COMMERCE BANK
of Temecula Valley

Financial Report December 31, 2015

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Independent Auditor's Report

RSM US LLP

To the Board of Directors and Stockholders
Commerce Bank of Temecula Valley
Murrieta, California

Report on the Financial Statements

We have audited the accompanying financial statements of Commerce Bank of Temecula Valley, which comprise the balance sheets as of December 31, 2015 and 2014; the related statements of income, changes in stockholders' 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 Commerce Bank of Temecula Valley 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.

RSM US LLP

Los Angeles, California
March 1, 2016

Commerce Bank of Temecula Valley

Balance Sheets
December 31, 2015 and 2014

	2015	2014
Assets		
Cash, due from banks and cash equivalents	$ 1,472,384	$ 1,522,384
Interest-bearing demand deposits in other financial institutions	-	5,135,000
Total cash and cash equivalents	1,472,384	6,657,384
Interest-bearing time deposits in other financial institutions	9,612,000	9,612,000
Loans, net	47,239,624	40,978,085
Pacific Coast Bankers' Bancshares and Federal Home Loan Bank (FHLB) stock, at cost	368,200	368,200
Leasehold improvements and equipment, net	89,533	18,870
Accrued interest and other assets	483,563	334,076
Deferred tax asset	102,000	-
Bank-owned life insurance (BOLI)	2,444,872	2,377,501
Total assets	$ 61,812,176	$ 60,346,116
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 17,865,573	$ 16,017,576
Savings, negotiable order of withdrawal and money market accounts	26,804,050	25,484,915
Time deposits under $250,000	5,563,427	7,935,527
Time deposits $250,000 and over	1,451,210	1,442,544
Total deposits	51,684,260	50,880,562
Accrued interest and other liabilities	473,231	389,451
Total liabilities	52,157,491	51,270,013
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, 10,000,000 shares authorized; no par value; no shares issued or outstanding	-	-
Common stock, 10,000,000 shares authorized; no par value; 1,504,041 shares issued and outstanding as of 2015 and 2014	14,989,339	14,989,339
Additional paid-in capital	1,270,191	1,248,591
Accumulated deficit	(6,604,845)	(7,161,827)
Total stockholders' equity	9,654,685	9,076,103
Total liabilities and stockholders' equity	$ 61,812,176	$ 60,346,116

See notes to financial statements.

Commerce Bank of Temecula Valley

Statements of Income
Years Ended December 31, 2015 and 2014

	2015	2014
Interest income on:		
Loans	**$ 2,662,167**	$ 2,570,745
Interest-bearing deposits	**111,356**	79,887
Other	**32,961**	23,531
Total interest income	**2,806,484**	2,674,163
Interest expense on:		
Deposits	**194,402**	184,235
Other borrowed funds	**637**	-
Total interest expense	**195,039**	184,235
Net interest income before provision for loan losses	**2,611,445**	2,489,928
Provision for loan losses	**-**	90,000
Net interest income after provision for loan losses	**2,611,445**	2,399,928
Noninterest income:		
Service charges, fees and other	**157,068**	158,594
Gain on sale of Small Business Administration loans	**228,275**	201,619
Earnings on BOLI	**67,372**	68,737
Total noninterest income	**452,715**	428,950
Noninterest expense:		
Salaries and employee benefits	**1,406,305**	1,312,664
Occupancy and equipment	**253,597**	304,321
Data processing	**445,284**	453,502
Other expenses	**503,192**	512,510
Total noninterest expense	**2,608,378**	2,582,997
Income before income tax (benefit) expense	**455,782**	245,881
Income tax (benefit) expense	**(101,200)**	800
Net income	**$ 556,982**	$ 245,081

See notes to financial statements.

Commerce Bank of Temecula Valley

Statements of Changes in Stockholders' Equity
Years Ended December 31, 2015 and 2014

	Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance at December 31, 2013	1,502,374	$ 14,978,731	$ 1,213,735	$ (7,406,908)	$ 8,785,558
Stock-based compensation	-	-	38,379	-	38,379
Exercise of stock options	1,667	10,608	(3,523)	-	7,085
Net income	-	-	-	245,081	245,081
Balance at December 31, 2014	1,504,041	14,989,339	1,248,591	(7,161,827)	9,076,103
Stock-based compensation	-	-	21,600	-	21,600
Net income	-	-	-	556,982	556,982
Balance at December 31, 2015	**1,504,041**	**$ 14,989,339**	**$ 1,270,191**	**$ (6,604,845)**	**$ 9,654,685**

See notes to financial statements.

