UNITI FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2015 AND 2014

CONTENTS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders of
Uniti Financial Corporation and Subsidiary

Report on Financial Statements

We have audited the accompanying financial statements of Uniti Financial Corporation and Subsidiary, which are comprised of the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Vavrinek, Trine, Day & Co., LLP
Laguna Hills, California
April 11, 2016

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com

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UNITI FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

ASSETS

	2015	2014
Cash and Due from Banks	$ 2,806,101	$ 3,087,843
Federal Funds Sold and Other Cash Equivalents	46,482,732	23,807,656
TOTAL CASH AND CASH EQUIVALENTS	49,288,833	26,895,499
Time Deposits in Other Banks	1,344,000	6,342,000
Investment Securities Available for Sale	17,999,325	19,140,090
Loans Held For Sale	6,058,897	2,208,568
Loans:		
Real Estate	121,998,133	107,064,026
Commercial	32,349,643	25,271,926
Consumer and Other	254,500	157,376
TOTAL LOANS	154,602,276	132,493,328
Deferred Loan Costs, Net of Fees	378,497	262,129
Allowance for Loan Losses	(4,072,547)	(5,556,947)
NET LOANS	150,908,226	127,198,510
Federal Home Loan Bank Stock, at Cost	880,300	807,300
Premises and Equipment	520,164	547,378
Deferred Tax Assets	3,447,454	5,220,078
Accrued Interest and Other Assets	2,258,633	1,739,209
	$ 232,705,832	$ 190,098,632

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

UNITI FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

LIABILITIES AND SHAREHOLDERS' EQUITY

	2015	2014
Deposits:		
Noninterest-bearing Demand	$ 80,816,277	$ 58,365,776
Savings, NOW and Money Market Accounts	63,051,800	36,155,703
Time Deposits Under $250,000	34,270,890	45,045,184
Time Deposits $250,000 and Over	17,424,230	16,240,233
TOTAL DEPOSITS	195,563,197	155,806,896
Accrued Interest and Other Liabilities	1,310,348	1,057,205
TOTAL LIABILITIES	196,873,545	156,864,101
Commitments and Contingencies - Notes D and J		
Shareholders' Equity:		
Preferred Stock - 4,000,000 Authorized, None Outstanding	-	-
Common Stock - No par value, 40,000,000 Shares Authorized; Issued and Outstanding, 13,465,757 shares at December 31, 2015 and 2014	42,313,941	42,191,594
Accumulated Deficit	(6,388,308)	(8,752,032)
Accumulated Other Comprehensive Loss - Net Unrealized Loss on Available-for-Sale Securities, net of tax of $69,029 and $143,390 at December 31, 2015 and 2014, respectively	(93,346)	(205,031)
TOTAL SHAREHOLDERS' EQUITY	35,832,287	33,234,531
	$ 232,705,832	$ 190,098,632

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

UNITI FINANCIAL CORPORATION AND SUBSIDIARY

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

	2015	2014
INTEREST INCOME		
Interest and Fees on Loans	$ 7,503,085	$ 6,168,814
Interest on Investment Securities	305,819	373,621
Interest on Interest-Bearing Deposits in Other Banks	180,678	170,810
TOTAL INTEREST INCOME	7,989,582	6,713,245
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	317,982	206,455
Interest on Time Deposits	590,487	619,318
TOTAL INTEREST EXPENSE	908,469	825,773
NET INTEREST INCOME	7,081,113	5,887,472
Negative Provision for Loan Losses	(1,830,000)	(1,000,000)
NET INTEREST INCOME AFTER NEGATIVE PROVISION FOR LOAN LOSSES	8,911,113	6,887,472
NONINTEREST INCOME		
Service Charges, Fees, and Other Income	674,846	577,948
Loan Servicing Income, net	497,419	373,999
Gain on the Sale of SBA Loans	2,139,596	1,838,946
Letters of Credit Related Fees	132,155	76,766
Gain on the Sale of Investment Securities	1,479	345
TOTAL NONINTEREST INCOME	3,445,495	2,868,004
NONINTEREST EXPENSE		
Salaries and Employee Benefits	5,348,638	4,359,226
Occupancy and Equipment Expenses	723,026	667,824
Other Expenses	2,186,816	2,262,645
TOTAL NONINTEREST EXPENSE	8,258,480	7,289,695
INCOME BEFORE (BENEFIT) PROVISION FOR INCOME TAXES	4,098,128	2,465,781
Provision (Benefit) for Income Taxes	1,734,404	(5,047,815)
NET INCOME	$ 2,363,724	$ 7,513,596
NET INCOME PER SHARE - BASIC	$ 0.18	$ 0.61
NET INCOME PER SHARE - DILUTED	$ 0.16	$ 0.57

