Continued)

The fair value of stock options granted under the 2005 Plan during 2014 was estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted in the following table. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of the options was determined to be the same as the vesting period. Expected volatilities are based on historical volatilities of the Bank's common stock.

There were no stock options granted under the 2005 Plan during 2015. The fair value of options granted during the year ended December 31, 2014 was determined using the following weighted-average assumptions as of grant date:

Risk-free interest rate	0.04%
Expected life	5 years
Expected volatility	35.00%
Expected dividend yield	0.00%

A summary of the transactions under the 2005 Plans for the year ended December 31, 2015 is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding, beginning of year	560,000	$ 4.97	
Options granted	–	–	
Options exercised	(50,000)	3.05	
Options forfeited	(5,000)	8.00	
Options expired	(102,500)	10.00	
Outstanding, end of year	402,500	$ 3.90	$ 1,097,650
Fully vested and expected to vest	384,000	$ 3.79	$ 1,083,880
Exercisable at year-end	328,500	$ 3.41	$ 1,042,570

Information related to the 2005 Plans during 2015 follows:

Intrinsic value of options exercised	$ 175,000
Cash received from option exercises	152,500
Tax benefit realized from option exercised	–

There were no shares available for grant under the 2005 Plans as of December 31, 2015. The weighted average remaining contractual term of stock options outstanding under the 2005 Plans at the end of 2015 was 5.31 years. The weighted average remaining contractual term of stock options that were exercisable at year-end 2015 was 4.77 years.

NOTE 11 – STOCK-BASED COMPENSATION (Continued)

As of December 31, 2015, the Bank had approximately $89,693 of unrecognized compensation costs related to unvested stock options under the 2005 Plans. The Bank expects to recognize these costs over a weighted average period of 2.71 years.

2010 Plan: In 2010, the Board of Directors of the Bank approved a new equity incentive plan for granting stock options and restricted stock awards to key employees, officers, and non-employee directors of the Bank (the "2010 Plan"). In 2013, the "2010 Plan" was amended and approved by the shareholders to increase the number of shares authorized to be issued under from 1,350,000 shares to 2,500,000 shares of the Bank's common stock.

The exercise prices of stock options granted under the plan may not be less than 100 percent of the fair value of the Bank's stock at the date of grant. The options, when granted, vest ratably over five years from the date of the grant and expire after ten years if not exercised. Option prices under the 2010 Plan are to be equal to the fair value of the Bank's common stock on the date of grant.

Restricted stock awards issued under the 2010 Plan may or not be subject to vesting provisions. There were no restricted stock awards granted in 2015 under the 2010 Plan. Awards which were granted in 2014 are subject to vesting typically vest in equal increments each year over a seven-year period. Owners of the restricted stock awards shall have all of the rights of a shareholder including the right to vote the shares and to all dividends (cash or stock). Compensation expense related to restricted stock awards will be recognized over the vesting period of the awards based on the fair value of the Bank's stock at the issue date.

The Bank has the policy of issuing new shares to satisfy option exercises and vesting of restricted stock awards.

The fair value of stock options granted under the 2010 Plan during 2014 was estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted in the following table. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of the options was determined to be the same as the vesting period. Expected volatilities are based on historical volatilities of the Bank's common stock.

There were no stock options granted in 2015 under the 2010 plan. The fair value of options granted during the year ended December 31, 2014 was determined using the following weighted-average assumptions as of grant date:

Risk-free interest rate	0.04%
Expected life	5 years
Expected volatility	35.00%
Expected dividend yield	0.00%

NOTE 11 – STOCK-BASED COMPENSATION (Continued)

A summary of stock options issued under the 2010 Plan for the year ended December 31, 2015 is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding, beginning of year	1,000,000	$ 3.93	
Options granted	–	–	
Options exercised	(71,000)	2.77	
Options forfeited	(4,000)	2.49	
Outstanding, end of year	925,000	$ 4.02	$ 2,643,900
Fully vested and expected to vest	876,000	$ 3.82	$ 2,630,680
Exercisable at year-end	729,000	$ 3.06	$ 2,591,020

Information related to the 2010 Plan during 2015 follows:

Intrinsic value of options exercised	$ 268,460
Cash received from option exercises	196,590
Tax benefit realized from option exercised	58,522

The weighted average remaining contractual term of stock options outstanding at the end of 2015 was 5.55 years.

