CALWEST BANCORP AND SUBSIDIARY
Irvine, California

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
CalWest Bancorp and Subsidiary
Irvine, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CalWest Bancorp and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

(Continued)

Opinion

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

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Supplementary Information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Sherman Oaks, California
March 24, 2016

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash and due from banks	$ 3,265,495	$ 3,484,027
Federal funds sold and interest-bearing balances	7,490,000	4,660,000
Total cash and cash equivalents	10,755,495	8,144,027
Interest-bearing deposits in other banks	12,434,000	13,440,000
Investment securities:		
Available for sale	32,154,282	40,816,042
Held to maturity (fair value of $9,451,059 in 2015 and $1,767,095 in 2014)	9,678,480	1,767,085
Total investment securities	41,832,762	42,583,127
Loans held for sale	363,451	372,104
Loans:		
Real estate	48,331,993	49,973,521
Commercial and industrial	14,904,960	12,427,042
Consumer	570,159	530,687
Total loans	63,807,112	62,931,250
Net deferred loan fees and costs	(108,682)	(162,724)
Net discounts	(504,315)	(604,315)
Allowance for loan losses	(2,653,862)	(2,680,148)
Net loans	60,540,253	59,484,063
Federal Reserve Bank and Federal Home Loan Bank stock – at cost	1,093,800	1,006,300
Premises and equipment	195,755	97,285
Company owned life insurance	6,547,913	6,358,740
Accrued interest and other assets	916,252	1,091,716
Total assets	$ 134,679,681	$ 132,577,362

(Continued)

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	$ 46,604,490	$ 41,759,098
Money market and NOW accounts	31,611,230	37,028,663
Savings	15,509,732	12,205,496
Time deposits under $100,000	3,558,991	4,151,054
Time deposits $100,000 and over	21,091,898	28,466,556
Total deposits	118,376,341	123,610,867
Subordinated debentures	3,093,000	3,093,000
Subordinated notes	605,000	605,000
Accrued interest and other liabilities	1,209,470	1,109,734
Total liabilities	123,283,811	128,418,601
Shareholders' equity:		
Preferred stock-Series A and B – 5,000,000 shares authorized; no and 4,656 shares issued and outstanding at December 31, 2015 and 2014, respectively; redemption value of $0 and $4,889,000 as of December 31, 2015 and 2014, respectively	–	4,888,800
Preferred stock-Series C – 53,000 shares authorized; 53,000 and no shares outstanding at December 31, 2015 and 2014, respectively; redemption value of $5,300,000 and $0 as of December 31, 2015 and 2014, respectively	5,300,000	–
Common stock – 50,000,000 shares authorized, $5 par value; 46,021,488 and 2,521,488 shares issued and outstanding in 2015 and 2014, respectively	35,964,141	28,385,319
Accumulated deficit	(29,579,835)	(28,855,327)
Accumulated other comprehensive (loss)	(288,436)	(260,031)
Total shareholders' equity	11,395,870	4,158,761
Total liabilities and shareholders' equity	$ 134,679,681	$ 132,577,362

See accompanying notes to consolidated financial statements

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2015 and 2014

	2015	2014
Interest income		
Interest and fees on loans	$ 3,326,808	$ 3,593,774
Interest on investment securities	738,685	825,830
Other interest income	225,759	182,317
Total interest income	4,291,252	4,601,921
Interest expense		
Interest on money market and NOW accounts	122,120	136,262
Interest on savings deposits	64,063	36,845
Interest on time deposits	272,633	345,143
Interest on borrowings	191,958	147,063
Total interest expense	650,774	665,313
Net interest income	3,640,478	3,936,608
(Recovery of) loan losses	(562,357)	(404,856)
Net interest income after recovery of loan losses	4,202,835	4,341,464
Noninterest income		
Service charges and fees	582,951	609,499
Servicing income on loans sold	45,503	46,964
Gain on sale of securities	110,548	112,645
Net gain on sale and write-down of other real estate owned	–	549,814
Earnings on company owned life insurance	189,173	182,644
Other income	55,747	59,991
Total noninterest income	983,922	1,561,557
Noninterest expense		
Salaries and employee benefits	2,755,523	3,000,241
Occupancy expenses	384,460	395,983
Furniture and equipment	115,028	117,718
Other expenses	2,654,454	2,018,608
Total noninterest expense	5,909,465	5,532,550
Income (loss) before income taxes	(722,708)	370,471
Income tax expense	1,600	1,600
Net income (loss)	$ (724,308)	$ 368,871
Preferred stock dividends and accretion of discount	(200)	(512,814)
Net loss available to common shareholders	$ (724,508)	$ (143,943)
Per share data:		
Net loss – basic	$ (0.20)	$ (0.06)
Net loss – diluted	$ (0.20)	$ (0.06)

See accompanying notes to consolidated financial statements

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the years ended December 31, 2015 and 2014

	2015	2014
Net income (loss)	$ (724,308)	$ 368,871
Other comprehensive income (loss):		
Unrealized holding gain arising during the period	82,143	1,249,434
Reclassification adjustment for gains included in net income	(110,548)	(112,645)
Tax effect	–	–
Total other comprehensive income (loss)	(28,405)	1,136,789
Comprehensive income (loss)	$ (752,713)	$ 1,505,660