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

UNITI FINANCIAL CORPORATION AND SUBSIDIARY

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

	2015	2014
Net Income	$ 2,363,724	$ 7,513,596
OTHER COMPREHENSIVE INCOME:		
Unrealized Gain on Securities Available for Sale	187,525	1,052,997
Less Reclassification Adjustment for Net Realized Gain on Available-for-Sale Securities Included in Net Income	(1,479)	(345)
	186,046	1,052,652
Provision (Benefit) for Income Taxes:		
Change in Net Unrealized Gain (Loss)	74,969	(143,248)
Reclassification of Net Gain Recognized in Net Income	(608)	(142)
	74,361	(143,390)
TOTAL OTHER COMPREHENSIVE INCOME	111,685	1,196,042
TOTAL COMPREHENSIVE INCOME	$ 2,475,409	$ 8,709,638

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

UNITI FINANCIAL CORPORATION AND SUBSIDIARY

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

	Common Stock			Accumulated Other	
	Number of Shares	Amount	Accumulated Deficit	Comprehensive Income (Loss)	Total
Balance at January 1, 2014	12,380,757	$ 39,919,799	$(16,265,628)	$ (1,401,073)	$ 22,253,098
Net Income			7,513,596		7,513,596
Stock-Based Compensation		101,795			101,795
Exercise of Stock Warrants	1,085,000	2,170,000			2,170,000
Other Comprehensive Income, Net of Taxes				1,196,042	1,196,042
Balance at December 31, 2014	13,465,757	42,191,594	(8,752,032)	(205,031)	33,234,531
Net Income			2,363,724		2,363,724
Stock-Based Compensation		122,347			122,347
Other Comprehensive Income, Net of Taxes				111,685	111,685
Balance at December 31, 2015	13,465,757	$ 42,313,941	$(6,388,308)	$(93,346)	$ 35,832,287

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

UNITI FINANCIAL CORPORATION AND SUBSIDIARY

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

	2015	2014
OPERATING ACTIVITIES		
Net Income	$ 2,363,724	$ 7,513,596
Adjustments to Reconcile Net Income to Net Cash		
From Operating Activities:		
Depreciation and Amortization	176,112	147,919
Stock-Based Compensation	122,347	101,795
(Credit) Provision for Loan Losses	(1,830,000)	(1,000,000)
Deferred Income Taxes	1,698,263	(5,077,000)
Net Gain on Sale of Available-for-Sale Securities	(1,479)	(345)
Proceeds from Loans Sold	34,217,616	30,260,122
Originations of Loans Held for Sale	(32,661,565)	(22,509,532)
Gain on Sale of Loans	(2,139,596)	(1,838,946)
Other Items, net	638,963	169,729
NET CASH FROM OPERATING ACTIVITIES	2,584,385	7,767,338
INVESTING ACTIVITIES		
Net Change in Time Deposits in Other Banks	4,998,000	9,717,999
Purchase of Available-for-Sale Securities	(4,000,000)	-
Proceeds From Matured, Called or Pay Down of Available-for-Sale Securities	5,323,449	5,285,435
Net Increase in Loans	(26,046,903)	(31,581,592)
Redemption (Purchase) of Federal Home Loan Bank Stock	(73,000)	8,100
Purchases of Premises and Equipment, net	(148,898)	(413,516)
NET CASH FROM INVESTING ACTIVITIES	(19,947,352)	(16,983,574)
FINANCING ACTIVITIES		
Net Increase in Deposits	39,756,301	12,732,047
Proceeds from Exercise of Stock Warrants	-	2,170,000
NET CASH FROM FINANCING ACTIVITIES	39,756,301	14,902,047
INCREASE IN CASH AND CASH EQUIVALENTS	22,393,334	5,685,812
Cash and Cash Equivalents at Beginning of Period	26,895,499	21,209,687
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 49,288,833	$ 26,895,499
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 900,426	$ 820,198
Taxes Paid	$ 65,000	$ 2,000
Loans Transferred from Loans Held for Sale	$ -	$ 450,000
Loans Transferred to Loans Held for Sale	$ 2,935,018	$ 1,881,091

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements include the accounts of Uniti Financial Corporation ("UFC") and its wholly owned subsidiary, Uniti Bank ("Bank"), collectively referred to herein as the "Company." All significant intercompany transactions have been eliminated.

UFC has no significant business activity other than its investment in Uniti Bank. Accordingly, no separate financial information on UFC is provided.

Nature of Operations

Uniti Bank, a state chartered bank, generates commercial and consumer loans and receives deposits from customers, who are predominately small and middle-market businesses and individuals located primarily in Los Angeles and Orange Counties, California. The Bank has three branches located in Buena Park, Garden Grove and Los Angeles, California. The accounting and reporting policies of the Bank are in accordance with accounting principles generally accepted in the United States of America and conform to practices within the banking industry.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through April 11, 2016, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, deposits with other financial institutions with maturities under ninety days and federal funds sold. Generally, federal funds are sold for one-day periods.