Commerce Bank of Temecula Valley

Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Net income	**$ 556,982**	$ 245,081
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**18,824**	48,443
Stock-based compensation	**21,600**	38,379
Provision for loan losses	**-**	90,000
Deferred tax assets	**(102,000)**	-
Net increase in cash surrender value of BOLI	**(67,371)**	(68,737)
Other assets and liabilities, net	**(65,707)**	199,757
Net cash provided by operating activities	**362,328**	552,923
Cash flows from investing activities:		
Investment in time deposits with other financial institutions	**(1,743,000)**	(5,178,000)
Maturities of time deposits with other financial institutions	**1,743,000**	3,484,000
Purchase of FHLB stock	**-**	(29,500)
Net (increase) decrease in loans	**(6,261,539)**	1,046,156
Purchase of premises and equipment	**(89,487)**	(11,751)
Net cash used in investing activities	**(6,351,026)**	(689,095)
Cash flows from financing activities:		
Net increase in deposits	**803,698**	2,447,322
Net proceeds from exercise of stock options	**-**	7,085
Net cash provided by financing activities	**803,698**	2,454,407
(Decrease) increase in cash and cash equivalents	**(5,185,000)**	2,318,235
Cash and cash equivalents:		
Beginning of year	**6,657,384**	4,339,149
End of year	**$ 1,472,384**	$ 6,657,384
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	**$ 195,482**	$ 185,093
Income taxes	**$ 800**	$ 800

See notes to financial statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: Commerce Bank of Temecula Valley (the Bank) is incorporated in the state of California and organized as a single operating segment. The Bank provides a full range of banking services to its commercial and consumer customers and operates one full-service branch in Murrieta, California.

A summary of the Bank's significant accounting policies follows:

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term is the allowance for loan losses. Other estimates significant to the financial statements include the realization of deferred tax assets and the fair value of financial instruments.

Concentrations of credit risk: The Bank grants commercial, real estate and consumer loans to its customers, who are small- to medium-size businesses. Generally, those loans are collateralized by business assets and real estate.

The Bank's loan portfolio consists primarily of loans to borrowers within Southern California. Although the Bank seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate-associated businesses are among the principal industries in the Bank's market area. As a result, the Bank's loan and collateral portfolios are, to some degree, concentrated in those industries. As of December 31, 2015 and 2014, loans secured by real estate accounted for approximately 79 percent and 74 percent of total loans, respectively. Substantially all of these loans are secured by first liens with an initial loan-to-value ratio of generally no more than 80 percent. The loans are expected to be repaid from cash flows or proceeds from the sale of selected assets of the borrowers.

Additionally, as of December 31, 2015 and 2014, approximately 3.4 percent and 4.3 percent, respectively, of the Bank's portfolio consisted of participation loans purchased, 25 percent and 25 percent of which, respectively, are out of the Bank's primary service area.

Cash, due from banks and cash equivalents: Cash equivalents represent short-term, highly liquid investments and include any investment with an original maturity of three months or less at the date the Bank purchases the investment. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, due from banks and interest-bearing deposits in other financial institutions with an original maturity of three months or less.

Interest-bearing deposits in other financial institutions: The majority of the Bank's interest-bearing deposits in other financial institutions mature within 24 months and are carried at cost.

Pacific Coast Bankers' Bancshares stock: The investment in Pacific Coast Bankers' Bancshares (PCBB) stock consists of an equity security. This investment is carried at cost. No ready market exists for PCBB stock, and it has no quoted market value.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Federal Home Loan Bank stock: The Bank, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1 percent of its outstanding home loans or 5 percent of advances from the FHLB. No ready market exists for the FHLB stock and it has no quoted market value. The Bank views its investment in the FHLB stock as a long-term investment. Accordingly, when evaluating FHLB stock for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in values.

Loans: Loans receivable that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are stated at the amount of unpaid principal, reduced by unearned discount and fees and an allowance for loan losses. Interest is accrued daily on the outstanding balances.

The Bank originates certain loans that may be sold, in part or whole, to the secondary market. Loans that are sold, in part, to the secondary market consist of the guaranteed portion of Small Business Administration (SBA) loans, for which servicing is retained. When loans are sold with servicing retained, servicing assets are recognized as separate assets and initially recorded at fair value. Servicing assets are amortized in proportion to, and over the period of, estimated future net servicing income. Also, at the time of the loan sale, it is the Bank’s policy to recognize the related gain on the loan sale in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Bank uses industry repayment statistics and its own prepayment experience in estimating the expected life of the loans. Management periodically evaluates servicing assets for impairment, utilizing a fair value approach. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. The amount of servicing assets was de minimus at December 31, 2015 and 2014. There were no SBA loans held for sale at December 31, 2015 or 2014.

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.

When establishing the allowance for loan losses, management categorizes loans into risk categories generally based on the nature of the collateral and the basis of repayment. These risk categories and the relevant risk characteristics are as follows:

Commercial and industrial loans: Commercial loans are loans for commercial, corporate and business purposes, including issuing letters of credit. The Bank’s commercial business loan portfolio comprises loans for a variety of purposes and generally is secured by equipment, machinery and other business assets. Commercial business loans generally have terms of five years or less and interest rates that float in accordance with a designated published index. Substantially all of such loans are secured and backed by the personal guarantees of the owners of the business.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. The Bank's management examines current and projected cash flows to determine the ability of the borrower to repay his/her obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The actual cash flows from borrowers, however, may differ from projected amounts and the collateral securing these loans may fluctuate in value.

Commercial real estate loans (including residential multi-family 5+): Commercial real estate loans, including residential multi-family real estate loans, are primarily secured by apartment buildings, office and industrial buildings, warehouses, small retail shopping centers and various special purpose properties, including restaurants. Although terms vary, commercial real estate loans generally have amortization periods of 15 to 25 years, as well as balloon payments of five and ten years, and terms that provide that the interest rates thereon may be adjusted annually at the Bank's discretion, based on a designated index.