See accompanying notes to consolidated financial statements

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2015 and 2014

	Preferred Stock Series A and B		Preferred Stock Series C		Common Stock			Accumulated Other	Total
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Accumulated Deficit	Comprehensive Income (Loss)	Shareholders' Equity
Balance at January 1, 2014	4,656	$ 4,888,800	–	$ –	2,521,488	$ 28,380,011	$ (29,224,198)	$ (1,396,820)	$ 2,647,793
Net income	–	–	–	–	–	–	368,871	–	368,871
Stock-based compensation	–	–	–	–	–	5,308	–	–	5,308
Change in net unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	–	–	–	–	–	–	–	1,136,789	1,136,789
Balance at December 31, 2014	4,656	4,888,800	–	–	2,521,488	28,385,319	(28,855,327)	(260,031)	4,158,761
Net loss	–	–	–	–	–	–	(724,308)	–	(724,308)
Accretion of preferred stock discount	–	200	–	–	–	–	(200)	–	–
Issuance of equity capital, net of expenses	–	–	53,000	5,300,000	19,055,000	2,683,447	–	–	7,983,447
Exchange of preferred stock for common stock	(4,656)	(4,889,000)	–	–	24,445,000	4,889,000	–	–	–
Stock-based compensation	–	–	–	–	–	6,375	–	–	6,375
Change in net unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	–	–	–	–	–	–	–	(28,405)	(28,405)
Balance at December 31, 2015	–	$ –	53,000	$ 5,300,000	46,021,488	$ 35,964,141	$ (29,579,835)	$ (288,436)	$ 11,395,870

See accompanying notes to consolidated financial statements

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net income (loss)	$ (724,308)	$ 368,871
Adjustments to reconcile net income/(loss) to net cash from operating activities:		
Depreciation and amortization of premises and equipment	32,702	25,308
Net amortization of premiums and discounts on securities and loans	245,290	114,278
(Recovery of) loan losses	(562,357)	(404,856)
Gain on sale of securities	(110,548)	(112,645)
Net gain on sale of other real estate owned	–	(549,814)
Stock-based compensation expense	6,375	5,308
Earnings on company owned life insurance	(189,173)	(182,644)
Proceeds from sales and principal paydowns of loans held for sale, net of originations	8,653	56,971
Net change in:		
Accrued interest and other assets	175,464	226,624
Accrued interest and other liabilities	99,736	(7,784)
Net cash from operating activities	(1,018,166)	(460,383)
Cash flows from investing activities		
Net change in interest-bearing deposits in other banks	1,006,000	(10,059,331)
Purchases of available for sale securities	(3,721,898)	(6,385,082)
Purchases of held to maturity securities	(8,427,677)	(1,944,783)
Proceeds from maturities/paydowns of available for sale securities	5,072,960	7,589,596
Proceeds from maturities/paydowns of held to maturity securities	445,666	167,149
Proceeds from sales of available for sale securities	7,140,753	8,789,636
Net change in loans	(416,419)	(538,196)
(Purchases)/redemptions of FRB and FHLB stock	(87,500)	61,100
Proceeds from sales of other real estate owned	–	1,612,529
Purchases of premises and equipment	(131,172)	(76,159)
Net cash from investing activities	880,713	(783,541)
Cash flows from financing activities		
Net change in demand deposits and savings accounts	2,732,195	(3,597,643)
Net change in time deposits	(7,966,721)	(8,250,218)
Proceeds from issuance of equity capital, net of expenses	7,983,447	–
Net cash from financing activities	2,748,921	(11,847,861)
Net change in cash	2,611,468	(13,091,785)
Cash and cash equivalents at beginning of year	8,144,027	21,235,812
Cash and cash equivalents at end of year	$ 10,755,495	$ 8,144,027
Supplemental disclosures of cash flow information		
Interest paid	$ 462,459	$ 520,526
Taxes paid	1,600	1,600
Loans transferred to other real estate owned	–	78,787
Exchange of preferred stock for common stock	4,889,000	–

See accompanying notes to consolidated financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The financial statements include the accounts of CalWest Bancorp and its subsidiary, South County Bank (the "Bank"), collectively referred to herein as the "Company." All significant intercompany transactions have been eliminated. CalWest Bancorp has no significant business activity other than its investment in South County Bank. Accordingly, no separate financial information on the Company is provided, other than reflected in the consolidating schedules included as Supplementary Information.

Nature of Operations: The Bank has been organized as a single operating segment with three additional divisions, CalWest Bank, Inland Valley Bank, and Surf City Bank. The Bank operates a full service branch in Irvine under the CalWest Bank division, a full service branch in Redlands, California under the Inland Valley Bank division, and a full service branch in Huntington Beach, California under the Surf City Bank division. In addition, the Bank operates a full service branch in Rancho Santa Margarita, California under the name South County Bank N.A.

The Bank's primary source of revenue is providing loans to customers, who are predominately small- and middle-market businesses and individuals.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 24, 2016, which is the date the financial statements were available to be issued.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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 Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions and interest bearing deposits in other banks.

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 requirements as of December 31, 2015 and 2014. The Company maintains amounts at other financial institutions, which exceed federally insured limits. The Company has not experienced any losses in such accounts.

Interest-Bearing Deposits in Other Banks: Interest-bearing deposits in other banks mature within one year and are carried at cost.

Securities: Debt securities 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 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 available for sale securities are recorded using the specific identification method.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: OTTI related to credit loss, which must be recognized in the income statement and OTTI related to other factors, which is recognized in other comprehensive income (loss). 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 Held for Sale: Small Business Administration (SBA) loans originated or purchased and intended for sale are carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Gains on sales of loans are recognized at the time of sale and include any servicing asset recognized. A valuation allowance is recorded against servicing assets when fair value is below the carrying amount.

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, the allowance for loan losses and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan.

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. 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.

Credit Risk and Concentrations: A significant portion of the Company’s real estate loans are secured by real properties located in Southern California. Declines in the California economy and in real estate values could have a significant effect on the collectability of the Company’s loans and on the level of the required allowance for loan losses.

NOTE 1 – 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 loan 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 Bank 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 the measurement of impairment based on expected future cash flows discounted using the loan's effective rate immediately prior to the restructuring.

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. Smaller balance, homogeneous loans are collectively evaluated for impairment.

General reserves cover non-impaired loans and are based on historical loss rates over the last twelve quarters 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 historical loss experience. 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.

Portfolio segments identified by the Bank 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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 ten years for furniture and fixtures. 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.