Cash and Due from Banks

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment Securities

Bonds, notes, and debentures for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

Investments not classified as trading securities nor as held to maturity securities are classified as available-for-sale securities and recorded at fair value. Unrealized gains or losses on available-for-sale securities are excluded from net income and reported as an amount net of taxes as a separate component of other comprehensive income included in shareholders' equity. Premiums or discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method. Realized gains or losses on sales of held-to-maturity or available-for-sale securities are recorded using the specific identification method.

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

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are deferred and recognized in interest income using the level-yield method without anticipating prepayments. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses

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

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses - Continued

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

Federal Home Loan Bank ("FHLB") Stock

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

Premises and Equipment

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

Other Real Estate Owned

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value at the date of foreclosure, establishing a new cost basis by a charge to the allowance for loan losses, if necessary. Other real estate owned is carried at the lower of the Company's carrying value of the property or its fair value, less estimated carrying costs and costs of disposition. Fair value is based on current appraisals less estimated selling costs. Any subsequent write-downs are charged against operating expenses and recognized as a valuation allowance. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses.

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 Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Stock-Based Compensation

Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally defined as the vesting period.

Loan Sales and Servicing of Financial Assets

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

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

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

Income Taxes

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes - Continued

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

Earnings per Share ("EPS")

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if options or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Comprehensive Income

The change in unrealized gains and losses on available-for-sale securities is the only component of accumulated other comprehensive income for the Company. The amount reclassified out of other accumulated comprehensive income relating to realized gains on securities available for sale was $1,479 and $345 for 2015 and 2014 with the related tax effect of $608 and $142, respectively.

Financial Instruments

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

Fair Value Measurement

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurement - Continued

See Note N for more information and disclosures relating to the Company's fair value measurements.

Reclassifications

Certain reclassifications have been made in the 2014 financial statements to conform to the presentation used in 2015. These reclassifications had no impact of the Company's previously reported financial statements.

Adoption of Recent Accounting Guidance

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent Accounting Guidance Not Yet Effective

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

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

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

NOTE B - INVESTMENT SECURITIES

Debt securities have been classified in the balance sheets according to management's intent. The amortized cost of securities and their fair values at December 31 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
Available-for-Sale Securities:				
U.S. Government-Sponsored Enterprise Securities	$ 14,993,406	$ 902	$(149,988)	$ 14,844,320
SBA-Guaranteed Development Corporation Participation Certificates	1,752,243	-	(13,743)	1,738,500
Collateralized Mortgage Obligations	1,416,051	454	-	1,416,505
	$ 18,161,700	$ 1,356	$(163,731)	$ 17,999,325
December 31, 2014				
Available-for-Sale Securities:				
U.S. Government-Sponsored Enterprise Securities	$ 15,989,734	$ -	$(334,805)	$ 15,654,930
SBA-Guaranteed Development Corporation Participation Certificates	1,840,677	-	(14,177)	1,826,500
Collateralized Mortgage Obligations	1,658,100	561	-	1,658,660
	$ 19,488,511	$ 561	$(348,982)	$ 19,140,090

At December 31, 2015 and 2014, securities with a market value of $2,962,490 and $3,936,540 were pledged to the State of California for its Time Deposit program.

During 2015, gross realized gains and losses were $1,479 and $0, respectively. During 2014, gross realized gains and losses were $345 and $0, respectively

NOTE B - INVESTMENT SECURITIES - Continued

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

	Available-for-Sale Securities	
	Amortized Cost	Fair Value
Due from One to Five Years	$ 5,416,052	$ 5,412,255
Due from Five to Ten Years	10,993,405	10,848,570
After Ten Years	1,752,243	1,738,500
	$ 18,161,700	$ 17,999,325

The gross unrealized losses and related estimated fair value of investment securities that have been in a continuous loss position for less than twelve months and over twelve months at December 31, 2015 and 2014 are as follows:

	Less than Twelve Months		Twelve Months or More		Total	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
December 31, 2015						
U.S. Government-Sponsored Enterprise Securities	$(45,589)	$ 5,952,000	$(104,399)	$ 4,891,750	$(149,988)	$10,843,750
SBA-Guaranteed Development Corporation Participation Certificates	-	-	(13,743)	1,738,500	(13,743)	1,738,500
	$(45,589)	$ 5,952,000	$(118,142)	$ 6,630,250	$(163,731)	$12,582,250
December 31, 2014						
U.S. Government-Sponsored Enterprise Securities	$(5,460)	$ 994,540	$(329,345)	$14,660,390	$(334,805)	$15,654,930
SBA-Guaranteed Development Corporation Participation Certificates	-	-	(14,177)	1,826,500	(14,177)	1,826,500
	$(5,460)	$ 994,540	$(343,522)	$16,486,889	$(348,982)	$17,481,429

Management evaluates investment securities for other-than-temporary impairment taking into consideration the extent and length of time the fair value has been less than cost, the financial condition of the issuer and whether the Company has the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2015, no declines in value are deemed to be other-than-temporary.