Commercial real estate and residential multi-family 5+ real estate loan underwriting standards are governed by the loan policies in place at the time the loan is approved. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Bank's commercial real estate portfolio are diverse in terms of type and geographic location.

Construction real estate loans: Construction real estate loans consist of vacant land and property that is in the process of improvement. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs.

Residential one-to-four-family real estate loans: Residential loans are generally smaller in size and are homogeneous because they exhibit similar characteristics. Repayment of these loans can be dependent on changes in real property values, condition of the collateral and the employment status of borrowers.

Consumer: Consumer loans generally have higher interest rates than mortgage loans. The risk involved in consumer loans is the type and nature of the collateral and, in certain cases, the absence of collateral. Consumer loans include home equity loans, vehicle loans, and other secured and unsecured loans that have been made for a variety of consumer purposes. Repayment of these loans can be dependent on the employment status of the borrower.

The allowance consists of specific and general components. The specific component relates to loans that are 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.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

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.

Commercial and industrial loans, commercial real estate loans and residential multi-family real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral-dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

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 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.

In addition, the Federal Deposit Insurance Corporation (FDIC) and the California Department of Business Oversight (DBO), as an integral part of their examination process, review the Bank's allowance for loan losses. These agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Troubled debt restructurings: A loan is classified as a troubled debt restructuring when, for reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise consider. The loan terms, which have been modified or restructured due to a borrower's financial difficulty, include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity at an interest rate below market, a reduction in the face amount of the debt, or a reduction in the accrued interest or extension, deferral, renewal or rewrite.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

The restructured loans may be classified “special mention” or “substandard” depending on the severity of the modification. Loans that are past due at the time of modification are classified “substandard” and placed on nonaccrual status. Those loans may be upgraded in their classification and placed on accrual status once there is a sustained period of repayment performance (usually six months or longer) and there is a reasonable assurance that the repayment will continue. A loan that is modified at a market rate of interest may no longer be classified as troubled debt restructuring in the year subsequent to restructuring if it is in compliance with the modified terms.

Under Accounting Standards Codification (ASC) 310, Receivables, troubled debt restructurings are considered impaired loans and are evaluated for the amount of impairment, with appropriate allowance for loan loss adjustment.

Interest and fees on loans: Interest on loans is recognized over the terms of the loans and is calculated using the simple-interest method on principal amounts outstanding.

For impaired loans, accrual of interest is discontinued on a loan when management believes that, after considering collection efforts and other factors, the borrower’s financial condition is such that collection of interest is doubtful. Cash collections on impaired loans are credited to the loan receivable balance, and no interest income is recognized on these loans until the principal balance has been collected.

The Bank considers a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent, unless the credit is well-secured and in the process of collection.

All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these 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.

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount is amortized as an adjustment of the related loan’s yield. The Bank is generally amortizing these amounts over the contractual life of the loans.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) 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 (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loans receivable), the transfer must meet the definition of a “participating interest” in order to account for the transfer as a sale. Following are the characteristics of a participating interest:

- Pro rata ownership in an entire financial asset.

- From the date of the transfer, all cash flows received from the entire financial asset are divided proportionately among the participating interest holders in an amount equal to their share of ownership.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

- The rights of each participating interest holder have the same priority, and no participating interest holder's interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights as a participating interest holder.

- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

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

Other real estate owned: Assets acquired through foreclosure or other proceedings are initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost. After foreclosure, valuations are periodically performed by management and foreclosed assets held for sale are carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances to reduce the carrying amount to fair value less estimated costs to dispose are recorded as necessary. The bank does not have any other real estate owned at December 31, 2015 or 2014.

Bank-owned life insurance: The Bank invests in bank-owned life insurance (BOLI). BOLI involves the purchasing of life insurance by the Bank on a select group of managerial employees. The Bank is the owner and primary beneficiary of these policies. BOLI is recorded as an asset at the cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in other noninterest income and are not subject to income tax.

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

Other off-balance-sheet instruments: In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, standby letters of credit and other revolving credit plans. Such financial instruments are recorded in the financial statements when they are funded.

Stock-based compensation: At December 31, 2015, the Bank has one stock-based employee compensation plan, which is described more fully in Note 11. The Bank accounted for its stock option plan during 2015 and 2014 in accordance with ASC 718, Compensation—Stock Compensation.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Fair value of financial instruments: ASC 825, Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value.

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction at December 31, 2015 and 2014. The estimated fair value amounts for 2015 and 2014 have been measured as of each year-end, and have not been re-evaluated or updated for the purposes of these financial statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at year-end.

The information in Note 13 should not be interpreted as an estimate of the fair value of the entire Bank, since a fair value calculation is only required for a limited portion of the Bank's assets and liabilities.

Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimate, comparisons between the Bank's disclosure and those of other companies or banks may not be meaningful.

The following methods and assumptions were used by the Bank in estimating the fair value of its financial instruments:

Cash, due from banks and cash equivalents: The carrying amounts reported in the balance sheets for cash, due from banks and cash equivalents, and interest-bearing deposits in other banks approximate their fair value.