Federal Reserve Bank (“FRB”) and Federal Home Loan Bank (“FHLB”) Stock: The Company is a member of the FRB and FHLB systems. 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. FRB and 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.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

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

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale which are also recognized as a separate component of equity.

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 11. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings (Loss) per Share (EPS): Basic EPS is computed by dividing income or loss available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if 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.

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. The Preferred Stock-Series C shares are considered to be participating securities for the purposes of this calculation. At December 31, 2015, there were no undistributed earnings or dividends declared for purposes of this calculation.

The factors used in the earnings per share computation follow:

	2015	2014
Basic EPS:		
Net income	$ (724,308)	$ 368,871
Less preferred stock dividends and accretion of discount	(200)	(512,814)
Net loss available to common shareholders	(724,508)	(143,943)
Weighted average shares outstanding	3,594,091	2,521,488
Basic EPS	$ (0.20)	$ (0.06)
Diluted EPS:		
Net loss available to common shareholders	$ (724,308)	$ (143,943)
Weighted average shares outstanding	3,594,091	2,521,488
Dilutive effects of stock options	–	–
Average shares and dilutive potential common shares	3,594,091	2,521,488
Diluted EPS	$ (0.20)	$ (0.06)

All outstanding stock options were considered antidilutive as of December 31, 2015 and 2014.

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. Compensation cost is recognized over the required service period, generally defined as the vesting period. See Note 9 for additional information on the Company's stock option plan.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Reclassifications: Some items in the prior year consolidated financial statements have been reclassified to conform with the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Adoption of New Accounting Standards: In February 2016, the FASB issued a comprehensive new leasing standard that amends various aspects of existing accounting guidance for leases. It will require recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between previous GAAP and the amended standard is the recognition of lease assets and lease liabilities by lessees on the balance sheet for those leases classified as operating leases under previous GAAP. As a result, the Company will have to recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effects of the new guidance on its financial statements and disclosures.

NOTE 2 – SECURITIES

The carrying amount of securities and their approximate fair values at December 31 were as follows:

2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available for sale securities:				
Mortgage-backed securities: residential	$ 13,846,284	$ 34,282	$ (126,118)	$ 13,754,448
US Government and agency securities	18,596,434	111,024	(307,624)	18,399,834
	$ 32,442,718	$ 145,306	$ (433,742)	$ 32,154,282
2014				
Available for sale securities:				
Mortgage-backed securities: residential	$ 38,521,970	$ 181,841	$ (540,053)	$ 38,163,758
US Government and agency securities	2,554,103	103,673	(5,492)	2,652,284
	$ 41,076,073	$ 285,514	$ (545,545)	$ 40,816,042

(Continued)

NOTE 2 – SECURITIES (Continued)

2015	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized (Losses)	Fair Value
Held to maturity securities:				
US Government and agency securities	1,488,405	–	(7,080)	1,481,325
Mortgage-backed securities: residential	$ 8,190,075	$ 959	$ (221,300)	$ 7,969,734
	$ 9,678,480	$ 959	$ (228,380)	$ 9,451,059
2014				
Held to maturity securities:				
Mortgage-backed securities: residential	$ 1,767,085	$ 1,833	$ (1,823)	$ 1,767,095
	$ 1,767,085	$ 1,833	$ (1,823)	$ 1,767,095

During 2015, the Company received proceeds of $7,140,753 from the sale of available for sale investment securities resulting in gross gains of $115,815 and gross losses of $5,267. During 2014, the Company received proceeds of $8,789,636 from the sale of available for sale investment securities resulting in gross gains of $125,424 and gross losses of $12,779.

Investment securities with a fair value of approximately $32.2 million and $40.8 million at December 31, 2015 and 2014, respectively, were pledged to secure public deposits and the borrowings discussed in Note 7.

The scheduled maturities of investment securities at December 31, 2015 are shown below. Securities not due at a single maturity date are shown separately.

	Available for sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ –	$ –	$ –	$ –
Due in one year to five years	3,481,301	3,555,364	1,488,405	1,481,325
Due in five to ten years	747,919	752,067	–	–
Greater than ten years	14,367,214	14,092,403	–	–
Mortgage-backed securities - residential	13,846,284	13,754,448	8,190,075	7,969,734
	$ 32,442,718	$ 32,154,282	$ 9,678,480	$ 9,451,059

NOTE 2 – SECURITIES (Continued)

The gross unrealized loss 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 are as follows:

	Less than 12 Months		Over 12 Months		Total	
2015	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Available for sale:						
Mortgage-backed securities: residential	$ (97,946)	$ 8,953,125	$ (28,172)	$ 1,488,367	$ (126,118)	$ 10,441,492
US Government and agency securities	(12,999)	3,293,836	(294,625)	11,926,789	(307,624)	15,220,625
	$ (110,945)	$ 12,246,961	$ (322,797)	$ 13,415,156	$ (433,742)	$ 25,662,117
Held to maturity:						
US Government and agency securities	(7,080)	1,481,325	–	–	(7,080)	1,481,325
Mortgage-backed securities: residential	(221,300)	7,334,207	–	–	(221,300)	7,334,207
	$ (228,380)	$ 8,815,532	$ –	$ –	$ (228,380)	$ 8,815,532
2014						
Available for sale:						
Mortgage-backed securities: residential	$ (5,492)	$ 1,542,165	$ –	$ –	$ (5,492)	$ 1,542,165
US Government and agency securities	(22,197)	3,374,170	(517,856)	25,238,233	(540,053)	28,612,403
	$ (27,689)	$ 4,916,335	$ (517,856)	$ 25,238,233	$ (545,545)	$ 30,154,568
Held to maturity:						
Mortgage-backed securities: residential	(1,823)	844,128	–	–	(1,823)	844,128
	$ (1,823)	$ 844,128	$ –	$ –	$ (1,823)	$ 844,128

At December 31, 2015, the Company had 30 investment securities where the total fair value had declined from the Company's total amortized cost. Because the decline in market value is attributable to changes in interest rates, not credit quality, and it is not more likely than not that the Company will be required to sell the securities, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

NOTE 3 – LOANS

The Company's loan portfolio consists primarily of loans to borrowers within Southern California. 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.

