US METRO BANK

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018 AND 2017

US METRO BANK

DECEMBER 31, 2018 and 2017

CONTENTS

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE difference

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders of
US Metro Bank
Garden Grove, California

We have audited the accompanying financial statements of US Metro Bank (the Bank), which are comprised of the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of US Metro Bank as of December 31, 2018 and 2017, 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

Rancho Cucamonga, California
April 26, 2019

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

US METRO BANK

BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and due from banks	$ 12,194,423	$ 13,380,570
Interest-bearing deposits in other banks	80,881,679	87,123,766
Cash and Cash Equivalents	93,076,102	100,504,336
Federal Home Loan Bank stock	1,069,900	707,800
Loans held for sale	994,584	6,416,627
Loans:	293,473,630	216,622,954
Deferred loan origination costs, net of deferred fees and discounts	(4,939,324)	(4,549,148)
Allowance for loan losses	(3,897,681)	(3,317,434)
Net Loans	284,636,625	208,756,372
Premises and equipment	1,801,300	1,121,361
Accrued interest and other assets	7,295,245	7,817,581
TOTAL ASSETS	$ 388,873,756	$ 325,324,077
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing deposits	$ 69,063,049	$ 54,353,304
Interest-bearing deposits	263,734,460	214,737,934
Total Deposits	332,797,509	269,091,238
FHLB borrowings	1,500,000	6,500,000
Accrued interest payable and other liabilities	1,750,554	974,055
TOTAL LIABILITIES	336,048,063	276,565,293
Commitments and Contingencies (Note 10)	-	-
SHAREHOLDERS' EQUITY		
Preferred stock - 10,000,000 shares authorized, none outstanding in 2018 and 2017	-	-
Common stock - 50,000,000 shares authorized, no par value; issued and outstanding 16,230,000 in 2018 and in 2017	51,184,912	51,184,912
Additional paid in capital	1,858,513	1,825,513
Accumulated deficit	(217,732)	(4,251,641)
Total Shareholders' Equity	52,825,693	48,758,784
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 388,873,756	$ 325,324,077

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

US METRO BANK

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
INTEREST INCOME		
Interest and fees on loans	$ 15,876,244	$ 10,519,512
Interest on interest-bearing deposits due from banks	1,653,774	656,083
Total Interest Income	17,530,018	11,175,595
INTEREST EXPENSE		
Interest on savings deposits, NOW and money market accounts	1,239,831	704,620
Interest on time deposits	2,138,584	949,709
Interest on other borrowings	27,402	2,721
Total Interest Expense	3,405,817	1,657,050
NET INTEREST INCOME	14,124,201	9,518,545
Provision for loan losses	960,000	-
Net Interest Income After Credit for Loan Losses	13,164,201	9,518,545
NONINTEREST INCOME		
Service charges and fees	1,672,559	1,245,825
Gain on sale of loans	3,177,561	5,775,902
Gain on sale of fixed assets	-	1,750
Dividends on FHLB stock	78,294	45,181
Total Noninterest Income	4,928,414	7,068,658
NONINTEREST EXPENSE		
Salaries and employee benefits	7,837,715	6,717,420
Occupancy and equipment expenses	1,338,381	932,030
Other expenses	3,094,332	2,304,065
Total Noninterest Expense	12,270,428	9,953,515
INCOME BEFORE INCOME TAXES	5,822,187	6,633,688
Provision (credit) for income tax	1,788,278	(65,872)
TOTAL INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 4,033,909	$ 6,699,560
EARNINGS PER SHARE - BASIC	$ 0.25	$ 0.45
EARNINGS PER SHARE - DILUTED	$ 0.24	$ 0.45

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

US METRO BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock		Additional		
	Number of Shares	Amount	Paid in Capital	Accumulated Deficit	Total
Balance at December 31, 2016	9,302,000	$34,525,590	$1,549,684	$ (10,951,201)	$25,124,073
Issuance of common stock, net of offering costs	6,828,000	16,479,322	-	-	16,479,322
Share-based compensation	100,000	180,000	275,829	-	455,829
Net income	-	-	-	6,699,560	6,699,560
Balance at December 31, 2017	16,230,000	51,184,912	1,825,513	(4,251,641)	48,758,784
Share-based compensation	-	-	33,000	-	33,000
Net income	-	-	-	4,033,909	4,033,909
Balance at December 31, 2018	16,230,000	$51,184,912	$1,858,513	$ (217,732)	$52,825,693