Loans: For variable-rate loans that reprice frequently and have experienced no significant change in credit risk, fair value is based on carrying value. At December 31, 2015 and 2014, variable-rate loans composed approximately 79 percent of the loan portfolio. Fair value for all other loans is estimated based on discounted cash flows, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality and for the same remaining maturities. Prepayments prior to the repricing date are not expected to be significant. Loans are expected to be held to maturity and any unrealized gains or losses are not expected to be realized. The fair value of impaired loans is estimated using discounted cash flow analyses or underlying collateral values, where applicable.

The fair value of commitments to extend credit and standby letters of credit were not significant at either December 31, 2015 or 2014, as these instruments predominantly have adjustable terms and are of a short-term nature.

Stock in FHLB and PCBB: The carrying amount of stock in the FHLB and PCBB at cost represents fair value, as these equity securities may only be sold back to the issuer at par value.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Deposit liabilities: Fair values disclosed for demand deposits, money market deposit accounts, savings accounts and negotiable order of withdrawal (NOW) accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts for variable-rate money market accounts and certificates of deposit approximate their fair value at the reporting date. Fair value for fixed-rate certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities on time deposits. Early withdrawal of fixed-rate certificates of deposit is not expected to be significant.

Accrued interest receivable and payable: The fair values of accrued interest receivable and payable approximate their carrying amounts.

Fair value of commitments: The estimated fair value of fee income on letters of credit at December 31, 2015 and 2014 is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at December 31, 2015 and 2014.

Interest rate risk: The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, fair value of the Bank's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed-rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

New accounting pronouncement: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, *Revenue From Contracts With Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The Bank has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

Subsequent events: The Bank has evaluated subsequent events through March 1, 2016, the date on which the financial statements were available to be issued.

Note 2. Loans, Net

The composition of the Bank's loans at December 31 is as follows:

	2015	2014
Construction real estate	$ 10,552,973	$ 2,811,044
Commercial real estate	24,351,424	22,874,985
Commercial and industrial	9,964,377	12,651,190
Residential 1-to-4-family real estate	2,136,547	2,256,309
Residential multi-family 5+	963,758	1,043,255
Consumer	70,097	131,744
	48,039,176	41,768,527
Less:		
Unearned fees, net	(26,241)	(16,511)
Allowance for loan losses	(773,311)	(773,931)
Loans, net	$ 47,239,624	$ 40,978,085

The following tables present the contractual aging of the recorded investment in past due loans by class of loans as of December 31:

	2015					
	Current	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total	90 Days or More Past Due and Accruing
Construction real estate	$ 10,552,973	$ -	$ -	$ -	$ 10,552,973	$ -
Commercial real estate	24,351,424	-	-	-	24,351,424	-
Commercial and industrial	9,964,377	-	-	-	9,964,377	-
Residential 1-to-4-family real estate	2,136,547	-	-	-	2,136,547	-
Residential multi-family 5+	816,137	137,013	10,608	-	963,758	-
Consumer	70,097	-	-	-	70,097	-
Total	$ 47,891,555	$ 137,013	$ 10,608	$ -	$ 48,039,176	$ -

	2014					
	Current	30-59 Days Past Due	60-89 Days Past Due	Loans Past Due 90 Days or More	Total	90 Days or More Past Due and Accruing
Construction real estate	$ 2,811,044	$ -	$ -	$ -	$ 2,811,044	$ -
Commercial real estate	22,734,547	-	140,438	-	22,874,985	-
Commercial and industrial	12,401,190	250,000	-	-	12,651,190	-
Residential 1-to-4-family real estate	2,256,309	-	-	-	2,256,309	-
Residential multi-family 5+	1,043,255	-	-	-	1,043,255	-
Consumer	131,744	-	-	-	131,744	-
Total	$ 41,378,089	$ 250,000	$ 140,438	$ -	$ 41,768,527	$ -

Note 2. Loans, Net (Continued)

The following table presents the recorded investment in nonaccrual loans by class of loans as of December 31:

	2015	2014
Commercial and industrial	$ 400,179	$ 231,505
Commercial real estate	-	672,579
	$ 400,179	$ 904,084

The following is a summary of the activity in the allowance for loan losses for the years ended December 31:

	2015	2014
Balance, beginning of year	$ 773,931	$ 660,675
Provision for loan losses	-	90,000
Charge-offs	(3,020)	-
Recoveries	2,400	23,256
Balance, end of year	$ 773,311	$ 773,931

The following tables provide additional detail of the activity in the allowance for loan losses, by portfolio segment, for the years ended December 31:

2015	Construction Real Estate	Commercial Real Estate	Commercial and Industrial	Residential 1-to-4-Family Real Estate	Residential Multi-Family 5+ Real Estate	Consumer	Total
Allowance for loan losses:							
Beginning balance	$ 3,928	$ 353,826	$ 403,097	$ 8,072	$ 4,853	$ 155	$ 773,931
Charge-offs	-	-	(3,020)	-	-	-	(3,020)
Recoveries	-	-	2,400	-	-	-	2,400
Provision	18,428	(61,609)	41,611	1,542	44	(16)	-
Ending balance	$ 22,356	$ 292,217	$ 444,088	$ 9,614	$ 4,897	$ 139	$ 773,311
Period-end amount allocated to:							
Individually evaluated for impairment	$ -	$ -	$ 153,751	$ -	$ -	$ -	$ 153,751
Collectively evaluated for impairment	22,356	292,217	290,337	9,614	4,897	139	619,560
Ending balance	$ 22,356	$ 292,217	$ 444,088	$ 9,614	$ 4,897	$ 139	$ 773,311
Loans:							
Individually evaluated for impairment	$ -	$ -	$ 499,728	$ -	$ -	$ -	$ 499,728
Collectively evaluated for impairment	10,552,973	24,351,424	9,464,649	2,136,547	963,758	70,097	47,539,448
Ending balance	$ 10,552,973	$ 24,351,424	$ 9,964,377	$ 2,136,547	$ 963,758	$ 70,097	$ 48,039,176

Note 2. Loans, Net (Continued)

	2014						
	Construction Real Estate	Commercial Real Estate	Commercial and Industrial	Residential 1-to-4-Family Real Estate	Residential Multi-Family 5+ Real Estate	Consumer	Total
Allowance for loan losses:							
Beginning balance	$ 13,967	$ 470,012	$ 156,666	$ 11,127	$ 8,465	$ 438	$ 660,675
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	23,256	-	-	-	23,256
Provision	(10,039)	(116,186)	223,175	(3,055)	(3,612)	(283)	90,000
Ending balance	$ 3,928	$ 353,826	$ 403,097	$ 8,072	$ 4,853	$ 155	$ 773,931
Period-end amount allocated to:							
Individually evaluated for impairment	$ -	$ 5,722	$ 122,192	$ -	$ -	$ -	$ 127,914
Collectively evaluated for impairment	3,928	348,104	280,905	8,072	4,853	155	646,017
Ending balance	$ 3,928	$ 353,826	$ 403,097	$ 8,072	$ 4,853	$ 155	$ 773,931
Loans:							
Individually evaluated for impairment	$ -	$ 330,585	$ 672,579	$ -	$ -	$ -	$ 1,003,164
Collectively evaluated for impairment	2,811,044	22,544,400	11,978,611	2,256,309	1,043,255	131,744	40,765,363
Ending balance	$ 2,811,044	$ 22,874,985	$ 12,651,190	$ 2,256,309	$ 1,043,255	$ 131,744	$ 41,768,527

The following tables present additional details of impaired loans, segregated by class, as of December 31, 2015 and 2014. The unpaid principal balance represents the recorded balance prior to any partial charge-offs. The recorded investment represents customer balances net of any partial charge-offs recognized on the loans. The Interest Income Recognized column represents all interest income reported either on a cash or accrual basis after the loan became impaired. The Cash Basis Interest Income Recognized column represents only the interest income recognized on a cash basis after the loan was classified as impaired.

	2015					
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ -
With an allowance recorded:						
Commercial and industrial	499,728	484,728	134,568	468,447	-	-
	$ 499,728	$ 484,728	$ 134,568	$ 468,447	$ -	$ -

	2014					
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:						
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-	-
With an allowance recorded:						
Commercial and industrial	645,970	630,970	122,192	583,490	-	-
Commercial real estate	372,194	372,194	5,722	390,185	-	-
	$ 1,018,164	$ 1,003,164	$ 127,914	$ 973,675	$ -	$ -

Note 2. Loans, Net (Continued)

The following tables present troubled debt restructurings and the financial effects of troubled debt restructurings that occurred during the years ended December 31:

	2015				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Forgiven Principal	Lost Interest Income
Commercial and industrial	2	$ 136,572	$ 136,572	$ -	$ -

	2014				
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Forgiven Principal	Lost Interest Income
Commercial and industrial	4	$ 586,716	$ 586,716	$ -	$ -
Commercial real estate	1	372,194	372,194	-	-
	5	$ 958,910	$ 958,910	$ -	$ -

There were no additional troubled debt restructurings or troubled debt restructurings for which re-default occurred during the year ended December 31, 2015. In its estimate of the specific allowance for loan losses, management considers the probability of troubled debt restructuring re-default and its impact on expected cash flows by estimating future losses based on historical charge-offs. At December 31, 2015, the Bank's outstanding recorded investment in troubled debt restructurings is $499,728, which consists of seven loans. One of the loans has an SBA guarantee totaling $193,803 at December 31, 2015.

The Bank does not have any further commitments to lend additional funds to the borrowers.

As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt and comply with various terms of their loan agreements. The Bank considers current financial information, historical payment experience, credit documentation, public information and current economic trends. Generally, all sizeable credits receive a financial review no less than annually to monitor and adjust, if necessary, the credit's risk profile. Credits classified as "watch" generally receive a review more frequently than annually. For "special mention," "substandard" and "doubtful" credit classifications, the frequency of review is increased to no less than quarterly in order to determine the potential impact on credit loss estimates.

The Bank categorizes loans into the following risk categories based on relevant information about the ability of borrowers to service their debt:

Pass: A "pass" asset is well protected by the current worth and paying capacity of the obligator (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner. "Pass" assets also include certain assets considered "watch," which are still protected by the worth and paying capacity of the borrower but deserve closer attention and a higher level of credit monitoring.