NOTE 3 – LOANS (Continued)

The recorded investment in the loans excludes accrued interest, net deferred loan fees and costs, and net discounts due to immateriality.

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

	Real Estate	Commercial	Consumer	Total
2015				
Allowance for loan losses:				
Beginning balance	$ 1,282,666	$ 1,303,703	$ 93,779	$ 2,680,148
(Recovery of) provision for loan losses	(31,130)	(446,259)	(84,968)	(562,357)
Charge-offs	–	(54,511)	–	(54,511)
Recoveries	153,021	374,918	62,643	590,582
Total ending balance	$ 1,404,557	$ 1,177,851	$ 71,454	$ 2,653,862
Allowance for loan losses:				
Specific	$ 378	$ 41,079	$ –	$ 41,457
General	1,404,179	1,136,772	71,454	2,612,405
	$ 1,404,557	$ 1,177,851	$ 71,454	$ 2,653,862
Loans evaluated for impairment:				
Individually	$ 231,657	$ 368,658	$ –	$ 600,315
Collectively	48,100,336	14,536,302	570,159	63,206,797
	$ 48,331,993	$ 14,904,960	$ 570,159	$ 63,807,112
2014				
Allowance for loan losses:				
Beginning balance	$ 1,171,775	$ 1,675,529	$ 101,712	$ 2,949,016
(Recovery of) provision for loan losses	125,794	(494,533)	(36,116)	(404,855)
Charge-offs	(146,729)	(106,797)	(36,049)	(289,575)
Recoveries	131,826	229,504	64,232	425,562
Total ending balance	$ 1,282,666	$ 1,303,703	$ 93,779	$ 2,680,148
Allowance for loan losses:				
Specific	$ –	$ 40,591	$ –	$ 40,591
General	1,282,666	1,263,112	93,779	2,639,557
	$ 1,282,666	$ 1,303,703	$ 93,779	$ 2,680,148
Loans evaluated for impairment:				
Individually	$ 589,335	$ 85,558	$ –	$ 674,893
Collectively	49,384,186	12,341,484	530,687	62,256,357
	$ 49,973,521	$ 12,427,042	$ 530,687	$ 62,931,250

(Continued)

NOTE 3 – LOANS (Continued)

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

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
2015				
With an allowance recorded				
Real estate loans:				
Commercial real estate	$ 223,490	$ 223,490	$ 378	$ 226,890
Commercial loans:				
Small business administration	279,601	278,778	35,303	300,257
Commercial and industrial	118,551	69,793	5,776	129,911
With no related allowance recorded				
Real estate loans:				
Commercial real estate	16,344	8,167	–	9,097
Commercial loans:				
Small business administration	2,680	2,680	–	4,899
Commercial and industrial	17,406	17,406	–	40,676
	$ 658,072	$ 600,315	$ 41,457	$ 711,730
2014				
With an allowance recorded				
Commercial loans:				
Small business administration	$ 7,118	$ 7,118	$ 5,189	$ 8,675
Commercial and industrial	63,946	63,946	35,402	109,880
With no related allowance recorded				
Real estate loans:				
Commercial real estate	18,204	10,027	–	10,957
Residential real estate	579,308	579,308	–	582,906
Commercial loans:				
Small business administration	7,832	6,657	–	8,113
Commercial and industrial	7,837	7,837	–	13,466
	$ 684,245	$ 674,893	$ 40,591	$ 733,997

No interest income was recognized on impaired loans in 2015 and 2014.

(Continued)

NOTE 3 – LOANS (Continued)

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

	Still Accruing		
	30-89 Days Past Due	Over 90 days Past Due	Nonaccrual
2015			
Real estate loans:			
Commercial real estate	$ –	$ –	$ 8,167
Commercial loans:			
Small business administration	–	–	236,513
Commercial and industrial	–	–	17,406
	$ –	$ –	$ 262,086
2014			
Real estate loans:			
Construction and land development	$ –	$ –	$ –
Commercial real estate	–	–	10,027
Residential real estate	–	–	579,308
Commercial loans:			
Small business administration	–	–	13,775
Commercial and industrial	–	–	71,783
Consumer loans	–	–	–
	$ –	$ –	$ 674,893

The Company has allocated $6,225 and $0 of specific reserves to loans with a recorded investment of $346,396 and $486,929 whose terms have been modified in troubled debt restructuring as of December 31, 2015 and 2014, respectively. The Company has not committed to lend any 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 that were modified as troubled debt restructurings that occurred during the years ending December 31, 2015 and 2014. There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2015 or 2014.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt for the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

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 typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

NOTE 3 – LOANS (Continued)

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 Company 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:

	Pass	Special Mention	Substandard	Impaired	Total
2015					
Real estate loans:					
Construction and land development	$ 3,800,501	$ –	$ –	$ –	$ 3,800,501
Commercial real estate	33,949,068	–	711,786	231,657	34,892,511
Residential real estate	9,638,981	–	–	–	9,638,981
Commercial loans:					
Small business administration	1,051,607	–	10,857	281,459	1,343,923
Commercial and Industrial	12,629,016	–	844,822	87,199	13,561,037
Consumer loans	570,159	–	–	–	570,159
	$ 61,639,332	$ –	$ 1,567,465	$ 600,315	$ 63,807,112
2014					
Real estate loans:					
Construction and land development	$ 4,785,915	$ –	$ –	$ –	$ 4,785,915
Commercial real estate	29,464,887	–	272,769	10,027	29,747,683
Residential real estate	14,860,615	–	–	579,308	15,439,923
Commercial loans:					
Small business administration	1,768,413	–	299,789	13,775	2,081,977
Commercial and Industrial	10,262,759	–	10,523	71,783	10,345,065
Consumer loans	530,687	–	–	–	530,687
	$ 61,673,276	$ –	$ 583,081	$ 674,893	$ 62,931,250

(Continued)

NOTE 4 – PREMISES AND EQUIPMENT

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

	2015	2014
Furniture, fixtures, and equipment	$ 1,523,903	$ 1,392,731
Leasehold improvements	861,015	861,015
	2,384,918	2,253,746
Accumulated depreciation and amortization	(2,189,163)	(2,156,461)
	$ 195,755	$ 97,285

Depreciation expense was $32,702 and $25,308 for 2015 and 2014, respectively.