NOTE C - LOANS

The Company's loan portfolio consists primarily of loans to borrowers within Orange and Los Angeles Counties. Although the Company seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Company's market area and, as a result, the Company's loan and collateral portfolios are, to some degree, concentrated in those industries.

The Company also originates SBA loans either for sale to institutional investors or for retention in the loan portfolio. Loans identified as held for sale are carried at lower of origination cost or market value and separately designated as such in the financial statements. A portion of the Company's revenues are from origination of loans guaranteed by the Small Business Administration under its various programs and sale of the guaranteed portions of the loans. Funding for these loans depends on annual appropriations by the U.S. Congress. The Company was servicing approximately $86,486,000 and $63,430,000 in SBA loans previously sold as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, the carrying value of loans pledged to the Federal Home Loan Bank of San Francisco as collateral for borrowing arrangements was approximately $96.9 million and $81.7 million, respectively. See Note F for more information on borrowing arrangements.

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

	2015	2014
Balance at Beginning of Year	$ 5,556,947	$ 6,296,801
Additions to the Allowance (Credited)/Charged to Expense	(1,830,000)	(1,000,000)
Recoveries on Loans Charged Off	825,333	334,631
	4,552,280	5,631,432
Less Loans Charged Off	479,733	74,485
Balance at End of Year	$ 4,072,547	$ 5,556,947

UNITI FINANCIAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE C - LOANS - Continued

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

December 31, 2015	Real Estate	Commercial	Consumer and Other	Total
Allowance for Loan Losses:				
Beginning of Year	$ 4,908,483	$ 648,464	$ -	$ 5,556,947
Provisions	(1,245,490)	(578,895)	(5,615)	(1,830,000)
Charge-offs	(479,733)	-	-	(479,733)
Recoveries	398,129	421,589	5,615	825,333
End of Year	$ 3,581,389	$ 491,158	$ -	$ 4,072,547
Reserves:				
Specific	$ -	$ 16	$ -	$ 16
General	3,581,389	491,142	-	4,072,531
	$ 3,581,389	$ 491,158	$ -	$ 4,072,547
Loans Evaluated for Impairment:				
Individually	$ 1,325,527	$ 1,386	$ -	$ 1,326,913
Collectively	120,672,606	32,348,257	254,500	153,275,363
	$ 121,998,133	$ 32,349,643	$ 254,500	$ 154,602,276
December 31, 2014				
Allowance for Loan Losses:				
Beginning of Year	$ 5,453,189	$ 837,950	$ 5,662	$ 6,296,801
Provisions	(622,329)	(371,793)	(5,879)	(1,000,000)
Charge-offs	(20,031)	(54,454)	-	(74,485)
Recoveries	97,653	236,761	217	334,631
End of Year	$ 4,908,483	$ 648,464	$ -	$ 5,556,947
Reserves:				
Specific	$ 372,027	$ 1,330	$ -	$ 373,357
General	4,536,456	647,134	-	5,183,590
	$ 4,908,483	$ 648,464	$ -	$ 5,556,947
Loans Evaluated for Impairment:				
Individually	$ 2,007,921	$ 40,258	$ -	$ 2,048,179
Collectively	105,056,105	25,231,669	157,376	130,445,150
	$ 107,064,026	$ 25,271,926	$ 157,376	$ 132,493,328

NOTE C - LOANS - Continued

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

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

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

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

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

The risk category of loans by class of loans was as follows as of December 31, 2015 and 2014:

December 31, 2015	Pass	Special Mention	Substandard	Impaired	Total
Real Estate	$ 119,423,366	$ -	$ 1,249,240	$ 1,325,527	$ 121,998,133
Commercial	32,125,470	-	222,787	1,386	32,349,643
Consumer and Other	254,500	-	-	-	254,500
	$ 151,803,336	$ -	$ 1,472,027	$ 1,326,913	$ 154,602,276
December 31, 2014					
Real Estate	$ 100,244,462	$ 3,230,790	$ 1,580,853	$ 2,007,921	$ 107,064,026
Commercial	25,035,570	162,951	33,147	40,258	25,271,926
Consumer and Other	157,376	-	-	-	157,376
	$ 125,437,408	$ 3,393,741	$1,614,000	$ 2,048,179	$ 132,493,328

NOTE C - LOANS - Continued

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2015 and 2014:

	Still Accruing			
December 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Real Estate	$ -	$ -	$ -	$ 1,177,146
Commercial	-	-	-	-
Consumer and Other	-	-	-	-
	$ -	$ -	$ -	$ 1,177,146
December 31, 2014				
Real Estate	$ -	$ -	$ -	$ 2,007,921
Commercial	-	-	-	-
Consumer and Other	-	-	-	-
	$ -	$ -	$ -	$ 2,007,921

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2015 and 2014:

			Impaired Loans				
December 31, 2015	Unpaid Principal Balance	Recorded Investment	Without Specific Allowance	With Specific Allowance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Real Estate	$ 4,578,014	$ 1,325,527	$ 1,325,527	$ -	$ -	$ 1,773,600	$ 2,392
Commercial	1,386	1,386	-	1,386	16	10,196	1,196
Consumer and Other	-	-	-	-	-	-	-
	$ 4,579,400	$ 1,326,913	$ 1,325,527	$ 1,386	$ 16	$ 1,783,796	$ 3,588
December 31, 2014							
Real Estate	$ 5,114,426	$ 2,007,922	$ 1,509,995	$ 497,927	$ 372,027	$ 2,717,835	$ 272,309
Commercial	65,695	40,258	-	40,258	1,330	319,244	18,144
Consumer and Other	-	-	-	-	-	-	-
	$ 5,180,121	$ 2,048,180	$ 1,509,995	$ 538,185	$ 373,357	$ 3,037,079	$ 290,453

The Company has allocated $16 and $1,330 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2015 and 2014. The Company has committed to lend no additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2015 and 2014.

There were no loans modified as troubled debt restructurings during 2015 and 2014.

There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ended December 31, 2015 and 2014. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

NOTE D - PREMISES AND EQUIPMENT

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

	2015	2014
Furniture, Fixtures, and Equipment	$ 1,887,482	$ 1,799,461
Leasehold Improvements	1,405,316	1,378,416
	3,292,798	3,177,877
Less Accumulated Depreciation and Amortization	(2,772,634)	(2,630,499)
	$ 520,164	$ 547,378

The Company has entered into leases for its branches and administrative facility, which will expire between 2019 and 2021. These leases include provision for periodic rent increases as well as payment by the lessee of certain operating expenses. The rental expense relating to these leases was $451,330 and $453,357 for the years ended December 31, 2015 and 2014, respectively.

At December 31, 2015, the future lease rental payable under non-cancellable operating lease commitments for the Company's branches and administrative office was as follows:

2016	$ 461,191
2017	472,566
2018	428,446
2019	351,817
2020	287,077
Thereafter	269,273
	$ 2,270,370

The minimum rental payments shown above are given for the existing lease obligations and are not a forecast of future rental expense.

NOTE E - DEPOSITS

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

2016	$ 44,606,593
2017	6,693,399
2018	35,128
2020	360,000
	$ 51,695,120

NOTE F - OTHER BORROWINGS

At December 31, 2015, the Company may borrow up to $12,000,000 on an unsecured basis from its correspondent banks.

As of December 31, 2015, the Company may also borrow up to approximately $55.7 million from the Federal Home Loan Bank of San Francisco subject to providing adequate collateral and fulfilling other conditions of the credit facility. The credit facility is secured by loans in the amount of $96.9 million.

As of December 31, 2015 and 2014, no amounts were outstanding under these borrowing arrangements.

NOTE G - INCOME TAXES

The income tax expense (benefit) for the years ended December 31, is comprised of the following:

	2015	2014
Current Taxes:		
Federal	$ 27,700	$ 19,819
State	8,441	9,366
	36,141	29,185
Deferred	1,698,263	1,024,000
Change in Valuation Allowance	-	(6,101,000)
Current Tax Expense (Benefit)	$ 1,734,404	$(5,047,815)

A comparison of the federal statutory income tax rates to the Company's effective income tax rates at December 31 follows:

	2015		2014	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 1,393,364	34.0%	$ 838,000	34.0%
State Franchise Tax, Net of Federal Benefit	301,641	7.4%	183,000	7.4%
Change in Valuation Allowance	-	-	(6,101,000)	(247.4%)
Other Items, Net	39,399	0.9%	32,185	1.3%
Tax Expense (Benefit)	$ 1,734,404	42.3%	$(5,047,815)	(204.7%)

NOTE G - INCOME TAXES - Continued

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset (liability) accounts recognized in the accompanying balance sheets at December 31:

	2015	2014
Deferred Tax Assets:		
Depreciation	$ 145,350	$ 136,851
Allowance for Loan Losses Due to Tax Limitations	-	578,038
Operating Loss Carryforwards	2,790,001	3,911,878
Nonaccrual Loan Interest	241,850	193,988
Other	675,792	564,340
	3,852,993	5,385,095
Valuation Allowance	-	-
Deferred Tax Liabilities:		
Deferred Loan Costs	(162,086)	(127,158)
Allowance for Loan Losses Due to Tax Limitations	(175,087)	-
Other	(68,366)	(37,859)
	(405,539)	(165,017)
Net Deferred Tax Assets	$ 3,447,454	$ 5,220,078