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

US METRO BANK

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,033,909	$ 6,699,560
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	255,579	177,516
Provision for loan losses	960,000	-
Proceeds from sale of loans held for sale	53,516,753	85,381,442
Gain on sale of fixed assets	-	(1,750)
Origination of loans held for sale	(45,877,149)	(84,507,022)
Share-based compensation expense	33,000	455,829
Net gain on sale of loans	(3,177,561)	(5,775,902)
Decrease (increase) in accrued interest receivable and other assets	522,336	(5,245,505)
Increase in accrued interest payable and other liabilities	776,499	401,374
Net Cash Provided by (used in) Operating Activities	11,043,366	(2,414,458)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Federal Home Loan Bank stock	(362,100)	(180,500)
Net change in loans	(75,880,253)	(71,413,614)
Purchases of premises and equipment	(935,518)	(1,063,153)
Proceeds from sale of premises and equipment	-	1,750
Net Cash Used in Investing Activities	(77,177,871)	(72,655,517)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in demand deposits and savings accounts	(706,741)	88,578,712
Net increase in time deposits	64,413,012	11,581,289
Net (decrease) increase in borrowings	(5,000,000)	6,500,000
Proceeds from issuance of common stock, net of offering costs	-	16,479,322
Net Cash Provided by Financing Activities	58,706,271	123,139,323
Net Increase (Decrease) in Cash and Cash Equivalents	(7,428,234)	48,069,348
Cash and Cash Equivalents, Beginning of year	100,504,336	52,434,988
Cash and Cash Equivalents, End of year	$ 93,076,102	$ 100,504,336
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 2,763,055	$ 1,657,050
Taxes paid	$ 1,737,885	$ 2,878,037

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of US Metro Bank (the "Bank") are in accordance with accounting principles generally accepted in the United States of America and conform to practices within the banking industry. A summary of the significant accounting policies follows:

A. Nature of Operations

The Bank is a California state-chartered bank that provides a full range of banking services to commercial business and individual consumers. The Bank is headquartered in Garden Grove, California with California branches in Anaheim, Fullerton, and Koreatown and Fashion District in Los Angeles, and two Loan Production Offices ("LPOs"), located in Dallas Texas and Seattle Washington. The Bank was incorporated on April 21, 2006, and opened for business on September 15, 2006. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to the maximum regulatory limits, and is subject to the supervision and regulation of the FDIC and the California Department of Business Oversight (the "CDBO").

The Bank has a significant business and geographic concentration in the Korean-American communities in Southern California and is affected by economic conditions in those areas and, to a lesser extent, the Republic of Korea. A growth in economic and business conditions in the market areas and in the Republic of Korea could have a material impact on the quality of the Bank's loan portfolio or the demand for its product and services which, in turn, may have material positive or negative effects on the Bank.

B. 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 amount 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.

C. Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash, due from banks, short-term interest bearing deposits at other banks and Federal funds sold. Generally, Federal funds are sold for one-day periods.

D. Interest-Bearing Deposits in Other Banks

Banking regulations require that banks maintain a percentage of their deposits as reserve in cash or on deposit with the Federal Reserve Bank. There was no reserve requirement as of December 31, 2018 or 2017.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value. Fair value is based on commitments on hand from investors or prevailing market prices. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income

F. Loans

The Bank grants commercial real estate, commercial and industrial and consumer loans. A substantial portion of the loan portfolio is represented by real estate loans in the Los Angeles and Orange County metropolitan areas. The ability of the Bank's borrowers to honor their contracts is dependent upon many factors, including the real estate market and general economic conditions in the Bank's area.

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 capitalized and recognized as an adjustment of the yield of the related loan. 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. 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.

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

G. 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Allowance for Loan Losses, Continued

confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each 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 Bank 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 Bank 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 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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Allowance for Loan Losses, Continued

Portfolio segments identified by the Bank include commercial real estate, commercial and industrial 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.

H. Servicing Rights

The Bank adopted accounting rules for the sale of Small Business Administration (SBA) loans. Servicing rights are recognized separately when they are acquired through sale of loans. A portion of the cost of the loan is allocated to the servicing right based on relative fair values. The valuation model uses assumptions that market participants would use in estimating cash flows from servicing assets, such as the cost of service, discount rates, and prepayment speeds. The Bank compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of 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. Each right was evaluated on an individual basis using current assumptions on prepayment speeds and discounted rates. For purpose of measuring impairment, the Bank has identified each servicing asset with the underlying loan being serviced. A valuation allowance is recorded where the fair value is below the carrying amount of the asset. If the Bank 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 to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and changes in the discount rates.