The Company leases its facilities under non-cancellable operating leases expiring at various dates through 2020. Future minimum annual payments for these leases are as follows:

2016	$ 345,238
2017	353,555
2018	306,182
2019	292,195
2020	47,610
Thereafter	–
Total minimum lease payments	$ 1,344,780

The minimum rental payments shown above are given for the existing lease obligations and include annual rent adjustments. Rental expense, including related common area maintenance charges, was $358,392 and $363,123 for 2015 and 2014, respectively.

NOTE 5 – DEPOSITS

Scheduled maturities of time deposits for the next five years were as follows:

2016	$ 17,049,421
2017	5,257,836
2018	1,579,940
2019	498,000
2020	265,692
	$ 24,650,889

The amount of time deposits that meet or exceed the FDIC insurance limit of $250,000 at year end 2015 and 2014 were $3,515,774 and $2,153,779, respectively.

(Continued)

NOTE 6 – SUBORDINATED DEBENTURES AND SUBORDINATED NOTES

On September 17, 2003, the Company issued $3,093,000 of junior subordinated deferrable interest debentures (the “debentures”) to CalWest Statutory Trust I (the “Trust”). These debentures are subordinated to effectively all borrowings of the Company and are due and payable on September 17, 2033. Interest is payable quarterly on these debentures at three-month LIBOR plus 2.95% for an effective rate of 3.28% as of December 31, 2015. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five years. The Company has elected to defer all interest payments due after the fourth quarter 2010 and approximately $554,424 of due but unpaid interest is included in accrued interest and other liabilities as of December 31, 2015. The full amount of the deferred interest payable was paid on March 17, 2016.

The Company also purchased a 3% common interest in the Trust. The balance of the equity of the Trust is comprised of mandatorily redeemable preferred securities.

In 2010, the Company issued $630,000 of mandatorily convertible subordinated notes to various individuals. These notes are subordinated to effectively all borrowings of the Company and mature three years after issuance, at which time the Company can convert the notes to shares of common stock. The Company may prepay all or a portion of the notes prior to the conversion date. Interest is payable semi-annually at a rate of 8%, but the Company can defer interest payments until maturity. No payments of interest have been made on these subordinated notes and $248,696 of due but unpaid interest has been included in accrued interest and other liabilities at December 31, 2015.

In 2013, the Company extended the maturity dates of the subordinated notes until 2014 and offered a one-year deferral of the conversion date of the notes to common stock. Holders of $605,000 of the subordinated notes accepted the deferral offer, and the holder of $25,000 of the subordinated notes along with $4,669 of related accrued interest payable were converted into common stock resulting in $605,000 of subordinated notes outstanding as of December 31, 2013. In 2014, the Company extended the maturity dates of the subordinated notes and offered a one-year deferral of the conversion date of the notes to common stock. In 2015, the Company extended the maturity dates of the subordinated notes and offered a one-year deferral of the conversion date of the notes to common stock. All remaining holders of the subordinated notes accepted the deferral option to 2016.

NOTE 7 – OTHER BORROWINGS

As a member of the Federal Home Loan Bank of San Francisco (“FHLBSF”), the Company may borrow against a line of credit with a maximum financing availability of 25% of its total assets, adjusted quarterly, subject to the pledge of eligible collateral as well as other terms and conditions. Based on the amount of pledged eligible collateral as of December 31, 2015, the Company had maximum financing availability of $34,479,000 with remaining borrowing capacity of $23,479,000. Securities with a fair value of approximately $19.7 million at December 31, 2015 have been pledged on this arrangement. Reflected in the remaining borrowing capacity is a letter of credit in the amount of $11 million issued on behalf of Company customers.

The Company may also borrow from the discount window and other financing facilities available through the Federal Reserve Bank of San Francisco, subject to the pledge of eligible collateral. Securities with a fair value of approximately $3.4 million were pledged on this arrangement as of December 31, 2015. No amounts were outstanding on this arrangement as of December 31, 2015 or 2014.

NOTE 7 – OTHER BORROWINGS (Continued)

The Company may also borrow up to $7.5 million overnight from its correspondent banks on a secured and unsecured basis. No amounts were outstanding as of December 31, 2015 or 2014 and securities with a fair value of approximately $9.1 million were pledged on the secured arrangements as of December 31, 2015.

NOTE 8 – INCOME TAXES

Income tax expense for the years ended December 31 consists of the following:

	2015	2014
Current expense:		
Federal	$ –	$ –
State	1,600	1,600
	1,600	1,600
Deferred expense:		
Federal	(271,000)	67,000
State	(96,000)	25,000
	(367,000)	92,000
Change in valuation allowance	367,000	(92,000)
	$ 1,600	$ 1,600

A comparison of the federal statutory income tax rate of 34% to the Company's effective income tax follows:

	2015	2014
Federal statutory rate times financial statement income	$ (246,000)	$ 126,000
Effect of:		
California franchise taxes	(62,000)	16,000
Tax-free income	(64,000)	(62,000)
Stock-based compensation	7,000	6,000
Valuation allowance	367,000	(92,000)
Other items – net	(400)	7,600
Total tax expense	$ 1,600	$ 1,600

(Continued)

NOTE 8 – INCOME TAXES (Continued)

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

	2015	2014
Deferred tax assets:		
Net operating loss carryforwards	$ 10,154,000	$ 9,581,000
Depreciation differences	47,000	61,000
Deferred compensation plans	112,000	119,000
Nonaccrual loan interest	87,000	85,000
Net unrealized losses on sale of available for sale securities	119,000	107,000
Other	58,000	43,000
	10,577,000	9,996,000
Valuation allowance	(10,124,000)	(9,745,000)
Deferred tax liabilities:		
Allowance for loan losses due to tax limitations	(240,000)	(12,000)
Deferred loan costs	(169,000)	(195,000)
Other	(44,000)	(44,000)
	(453,000)	(251,000)
Net deferred tax asset/(liability)	$ –	$ –

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. Management evaluates the positive and negative evidence and determines the realizability of the deferred tax asset on a regular basis.