Note 2. Loans, Net (Continued)

Special mention: A "special mention" asset has potential weaknesses that deserve management's close attention. The asset may also be subject to a weak or speculative market or to economic conditions, which may, in the future, adversely affect the obligator. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. "Special mention" assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard: A "substandard" asset is an asset with a well-defined weakness that jeopardizes repayment, in whole or in part, of the debt. These credits are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. These assets are characterized by the distinct possibility that the institution will sustain some loss of principal and/or interest if the deficiencies are not corrected. It is not necessary for a loan to have an identifiable loss potential in order to receive this rating.

Doubtful: An asset that has all the weaknesses inherent in the "substandard" classification, 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. The possibility of loss is extremely likely, but it is not identified at this point due to pending factors.

Loss: An asset, or portion thereof, classified as "loss" is considered uncollectible and of such little value that its continuance on the Bank's books as an asset is not warranted. This classification does not necessarily mean that an asset has no recovery or salvage value, but rather, there is much doubt about whether, how much or when the recovery would occur. As such, it is not practical or desirable to defer the write-off. Therefore, there is no balance to report at December 31, 2015 or 2014.

Residential and consumer loans are assessed for credit quality based on the contractual aging status of the loan and payment activity. Such assessment is completed at the end of each reporting period.

The following tables present the risk category of loans evaluated by internal asset classification based on the most recent analysis performed as of December 31:

	2015					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Construction real estate	$ 10,552,973	$ -	$ -	$ -	$ -	$ 10,552,973
Commercial real estate	24,351,424	-	-	-	-	24,351,424
Commercial and industrial	8,154,984	1,324,666	348,155	136,572	-	9,964,377
Residential 1-to-4-family real estate	2,136,547	-	-	-	-	2,136,547
Residential multi-family 5+	816,136	-	147,622	-	-	963,758
Consumer	70,097	-	-	-	-	70,097
Total	$ 46,082,161	$ 1,324,666	$ 495,777	$ 136,572	$ -	$ 48,039,176

Note 2. Loans, Net (Continued)

	2014					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Construction real estate	$ 2,811,044	$ -	$ -	$ -	$ -	$ 2,811,044
Commercial real estate	18,973,328	882,915	3,018,742	-	-	22,874,985
Commercial and industrial	11,852,238	-	603,598	195,354	-	12,651,190
Residential 1-to-4-family real estate	2,256,309	-	-	-	-	2,256,309
Residential multi-family 5+	902,817	-	140,438	-	-	1,043,255
Consumer	130,338	1,406	-	-	-	131,744
Total	$ 36,926,074	$ 884,321	$ 3,762,778	$ 195,354	$ -	$ 41,768,527

Note 3. Leasehold Improvements and Equipment

A summary of leasehold improvements and equipment as of December 31 follows:

	2015	2014
Leasehold improvements	$ 172,790	$ 172,790
Furniture, fixtures and equipment	664,672	575,184
	837,462	747,974
Less accumulated depreciation and amortization	(747,929)	(729,104)
	$ 89,533	$ 18,870

Note 4. Deposits

At December 31, 2015, all of the time deposits are scheduled to mature in 2016.

As of December 31, 2015, there were no customers that held a total account balance greater than 5 percent of total deposits. As of December 31, 2014, there was one customer with an account balance totaling approximately 6 percent of total deposits.

Note 5. Borrowing Arrangements

The Bank may borrow up to $4,250,000 overnight on an unsecured basis from two of its correspondent banks. As of December 31, 2015 and 2014, no amounts were outstanding under this arrangement.

The Bank also has financing availability with the FHLB, secured by certain of its loans. As of December 31, 2015, this line had total financing availability of $11,659,971 and was collateralized by loans of $10,675,964. The Bank also has financing availability with the Federal Reserve Bank. As of December 31, 2015, this line had total financing availability of approximately $2,183,931 collateralized by loans of $884,598. There were no amounts outstanding under these arrangements as of December 31, 2015 or 2014.

Note 6. Income Taxes

The Bank files income tax returns in the U.S. federal and California state jurisdictions. ASC 740, Income Taxes, was amended to clarify the accounting and disclosure for uncertain tax positions as defined. The Bank was subject to the provisions of this updated guidance effective as of January 1, 2009, and has analyzed filing positions in the federal jurisdiction where it is required to file income tax returns, as well as all open tax years in this jurisdiction. The Bank identified its federal tax return as its “major” tax jurisdiction, as defined. The periods subject to examination for the Bank’s federal tax return are 2012, 2013 and 2014. The Bank believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to applicable guidance.

The Bank may from time to time be assessed interest or penalties by tax jurisdictions, although the Bank has had no such assessments historically. The Bank’s policy is to include interest and penalties related to income taxes as a component of income tax expense.