At December 31, 2014, management believed it was more likely than not that the deferred tax assets would be realized in the future based on its improving profitability, and reversed the valuation allowance at December 31, 2014. The Company has Federal and California net operating loss carryforwards of approximately $5,369,000 and $13,480,000, respectively, available to offset future Federal and California taxable income. Federal and California net operating loss carryforwards, to the extent not used will expire in 2032.

The Company is subject to federal income tax and franchise tax of the state of California. Tax returns for the years ended after December 31, 2011 are open to audit by federal authorities. Tax returns for the years ended after December 31, 2010 are open to audit by state authorities. Unrecognized tax benefits are not expected to significantly increase or decrease within the next twelve months.

NOTE H - OTHER EXPENSES

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

	2015	2014
Data Processing and Communication	$ 604,734	$ 559,705
Directors' Fees	207,600	170,000
Marketing and Business Promotion	234,680	194,495
Professional Fees	328,414	378,369
Loan Expenses	21,934	102,101
Office Expenses	59,671	56,296
Regulatory Assessments	174,474	322,710
Loan Collection Expense	42,068	21,124
Other Expenses	513,241	457,845
	$ 2,186,816	$ 2,262,645

NOTE I - RELATED PARTY TRANSACTIONS

In the ordinary course of business, certain executive officers, directors and companies with which they are associated have, in the past granted loans to certain related parties and their affiliates. As of December 31, 2015 and 2014, there were no outstanding loans made to related parties.

As of December 31, 2015 and 2014, deposits from directors, officers, and their affiliates amounted to approximately $1,493,000 and $2,358,000, respectively.

NOTE J - COMMITMENTS

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

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

NOTE J - COMMITMENTS - Continued

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

	2015	2014
Commitments to Extend Credit	$ 24,200,000	$ 10,444,000
Standby Letters of Credit	690,000	655,000
Other Commercial Letters of Credit	80,000	360,000
	$ 24,970,000	$ 11,459,000

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

The Company from time to time is subject to legal proceedings and claims arising in the ordinary course of business. The Company, based on available information and status of those claims or proceedings, does not believe that the aggregate potential liability resulting from such proceedings would have a material adverse effect on the Company's financial condition or results of operations.

NOTE K - STOCK OPTION PLAN

The Company adopted a stock option plan in January 2002, which was amended in March 2004. Under the terms of the 2002 Stock Option Plan (the "2002 Plan"), officers and key employees were granted both nonqualified and incentive stock options and directors, who are not an officer or employee, were granted nonqualified stock options. The Plan provided for options to purchase 994,970 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of the grant. Stock options granted expired no later than ten years from the date of the grant and generally vest over five years. The Plan provided for accelerated vesting if there is a change of control, as defined in the 2002 Plan. The Plan expired on January 24, 2012.

To replace the 2002 Plan, the Company adopted a new stock option plan on March 8, 2012 (the "2012 Plan"). The 2012 Plan was approved by the Company's shareholders on June 28, 2012. Under the terms of the 2012 Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors, who are not an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase 2,000,000 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of the grant. Stock options expire no later than ten years from the date of the grant and generally vest over three years. The Plan provides for accelerated vesting if there is a change of control, as defined in the 2012 Plan. As of December 31, 2015, there were 10,150 options and 1,205,130 options granted under the 2002 and 2012 Plan, respectively.

NOTE K - STOCK OPTION PLAN - Continued

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions presented below:

	2015	2014
Expected Volatility	29.5%	29.5%
Expected Term	7.5 Years	7.5 Years
Expected Dividends	None	None
Risk Free Rate	1.75% - 2.15%	2.14% - 2.21%
Weighted-Average Grant Date Fair Value	$0.92	$0.65

As of December 31, 2015, there was $300,375 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 2.2 years.

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

	Shares Available for Grant Under 2012 Plan	Shares Granted Under 2002 and 2012 Plans	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrnisic Value
Outstanding at January 1, 2015	1,058,513	951,637	$ 1.60		
Granted	(286,310)	286,310	2.52		
Exercised	-	-	-		
Forfeited or Expired	22,667	(22,667)	1.77		
Outstanding at December 31, 2015	794,870	1,215,280	$ 1.81	8.17 Years	$ 778,615
Options Exercisable		560,817	$ 1.60	7.62 Years	$ 476,694

The Company recognized stock-based compensation cost of $122,347 and $101,795 during 2015 and 2014, respectively.