At December 31, 2015 and 2014, management reassessed the continuing need for this valuation allowance and determined that it was appropriate to maintain a full valuation allowance against the Company's deferred tax assets. Management will continue to evaluate the potential realizability of the deferred tax assets and will continue to maintain a valuation allowance to the extent it is determined that it is more likely than not that these assets will not be realized.

Internal Revenue Code (IRC) section 382 places a limitation on the amount of taxable income that can be offset by net operating loss carryforwards after a change in control (generally greater than 50% change in ownership) of a loss corporation. Accordingly, utilization of net operating loss carryforwards may be subject to an annual limitation regarding their utilization against future taxable income upon change in control. During the year ended December 31, 2015, the Bank raised additional capital from investors. In evaluating these capital raise transactions, management determined that such activities did not result in a change in control as defined under IRC 382.

At December 31, 2015, the Company had federal and state net operating loss carry-forwards of approximately $24.5 million and $25.5 million. Net operating loss carry-forwards, to the extent not used will begin to expire in 2028 and 2027, respectively.

NOTE 8 – INCOME TAXES (Continued)

The Company is subject to U.S. federal income tax as well as income tax of the State of California. The Company is no longer subject to examination by federal taxing authorities for tax years prior to 2011 and for state taxing authorities for tax years prior to 2010.

There were no significant unrealized tax benefits recorded as of December 31, 2015 and 2014, and the Company does not expect any significant increase in unrealized tax benefits in the next twelve months. Additionally, the Company has determined that no amounts were required to be recorded related to interest and penalties for the years ended December 31, 2015 and 2014.

NOTE 9 – STOCK-BASED COMPENSATION

The shareholders approved the Company's 1999 Stock Option Plan in October 1999, under which 200,037 shares of the Company's common stock may be issued. In July 2003, the shareholders approved the 2003 Stock Option Plan under which 192,995 shares of the Company's common stock may be issued, raising the total shares available to 393,032. Under the terms of the Company's stock option plans, employees may be granted nonqualified stock options or incentive stock options and directors may be granted nonqualified stock options.

In May 2006, the shareholders approved the Company's 2006 Equity Based Compensation Plan under which 201,651 shares of the Company's common stock may be issued. The Company amended the Plan in 2011 and increased the number of shares available to be issued under the 2006 Plan to 1,110,651. The 2006 Plan authorizes the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock awards and restricted stock units. Under the Plan vesting restrictions on awards may be time based and/or performance based. Participation in the 2006 Plan is open to all employees of the Company as well as the Company's directors. Under the terms of the 2006 Plan employees may be granted nonqualified stock options or incentive stock options and directors may be granted nonqualified stock options. Generally, all awards expire no later than ten years from the date of the grant.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company’s common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

(Continued)

NOTE 9 – STOCK-BASED COMPENSATION (Continued)

A summary of the status of the Company's stock option plan as of December 31, 2015, and changes during the year are presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	87,251	$ 3.76		
Granted	–	–		
Forfeited and expired	(666)	13.13		
Exercised	–	–		
Outstanding at end of year	86,585	$ 3.69	–	–
Vested and expected to vest	86,585	$ 3.69	–	–
Options exercisable at year-end	54,585	$ 5.27	–	–

As of December 31, 2015 there was approximately $22,000 of unrecognized compensation cost related to non-vested options granted under the 2006 Plan. This cost is expected to be recognized over a weighted average period of 2.0 years.

NOTE 10 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to certain directors and the companies with which they are associated. The balance of these loans outstanding at December 31, 2015 and 2014 was approximately $497,000 and $532,000, respectively.

NOTE 11 – 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.

(Continued)

NOTE 11 – 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	$11,825,000	$12,823,000

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 customer'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 is, from time to time, involved in various matters of litigation which have arisen in the ordinary course of its business. During the year there was one such matter that arose related to mortgage loans that the Company had previously sold. The Company settled the matter during 2015 for approximately $935,000. The expense related to this item was included in Other Expenses in the Consolidated Statement of Operations for the year ended December 31, 2015. The Company considers this matter to be resolved, and there is no liability related to this matter at December 31, 2015. In the opinion of management, there are no other matters or pending litigation that would have a material effect on the Company's consolidated financial statements.

NOTE 12 – EMPLOYEE BENEFITS

The Company has entered into salary continuation agreements with certain executive officers. Under these agreements, the Company is obligated to provide, upon retirement, a 15 year benefit to the officers. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of the agreements until the expected retirement dates of the participants. On May 5, 2010, certain officers entered into agreements that effectively converted the then existing liability under the salary continuation agreements of $314,205 to shares of common stock of the Company.

The Company has also entered into split-dollar life insurance agreements with certain executive officers. The present value of the post-retirement cost of maintaining the life insurance policy is being accrued over the period from the effective date of the agreements until the expected retirement dates of the participants. The expense for these agreements, net of forfeitures totaled approximately $2,894 and $2,870 for 2015 and 2014, respectively. Total accrued liability for these agreements as of December 31, 2015 and 2014, was $30,840 and $27,946, respectively.

The Company is a beneficiary of life insurance policies that have been purchased as a method of financing the benefits under these agreements. Income earned on the cash surrender value of these polices is tax-free to the Company and is utilized to reduce the overall costs of benefits provided to key officers.