	2015	2014
Current provision:		
Federal	$ -	$ -
State	800	800
Total current provision	800	800
Deferred provision (benefit):		
Federal	124,000	46,000
State	45,000	18,000
Valuation allowance	(271,000)	(64,000)
Total deferred benefit	(102,000)	-
Total current and deferred benefit	$ (101,200)	$ 800

Note 6. Income Taxes (Continued)

The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying balance sheets at December 31:

	2015	2014
Deferred tax assets:		
Operating loss carryforwards	$ 2,073,000	$ 2,195,000
Pre-opening expenses	107,000	124,000
Stock-based compensation	246,000	246,000
Allowance for loan losses	145,000	145,000
Leasehold improvements and equipment	58,000	53,000
Other	19,000	23,000
	2,648,000	2,786,000
Valuation allowance	(2,479,000)	(2,750,000)
Deferred tax liabilities:		
Accrual to cash	(17,000)	-
Deferred loan costs	(22,000)	(18,000)
Other	(28,000)	(18,000)
	(67,000)	(36,000)
Net deferred tax assets	$ 102,000	$ -

At December 31, 2015 and 2014, the Bank recorded a valuation allowance of $2,479,000 and $2,750,000, respectively, on the deferred tax assets to reduce the total to an amount that management believes will ultimately be realized. Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that deductible temporary differences and carryforwards are expected to be available to reduce taxable income.

Federal and state loss carryforwards for tax purposes total approximately $5,037,000 and $4,996,000, respectively, as of December 31, 2015 and expire from December 31, 2017 through December 31, 2033.

Note 7. Other Expenses

Other expenses for the years ended December 31 are composed of the following:

	2015	2014
Office supplies and other expenses	$ 267,897	$ 279,826
Professional fees	115,626	150,951
Advertising and promotions	71,096	60,893
Directors’ expenses	48,573	20,840
	$ 503,192	$ 512,510

Note 8. Employee Profit Sharing

The Bank has established a deferred compensation plan for all eligible employees. The employees may defer a portion of their compensation subject to certain limits based on federal tax laws. The Bank may elect to make matching contributions to the plan. Matching contributions will vest to the employee equally over a four-year period. For the years ended December 31, 2015 and 2014, no contributions were made.

Note 9. Related-Party Transactions

Deposits held by the Bank at December 31, 2015 and 2014 from certain directors, officers and their related interests with which they are associated amounted to approximately $598,000 and $216,000, respectively. There were no major related-party deposits as of December 31, 2015 or 2014.

Loans granted to directors, officers or their related interests as of and during the years ended December 31, 2015 and 2014 amounted to approximately $2,000 and $5,000, respectively.

Note 10. Commitments

Financial instruments with off-balance-sheet risk: In the normal course of business, the Bank enters into financial commitments to meet the financing needs of its customers. These financial commitments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk not recognized in the Bank's financial statements.

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

As of December 31, the Bank had the following outstanding financial commitments, whose contractual amount represents credit risk:

	2015	2014
Commitments to extend credit	$ 11,541,577	$ 12,856,049
Standby letters of credit	-	-
	$ 11,541,577	$ 12,856,049

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. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements.

The Bank evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank is based on management's credit evaluation of the customer. The majority of the Bank's commitments to extend credit and standby letters of credit are secured by real estate.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are issued primarily to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required as the Bank deems necessary.

Note 10. Commitments (Continued)

Lease commitment: The Bank leases its main banking office under an operating lease and is responsible for increases in common area maintenance, taxes and insurance. The lease expires on July 31, 2019. Minimum future operating lease commitments for the Bank's main banking office are as follows:

Years ending December 31:		
2016	$	189,000
2017		194,000
2018		200,000
2019		119,000
	$	702,000

The minimum rental payments shown above are given for the existing lease obligation and are not a forecast of future rental expense. Total rental expense was approximately $183,000 and $205,000 for the years ended December 31, 2015 and 2014, respectively.

Litigation: The Bank is subject to certain lawsuits and claims arising in the ordinary course of business. Where appropriate, the Bank establishes reserves in accordance with FASB guidance over contingencies (ASC 450).

Note 11. Stock Option Plan

The Bank's 2007 Stock Option Plan (the Plan) was approved by its shareholders in November 2007. Under the terms of the Plan, officers and key employees may be granted both nonqualified and incentive stock options, and directors who are not also an officer or employee may only be granted nonqualified stock options. The Plan provides for a maximum number of shares that may be awarded to eligible employees and directors, not to exceed 450,713 shares. Stock options are granted at a price not less than 100 percent of the fair market value of the stock on the date of grant. Stock options expire no later than 10 years from the date of the grant and all equity-based awards generally vest over three years. The Bank recognized stock-based compensation cost of approximately $21,600 and $38,000 related to employers' and directors' options for the years ended December 31, 2015 and 2014, respectively.

The fair value of the option awards was estimated at the date of grant using the Black-Scholes option valuation model that utilizes the assumptions included in the table below. The expected term assumption reflects the period for which the Bank believes the options will remain outstanding. The expected term assumption for employee stock options is based on the average of the vesting period and contractual life of the award. The Bank estimated the volatility of its stock based on the volatility of its stock over the expected life of the award. The risk-free rate reflects the U.S. Treasury yield curve for a similar expected life instrument in effect at the time of the grant. The assumption for dividends is based on the Bank's expectation of not paying any cash dividends in the foreseeable future. There were no new options granted in 2015.

	2014
Expected term	7 years
Expected volatility	5.00%
Expected dividends	-
Risk-free rate	1.63%
Fair value per optional share	$1.78

Note 11. Stock Option Plan (Continued)

As of December 31, 2015, there was approximately $6,000 in total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 1.44 years.