NOTE L - EARNINGS PER SHARE ("EPS")

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

	2015		2014	
	Income	Shares	Income	Shares
Net Income as Reported	$ 2,363,724		$ 7,513,596	
Weighted Average Shares Outstanding During the Year		13,465,757		12,395,319
Used in Basic EPS	2,363,724	13,465,757	7,513,596	12,395,319
Dilutive Effect of Outstanding Stock Options & Warrants	-	1,234,994	-	740,170
Used in Dilutive EPS	$ 2,363,724	14,700,751	$ 7,513,596	13,135,489

At December 31, 2015 and 2014 there were 296,460 and 15,150 stock options, respectively, that could potentially dilute earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been antidilutive.

NOTE M - EMPLOYEE BENEFIT PLAN

The Company adopted a 401(k) for its employees. Under the plan, eligible employees may defer a portion of their salaries. The plan also provides for discretionary Company profit sharing contributions. The Company made no contributions to the plan during 2015 and 2014.

NOTE N - FAIR VALUE MEASUREMENT

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

Securities

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

NOTE N - FAIR VALUE MEASUREMENT - Continued

Collateral-Dependent Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect partial write-downs, through charge-offs or specific reserve allowances, that are based on fair value estimates of the underlying collateral. The fair value estimates for collateral-dependent impaired loans are generally based on recent real estate appraisals or broker opinions, obtained from independent third parties, which are frequently adjusted by management to reflect current conditions and estimated selling costs (Level 3).

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers whose qualifications and licenses have been reviewed and verified by the Bank. Once received, a member of the loan department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value. The Bank also determines what additional adjustments, if any, should be made to the appraisal values on any remaining collateral-dependent impaired loans to arrive at fair value. No significant adjustments to appraised values have been made as a result of this comparison process as of December 31, 2015.

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2015 and 2014:

	Fair Value Measurements Using:			
December 31, 2015	Level 1	Level 2	Level 3	Total
Assets Measured at Fair Value:				
Recurring Basis				
Securities Available for Sale	$ -	$17,999,000	$ -	$17,999,000
Non-recurring Basis				
Collateral-dependent Impaired Loans:				
Commercial Real Estate	$ -	$ -	$ 1,326,000	$ 1,326,000
December 31, 2014				
Assets Measured at Fair Value:				
Recurring Basis				
Securities Available for Sale	$ -	$19,140,000	$ -	$19,140,000
Non-recurring Basis				
Collateral-dependent Impaired Loans:				
Commercial Real Estate	$ -	$ -	$ 1,636,000	$ 1,636,000

Collateral-dependent impaired loans had a carrying value of approximately $1,326,000 and $2,008,000, net of specific reserves of approximately $0 and $372,000, at December 31, 2015 and 2014, respectively.

NOTE N - FAIR VALUE MEASUREMENT - Continued

Quantitative information about the Company's nonrecurring Level 3 fair value measurements as of December 31, 2015 and 2014 are as follows:

December 31, 2015	Fair Value Amount	Valuation Technique	Unobservable Input	Adjustment Range
Impaired Loans	$ 1,326,000	Appraisals	Management Adjustments to Reflect Current Conditions and Selling costs	10% - 18%
December 31, 2014				
Impaired Loans	$ 1,636,000	Appraisals	Management Adjustments to Reflect Current Conditions and Selling costs	10% - 50%

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The following methods and assumptions were used to estimate the fair value of significant financial instruments not previously presented:

Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate the fair values of those assets due to the short-term nature of the assets.

Time Deposits in Other Banks

Fair values for time deposits with other banks are estimated using discounted cash flow analyses, using interest rates currently being offered with similar terms.

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Loans Held-for-Sale

Loans held-for-sale are reported at the lower of cost or fair value. Fair value is determined based on quotes, bids, or indications from potential purchasing institutions. Therefore, loans held-for-sale are categorized as a Level 1 measurement.

Collateral-Dependent Impaired loans

For collateral dependent impaired loans, fair value is generally based on recent real estate appraisals. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and typically result in a Level 3 classification of the inputs for determining fair value.

Loans

For variable rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for all other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

Federal Home Loan Bank Stock and Other Bank Stock

The fair value of Federal Home Loan Bank Stock and other Bank stock is not readily determinable due to the lack of its transferability.

Noninterest-Bearing and Interest Bearing Demand Deposits

The fair values for noninterest-bearing deposits and interest-bearing demand deposits are equal to the amount payable on demand at the reporting date, which is the carrying amount.

Interest-Bearing Time Deposits

The fair value for fixed rate certificates of deposits is estimated using a cash flow analysis, discounted at interest rates being offered at each reporting date by the Company for certificates with similar remaining maturities.