A summary of the changes in the Bank's non-vested restricted stock awards under the 2010 Plan for the year ended December 31, 2015 is as follows:

	Shares Issued	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Non-vested, beginning of year	1,058,000	$ 5.42	
Awards granted	–	–	
Awards vested	(192,000)	4.98	
Awards forfeited	(28,000)	5.14	
Non-vested, end of year	838,000	$ 5.53	$ 5,488,900

There were 212,000 shares available for grant under the 2010 Plan as of December 31, 2015 (in either stock options or restricted stock awards). As of December 31, 2015, the Bank had approximately $4,736,095 of unrecognized compensation cost related to unvested stock options and restricted stock awards under the 2010 Plan. The Bank expects to recognize these costs over a weighted average period of 4.40 years. The total fair value of shares vested during 2015 was $1,199,600.

NOTE 12 – EMPLOYEE BENEFIT PLAN

The Bank established a 401(k) profit sharing plan (the "401(k) Plan") which is open to all eligible employees who are at least 21 years old and have completed 90 days of service. Each employee is allowed to contribute to the 401(k) Plan up to the maximum percentage allowable, not to exceed the limits of applicable IRS Code Sections. Each year, the Bank may, in its discretion, make matching contributions to the 401(k) Plan. Total employer contributions to the 401(k) Plan amounted to $298,154 and $228,348 for the years ended December 31, 2015 and 2014, respectively.

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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.
>
> Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate fair value:

Securities Available for Sale: The fair values of investment securities are determined by matrix pricing, which is a mathematical technique 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 (Level 2). Management obtains the fair values of investment securities on a monthly basis from a third-party pricing service.

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 judgment, 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 credit 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.

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets and liabilities measured at fair value on a recurring basis at December 31, 2015 and 2014 are summarized below:

		Fair Value Measuring Using		
	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2015:				
U.S. Government sponsored agency securities	$ 7,948,978	$ –	$ 7,948,978	$ –
Mortgage-backed securities	22,443,595	–	22,443,595	–
Collateralized mortgage obligations	13,496,301	–	13,496,301	–
2014:				
U.S. Government sponsored agency securities	$ 9,830,060	$ –	$ 9,830,060	$ –
Mortgage-backed securities	10,033,785	–	10,033,785	–

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

There were no assets or liabilities measured at fair value on a non-recurring basis at December 31, 2015 or 2014.

Financial Instruments: The carrying amounts and estimated fair values of financial instruments at December 31, 2015 are as follows:

	Carrying Amount	Level 1	Level 2	Level 3	Fair Value
Financial Assets:					
Cash and cash equivalents	$ 37,399,318	$ 37,399,318	$ –	$ –	$ 37,399,318
Securities available for sale	43,888,874	–	43,888,874	–	43,888,874
Loans held for sale	5,579,004	–	6,106,778	–	6,106,778
Loans receivable, net	500,896,100	–	–	497,864,838	497,864,838
Accrued interest receivable	1,561,813	–	178,413	1,383,400	1,561,813
FHLB and PCBB stock	2,655,300	N/A	N/A	N/A	N/A
Financial Liabilities:					
Deposit	$ 519,721,067	$ –	$ 518,935,000	$ –	$ 518,935,000
FHLB Advances	20,000,000	–	19,991,000	–	19,991,000
Accrued interest payable	347,136	–	347,136	–	347,136

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of financial instruments at December 31, 2014 are as follows:

	Carrying Amount	Level 1	Level 2	Level 3	Fair Value
Financial Assets:					
Cash and cash equivalents	$ 64,748,042	$ 64,748,042	$ –	$ –	$ 64,748,042
Securities available for sale	19,863,845	–	19,863,845	–	19,863,845
Securities held to maturity	2,999,002	–	2,955,950	–	2,955,950
Loans held for sale	5,711,343	–	6,324,170	–	6,324,170
Loans receivable, net	407,772,324	–	–	408,180,096	408,180,096
Accrued interest receivable	1,174,846	–	83,805	1,091,041	1,174,846
FHLB and PCBB stock	1,900,100	N/A	N/A	N/A	N/A
Financial Liabilities:					
Deposit	$ 428,518,916	$ –	$ 423,019,000	$ –	$ 423,019,000
FHLB Advances	30,000,000	–	30,013,000	–	30,013,000
Accrued interest payable	132,168	–	132,168	–	132,168

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

(a) Cash and Cash equivalents

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

(b) Securities held to maturity

The fair values of investment securities are determined by matrix pricing, which is a mathematical technique 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 (Level 2).

(c) Loans Held for Sale

The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

(d) Loans Receivable, Net

Fair values of loans, excluding loans held for sale, 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 are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(e) FHLB and PCBB Stock

It is not practical to determine the fair value of FHLB and PCBB stock due to restrictions placed on their transferability.

(f) 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 2 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.

(g) Federal Home Loan Bank Advances

The fair values of Federal Home Loan Bank 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.

(h) Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value and are classified within the same fair value hierarchy level as the related asset or liability.

(i) Off-balance Sheet Instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

NOTE 14 – REGULATORY MATTERS

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Capital amounts and ratios for December 31, 2014 are calculated using Basel I rules. Management believes as of December 31, 2015, the Bank meets all capital adequacy requirements to which it is subject.

NOTE 14 – REGULATORY MATTERS (Continued)

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2015 and 2014, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts (in thousands) and ratios are as follows at December 31:

	Actual		Required For Capital Adequacy Purposes		Minimum To Be Considered "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2015:						
Total capital						
(to risk-weighted assets)	$ 78,977	15.49%	$ 40,795	8.00%	$ 50,994	10.00%
Tier 1 capital						
(to risk-weighted assets)	72,602	14.24%	30,596	6.00%	40,795	8.00%
Common Equity Tier 1 capital						
(to risk-weighted assets)	72,602	14.24%	22,947	4.50%	33,146	6.50%
Tier 1 capital						
(to average assets)	72,602	11.70%	24,818	4.00%	31,022	5.00%
2014:						
Total capital						
(to risk-weighted assets)	$ 70,345	16.67%	$ 33,762	8.00%	$ 42,202	10.00%
Tier 1 capital						
(to risk-weighted assets)	65,063	15.42%	16,881	4.00%	25,321	6.00%
Tier 1 capital						
(to average assets)	65,063	14.04%	18,537	4.00%	23,172	5.00%

NOTE 15 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	2015	2014
Basic		
Net income	$ 5,963,345	$ 4,483,614
Weighted average common shares outstanding	12,549,915	9,944,454
Average shares	12,549,915	9,944,454
Basic earnings per common share	$ 0.48	$ 0.45

NOTE 15 – EARNINGS PER SHARE (Continued)

	2015	2014
Diluted		
Net income	$ 5,963,345	$ 4,483,614
Weighted average common shares outstanding for Basic earnings per common share	12,549,915	9,944,454
Add: Dilutive effects of assumed exercises of stock options	394,952	520,531
Add: Dilutive effects of assumed restricted stock awards	80,220	254,339
Average shares and dilutive potential common shares	13,025,087	10,719,324
Diluted earnings per common share	$ 0.46	$ 0.42

Stock options and restricted stock awards for 740,000 and 782,500 shares of common stock were not considered in computing diluted earnings per common share for 2015 and 2014 because they were antidilutive.