(Continued)

NOTE 13 – REGULATORY MATTERS

Consent Order: On January 24, 2011 the Bank consented to the issuance of a Consent Order ("the Order") by the Office of the Comptroller of the Currency (OCC). The Order places significant requirements on the Bank, including:

- The Bank must maintain Tier 1 Capital to total assets ratio of at least 9% and Total Capital to risk-weighted assets of at least 12% throughout the life of the Order.
- No dividends may be paid without the prior written consent of the OCC.
- The Bank must submit a written strategic plan to improve profits and maintain sufficient capital.
- The Board of Directors shall adopt policies and procedures to ensure that the Bank has effective senior management in place.
- The Bank must adopt and implement policies and procedures to strengthen management of overall risk exposures in certain areas, including loan portfolio management, criticized assets, nonaccrual loans and troubled debt restructurings, concentrations of credit, allowance for loan losses, loan review and liquidity risk management.

Effective with the date of the Order, the Bank was considered adequately capitalized under the FDIC's prompt corrective action rules. The Bank continues to be considered adequately capitalized under these rules as of December 31, 2015. The Bank cannot be considered well capitalized while it is under the Order, even if it is in compliance with the minimum capital requirements of the Order. As a result of being deemed adequately capitalized, the Bank was not able to accept, renew, or rollover any brokered deposit unless it has been granted a waiver of such prohibition by the FDIC and may not accept high rate deposits as defined by regulation. There were no remaining brokered deposits as of December 31, 2015.

The Bank expects to work closely with the OCC to address the provisions of the Order. Regular updates have been submitted to report progress made in correcting the items addressed in the Order. The Order will remain in effect until terminated by the OCC. Failure to comply with terms of the Order may result in additional enforcement action against the Bank.

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

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2015 and 2014, because of the existence of the Consent Order discussed above, the Bank is classified as adequately capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category.

(Continued)

NOTE 13 – REGULATORY MATTERS (Continued)

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

	Actual		Required For Capital Adequacy Purposes		To Be Adequately Capitalized Under the Consent Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015						
Total capital (to risk-weighted assets)	$ 15,657	21.36%	$ 5,864	8.00%	$ 8,796	12.00%
Tier 1 capital (to risk-weighted assets)	14,718	20.08%	4,398	4.00%	N/A	N/A
Common Tier 1	14,718	20.08%	3,298	4.50%	N/A	N/A
Tier 1 capital (to average assets)	14,718	10.90%	5,400	4.00%	12,151	9.00%
December 31, 2014						
Total capital (to risk-weighted assets)	$ 9,476	13.05%	$ 5,810	8.00%	$ 8,715	12.00%
Tier 1 capital (to risk-weighted assets)	8,546	11.77%	2,905	4.00%	N/A	N/A
Tier 1 capital (to average assets)	8,546	6.18%	5,534	4.00%	12,452	9.00%

NOTE 14 – FAIR VALUE

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

> Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used 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).

There were no assets or liabilities carried at fair value on a nonrecurring basis as of December 31, 2015 or 2014.

(Continued)

NOTE 14 – FAIR VALUE (Continued)

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

	Level 1	Level 2	Level 3	Total
2015				
Assets measured at fair value on a recurring basis:				
Securities available for sale	$ –	$ 32,154,282	$ –	$ 32,154,282
2014				
Assets measured at fair value on a recurring basis:				
Securities available for sale	$ –	$ 40,816,042	$ –	$ 40,816,042

Fair Values 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.

NOTE 14 – FAIR VALUE (Continued)

The carrying amounts and estimated fair values of financial instruments at December 31 are as follows (in thousands):

	Carrying Amount	Fair Value Measurements Using: Level 1	Level 2	Level 3	Total Fair Value
2015					
Financial assets					
Cash and due from banks	$ 3,265	$ 3,265	$ –	$ –	$ 3,265
Federal funds sold and interest-bearing balances	7,490	7,490	–	–	7,490
Interest-bearing deposits in other banks	12,434	12,434	–	–	12,434
Securities available for sale	32,154	–	32,154	–	32,154
Securities held to maturity	9,678	–	9,451	–	9,451
Loans held for sale	363	–	–	363	363
Net loans	60,540	–	–	60,534	60,534
FRB and FHLB stock	1,094	N/A	N/A	N/A	N/A
Accrued interest receivable	387	–	201	186	387
Financial liabilities					
Deposits	$ 118,376	$ –	$ 118,509	$ –	$ 118,509
Subordinated debentures	3,093	–	3,093	–	3,093
Subordinated notes	605	–	605	–	605
Accrued interest payable	813	–	813	–	813
2014					
Financial assets					
Cash and due from banks	$ 3,484	$ 3,484	$ –	$ –	$ 3,484
Federal funds sold and interest-bearing balances	4,660	4,660	–	–	4,660
Interest-bearing deposits in other banks	13,440	13,440	–	–	13,440
Securities available for sale	40,816	–	40,816	–	40,816
Securities held to maturity	1,767	–	1,767	–	1,767
Loans held for sale	372	–	–	372	372
Net loans	59,484	–	–	59,645	59,645
FRB and FHLB stock	1,006	N/A	N/A	N/A	N/A
Accrued interest receivable	359	–	154	205	359
Financial liabilities					
Deposits	$ 123,611	$ –	$ 123,826	$ –	$ 123,826
Subordinated debentures	3,093	–	3,093	–	3,093
Subordinated notes	605	–	605	–	605
Accrued interest payable	624	–	624	–	624

(Continued)

NOTE 14 – FAIR VALUE (Continued)

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

Cash and Due from Banks, Federal Funds Sold and Interest Bearing Balances, and Interest-Bearing Deposits in Other Banks - The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Loans Held for Sale and Net Loans - Fair values of loans are estimated as follows: for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

FRB and FHLB Stock - It is not practical to determine the fair value of restricted stock due to restrictions placed on its transferability.

Deposits - The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 2 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates with similar maturities resulting in a Level 2 classification.