The total fair value of shares vested during the years ended December 31, 2015 and 2014 was approximately $13,500 and $68,000, respectively.

A summary of the status of the Bank's fixed stock option plan as of and for the year ended December 31, 2015 is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)
Outstanding at beginning of year	305,641	$ 8.26	4.59
Granted	-	-	-
Exercised	-	-	-
Forfeited or expired	-	-	-
Outstanding at end of year	305,641	8.26	3.14
Options exercisable	294,985	8.56	2.96

At December 31, 2015, 145,072 shares were available to be granted.

Note 12. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). As of December 31, 2015, the Bank is in compliance with all capital adequacy requirements to which it is subject. However, if the Bank does not comply with these requirements at a future date, it is possible that banking regulators may subject the Bank to certain business and operating related restrictions.

Note 12. Regulatory Matters (Continued)

As of March 31, 2014, the DBO and the FDIC conducted a joint examination and categorized the Bank as well capitalized under the regulatory framework for prompt correction. To be categorized as well capitalized, the Bank must maintain certain Common Equity Tier 1, total risk-based, Tier 1 risk-based and Tier 1 average ratios as set forth in the following table.

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

			Amount of Capital Required			
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Common Equity Tier 1 capital	$ 9,550	17.09%	$ 2,514	4.50%	$ 3,631	6.50%
Total capital (to risk-weighted assets)	10,251	18.35%	4,469	8.00%	5,587	10.00%
Tier I capital (to risk-weighted assets)	9,550	17.09%	3,352	6.00%	4,469	8.00%
Tier I capital (to average assets)	9,550	13.99%	2,730	4.00%	3,413	5.00%
As of December 31, 2014:						
Total capital (to risk-weighted assets)	9,699	19.28%	4,025	8.00%	5,031	10.00%
Tier I capital (to risk-weighted assets)	9,068	18.02%	2,012	4.00%	3,019	6.00%
Tier I capital (to average assets)	9,068	14.26%	2,544	4.00%	3,180	5.00%

The California Financial Code provides that a bank may not make a cash distribution to its stockholders in excess of the lesser of the Bank's undivided profits or the Bank's net income for its last three fiscal years, less the amount of any distribution made by the Bank's stockholders during the same period.

In early July 2013, the Federal Reserve Board and the FDIC issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt correct action thresholds. The final rules revise the regulatory capital elements, add a new common equity Tier 1 capital ratio, increase the minimum Tier 1 capital ratio requirement and implement a new capital conservation buffer. The rules also permit certain banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. The final rules took effect for community banks on January 1, 2015, subject to a transition period for certain parts of the rules. Management believes the Bank will remain well capitalized under the new rules.

Note 13. Fair Value Information

Fair value hierarchy: The Bank uses a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Observable quoted market prices (unadjusted) in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data. This includes those financial instruments that are valued using models or other valuation methodologies where substantially all of the assumptions are observable in the marketplace, can be derived from observable market data or are supported by observable levels at which transactions are executed in the marketplace.

Note 13. Fair Value Information (Continued)

Level 3: Unobservable inputs that are not corroborated by market data. This comprises financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are generally less readily observable from objective sources.

For the years ended December 31, 2015 and 2014, the application of valuation techniques applied to similar assets has been consistent.

The following is a description of the Bank's methodologies used to measure and disclose the fair values of its financial assets measured on a nonrecurring basis:

Impaired loans: Impaired loans are generally measured by the Bank using the fair value of the underlying collateral, which is determined based on the most recent appraisal information received. These loans fall within Level 3 of the fair value hierarchy. Appraised values may be adjusted based on factors such as the changes in market conditions from the time of valuation. The specific reserve for collateral-dependent impaired loans is based on the fair value of the collateral less estimated costs to sell. The fair value of collateral is determined based on third-party appraisals. In some cases, adjustments are made to the appraised values due to various factors, including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. Accordingly, the resulting fair value measurement has been categorized as a Level 3 measurement.

	Assets Measured at Fair Value on a Nonrecurring Basis			
Item	Carrying Value at December 31	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2015:				
Collateral-dependent impaired loans with specific valuation allowance and/or partial charge-offs	$ -	$ -	$ -	$ -
2014:				
Collateral-dependent impaired loans with specific valuation allowance and/or partial charge-offs	$ 372,194	$ -	$ -	$ 372,194

Note 13. Fair Value Information (Continued)

The carrying amount and estimated fair value of the Bank's financial instruments at December 31 are as follows:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 1,472,384	$ 1,472,384	$ 6,657,384	$ 6,657,384
Interest-bearing deposits at other institutions	9,612,000	9,612,000	9,612,000	9,612,000
Loans receivable	47,239,624	48,576,522	40,978,085	39,414,000
PCBB and FHLB stock	368,200	368,200	368,200	368,200
Accrued interest receivable	170,809	170,809	143,175	143,175
Financial liabilities:				
Noninterest-bearing demand deposit accounts	17,865,573	17,865,573	16,017,576	16,017,576
Savings, NOW and money market accounts	26,804,050	26,804,050	25,484,915	25,484,915
Time deposit accounts	7,014,637	7,014,637	9,378,071	9,378,071
Accrued interest payable	3,694	3,694	4,137	4,137