Off-Balance Sheet Financial Instruments

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

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

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

		2015		2014	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Cash and Cash Equivalents	Level 1	$ 49,289	$ 49,289	$ 26,895	$ 26,895
Time Deposits in Other Banks	Level 2	1,344	1,346	6,342	6,310
Investment Securities	Level 2	17,999	17,999	19,140	19,140
Loans Held For Sale	Level 1	6,059	6,059	2,209	2,209
Loans, net	Level 2	149,582	148,105	125,563	126,791
Collateral-Dependent Impaired Loans	Level 3	1,326	1,326	1,636	1,636
Federal Home Loan Bank Stock	Level 2	880	880	807	807
Financial Liabilities:					
Noninterest-Bearing and Interest-Bearing Demand Deposits	Level 1	143,868	143,868	94,521	94,521
Interest-Bearing Time Deposits	Level 2	51,695	51,753	61,285	61,546

NOTE P - WARRANTS

In connection with the Company's 2009 and 2012 stock offering, the Company issued one warrant to purchase one additional share of common stock for every share purchased. These warrants may be exercised at a per share price of $2.00 and $1.10, respectively, at any time for five years from the date of issuance. The 2009 warrants expired on December 31, 2014 and the 2012 warrants expire on June 30, 2017. During 2014, 1,085,000 warrants from the 2009 stock offering were exercised at $2.00 each and there were 1,823,000 warrants still outstanding from the 2012 stock offering at December 31, 2015 and 2014.

NOTE Q - REGULATORY ORDER

The Bank's Board of Directors entered into a stipulation and consent to the issuance of a Consent Order ("Order") by the Federal Deposit Insurance Corporation ("FDIC") and the California Department of Business Oversight ("CDBO") on December 22, 2009. The Order was terminated on February 11, 2015.

NOTE R - 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 Company'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 their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In July, 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. The new rules became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule, and fully phased in by January 1, 2019. The rules include a new common equity Tier 1 ("CET1") capital to risk-weighted assets ratio with minimums for capital adequacy and prompt corrective action purposes of 4.5% and 6.5%, respectively. The minimum Tier 1 capital to risk-weighted assets ratio was raised from 4.0% to 6.0% under the capital adequacy framework and from 6.0% to 8.0% to be well-capitalized under the prompt corrective action framework. In addition, the rules introduced the concept of a “conservation buffer” of 2.5% applicable to the CET1, Tier 1 and Total capital adequacy risk-weighted asset ratios. The conservation buffer will be phased-in on a pro rata basis over a four year period beginning in 2016. If the capital adequacy minimum ratios plus the phased-in conservation buffer amount exceed actual risk-weighted capital ratios, then dividends, share buybacks and discretionary bonuses to executives could be limited in amount. Based on the level of actual risk-weighted capital ratios at December 31, 2015, the Bank does not expect to be limited by the provisions of the conservation buffer when it becomes effective in 2016. 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 were calculated using Basel I rules.

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. 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, Tier 1 and CET1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2014 and 2015, that the Bank meets all capital adequacy requirements.

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

NOTE R - REGULATORY MATTERS - Continued

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

	Actual		Amount of Capital Required: For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Total Capital (to Risk-Weighted Assets)						
Company	$35,300	21.7%	$13,021	8.0%	N/A	N/A
Bank	$32,926	20.3%	$12,997	8.0%	$16,246	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	$33,220	20.4%	$9,766	6.0%	N/A	N/A
Bank	$30,850	19.0%	$9,748	6.0%	$12,997	8.0%
CET1 Capital (to Risk-Weighted Assets)						
Company	$33,220	20.4%	$7,325	4.5%	N/A	N/A
Bank	$30,850	19.0%	$7,311	4.5%	$10,560	6.5%
Tier 1 Capital (to Average Assets)						
Company	$33,220	13.9%	$9,537	4.0%	N/A	N/A
Bank	$30,850	13.0%	$9,473	4.0%	$11,841	5.0%
As of December 31, 2014:						
Total Capital (to Risk-Weighted Assets)						
Company	$30,976	23.9%	$10,367	8.0%	N/A	N/A
Bank	$28,806	22.2%	$10,397	8.0%	$12,997	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	$29,311	22.6%	$5,184	4.0%	N/A	N/A
Bank	$27,132	21.0%	$5,199	4.0%	$7,798	6.0%
Tier 1 Capital (to Average Assets)						
Company	$29,311	16.4%	$7,169	4.0%	N/A	N/A
Bank	$27,132	15.1%	$7,184	4.0%	$8,980	5.0%

The California Financial Code provides that a Company may not make a cash distribution to its shareholders in excess of the lesser of the bank's undivided profits or the Company's net income for its last three fiscal years less the amount of any distribution made by the bank's shareholders during the same period. In addition, the Company and the Bank may not pay dividends that would result in its capital levels being reduced below the minimum requirements shown above.