Subordinated Debentures and Notes - The fair values of the Company's subordinated debentures and notes are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued Interest Receivable/Payable - The carrying amounts of accrued interest approximate fair value and are classified within the same fair value level as the related asset or liability.

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

NOTE 15 – SHAREHOLDERS' EQUITY

On December 23, 2015, the Company issued 19,055,000 shares of Common Stock for $0.20 per share, net of expenses of $1,127,553.

NOTE 15 – SHAREHOLDERS' EQUITY (Continued)

On January 23, 2009, the Company entered into a Purchase Agreement with the United States Department of the Treasury (the "Treasury"), pursuant to which the Company issued and sold 4,656 shares of the Company's Preferred Stock as Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and 233 shares of Fixed Rate Cumulative Perpetual Warrant Preferred Stock, Series B (the "Series B Preferred Stock") for an aggregate purchase price of $4,656,000 in cash. The redemption value of both Series A and Series B Preferred Stock is $4,889,000.

The Series A Preferred Stock pays cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. The preferred stock began to accrue dividends at the higher 9% rate beginning in January of 2014. On December 23, 2015, the Treasury agreed to exchange the Series A and Series B Preferred Stock for 24,445,000 shares of Common Stock at value of $0.20 per share of Common Stock. These shares of Common Stock were then immediately sold by Treasury to third party investors. As part of this transaction, the accrued but unpaid dividends on the Series A and Series B Preferred Stock were forgiven.

Also on December 23, 2015, the Company issued 53,000 shares of Series C Preferred Stock with a liquidation value of $100 per share. The Series C Preferred stock is mandatorily convertible into 26,500,000 shares of Common Stock ($0.20 per share of Common Stock) on the day after the shareholders of the Company approve the increase in the number of authorized shares of Common Stock that can be issued.

The dividend rate on the Series C Preferred Stock is 10% per year for the first six months after the date of issuance (December 23, 2015), 15% per year for the period from six months to one year after the issuance date, and 20% per year thereafter. However, if the approval of the increase in authorized shares of Common Stock and the resulting conversion of the Series C Preferred Stock to Common Stock occur within six months of the issue date, no dividends shall accrue or be payable.

SUPPLEMENTARY INFORMATION

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATING BALANCE SHEETS
As of December 31, 2015

	South County Bank	CalWest Bancorp	Eliminating Entries	Consolidated Balance
ASSETS				
Cash and due from banks	$ 3,265,495	$ 1,371,004	$ (1,371,004)	$ 3,265,495
Federal funds sold and interest-bearing balances	7,490,000	–	–	7,490,000
Interest-bearing deposits in other banks	12,434,000	–	–	12,434,000
Securities available for sale	32,154,282	–	–	32,154,282
Securities held to maturity	9,678,480	–	–	9,678,480
Loans held for sale	363,451	–	–	363,451
Loans, net	60,540,253	–	–	60,540,253
FRB and FHLB stock, at cost	1,093,800	–	–	1,093,800
Premises and equipment	195,755	–	–	195,755
Company owned life insurance	6,547,913	–	–	6,547,913
Accrued interest and other assets	823,252	14,525,985	(14,432,985)	916,252
	$ 134,586,681	$ 15,896,989	$ (15,803,989)	$ 134,679,681
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits	$ 119,747,345	$ –	$ (1,371,004)	$ 118,376,341
Subordinated debentures	–	3,093,000	–	3,093,000
Subordinated notes	–	605,000	–	605,000
Accrued interest and other liabilities	406,351	803,120	–	1,209,470
Total liabilities	120,153,696	4,501,120	(1,371,004)	123,283,811
Shareholders' equity				
Preferred stock	–	5,300,000	–	5,300,000
Common stock	33,261,516	35,964,141	(33,261,516)	35,964,141
Accumulated deficit	(18,540,095)	(29,579,835)	18,540,095	(29,579,835)
Accumulated other comprehensive income (loss)	(288,436)	(288,436)	288,436	(288,436)
Total shareholders' equity	14,432,985	11,395,870	(14,432,985)	11,395,870
	$ 134,586,681	$ 15,896,990	$ (15,803,989)	$ 134,679,681

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended December 31, 2015

	South County Bank	CalWest Bancorp	Eliminating Entries	Consolidated Balance
Interest income				
Interest and fees on loans	$ 3,326,808	$ 174	$ (174)	$ 3,326,808
Interest on investment securities	738,685	–	–	738,685
Other interest income	225,759	–	–	225,759
Total interest income	4,291,252	174	(174)	4,291,252
Interest expense				
Interest on money market and NOW accounts	122,294	–	(174)	122,120
Interest on savings deposits	64,063	–	–	64,063
Interest on time deposits	272,633	–	–	272,633
Interest on borrowings	5	191,953	–	191,958
Total interest expense	458,995	191,779	(174)	650,774
Net interest income	3,832,257	(191,779)	–	3,640,478
Recovery of loan losses	(562,357)	–	–	(562,357)
Noninterest income				
Service charges and fees	582,951	–	–	582,951
Servicing income on loans sold	45,503	–	–	45,503
Gain on sale of securities	110,548	–	–	110,548
Earnings on company owned life insurance	189,173	–	–	189,173
Other income	55,747	–	–	55,747
Total noninterest income	983,922	–	–	983,922
Noninterest expense				
Salaries and employee benefits	2,755,523	–	–	2,755,523
Occupancy expenses	384,460	–	–	384,460
Furniture and equipment	115,028	–	–	115,028
Other expenses	2,652,892	1,562	–	2,654,454
Total noninterest expense	5,907,903	1,562	–	5,909,465
Income (loss) before income taxes and subsidiary income	(529,367)	(193,341)	–	(722,708)
Income tax expense	1,600	–	–	1,600
Income (loss) from subsidiary	–	(530,967)	530,967	–
Net income (loss)	$ (530,967)	$ (724,308)	$ 530,967	$ (724,308)