Servicing fee income, which is included in the income statement in noninterest 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 fee income.

I. 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 range 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 improvements or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. 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 be required to purchase additional shares or redeem shares already owned. FHLB stock is carried at cost and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as noninterest income.

K. Other Real Estate Owned (OREO)

Assets acquired through or in lieu of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating cost after acquisition are charged to operations as incurred.

The Bank had no other real estate owned as of December 31, 2018 and 2017.

L. Advertising Cost

The Bank expenses the costs of advertising in the period incurred.

M. Income Taxes

Deferred income tax assets are computed using the balance sheet 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.

The Bank 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.

N. Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. Net income is the only component of comprehensive income for the years ending December 31, 2018 and 2017, and therefore other comprehensive income is not required to be disclosed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit as described in Note 10. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

P. 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 would result in the issuance of common stock. At December 31, 2018 there were 940,000 common stock equivalents that were dilutive. At December 31, 2017 there were 490,000 common stock equivalents that were dilutive.

Q. Share Based Compensation

The Bank recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant date fair value of those awards. This cost is recognized over the period, which an employee is required to provide services in exchange for the award, generally the vesting period.

R. Reclassification

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

S. Revenue Recognition – Noninterest Income

The Bank adopted the provisions of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018 and all subsequent ASUs that modified Topic 606. Results for reporting periods beginning after December 31, 2017 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with Topic 605. The Company recognizes revenue as it is earned and noted no impact to its revenue recognition policies as a result of the adoption of ASU 2014-09. All of the Bank's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

T. Revenue Recognition – Noninterest Income, Continued

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Bank expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Bank performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract; and (v) recognize revenue when (or as) the Bank satisfies a performance obligation. The Bank only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Bank assesses the goods or services that are promised within each contract and identifies those that contain performance obligation, and assesses whether each promised good or service is distinct. The Bank then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The following is a discussion of key revenues within the scope of the new revenue guidance.

Service Charges and Fees on Deposit Accounts

The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Interchange Fees

Interchange fees represents fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through a payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

Gains/Losses on OREO Sales

Gains/losses on the sale of OREO are included in non-interest expense and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at the time of each real estate closing.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

U. Recently Adopted Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The new standard was effective for the Bank on January 1, 2018. Adoption of ASU 2016-01 did not have a material impact on the Bank's financial statements. Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value impact earnings instead of other comprehensive income. Equity securities without readily marketable fair values are to be carried at amortized cost, less impairment (if any) plus or minus changes resulting from observable price changes in orderly transactions for an identical investment or similar investment of the same issuer. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. Additionally, the Bank refined the calculation used to determine the disclosed fair value of loans held for investment as part of adopting this standard reflecting an exit price notion instead of an entrance price. The refined calculation did not have a significant impact on fair value disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718). ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Under ASU 2016-09, excess tax benefits and certain tax deficiencies will no longer be recorded in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. In addition, the guidance requires excess tax benefits be presented as an operating activity on the statement of cash flows rather than as a financing activity. ASU 2016-09 also permits an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. This guidance is effective for public business entities for interim and annual reporting periods beginning after December 15, 2016, and for nonpublic business entities annual reporting periods beginning after December 15, 2017, and interim periods within the reporting periods beginning after December 15, 2018. Early adoption is permitted, but all of the guidance must be adopted in the same period. The Bank adopted the standard and it had no significant impact on its financial statements and disclosures.

V. Recent Accounting Guidance Not Yet Effective

In February 2016, the FASB 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 Bank is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures. Based on leases outstanding at December 31, 2018, the Bank does not expect this ASU to have a material impact on the income statement, but does anticipate an increase of approximately $3,990,548 in assets and liabilities upon adoption on January 1, 2019.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

V, Recent Accounting Guidance Not Yet Effective, Continued

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, for SEC filers, one year later for non-SEC filing public business entities and annual reporting periods beginning after December 15, 2020, for nonpublic business entities and interim periods within the reporting periods beginning after December 15, 2021. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Bank is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its financial statements and disclosures.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment. This guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation, and goodwill impairment will simply be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The amendments in this Update are required for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private Bank alternative for the subsequent measurement of goodwill. ASU No. 2017-04 is effective for interim and annual reporting periods beginning after December 15, 2021 for public business entities who are not SEC filers and one year latter for all other entities. The Bank is currently evaluating the effects of ASU 2017-04 on its financial statements and disclosures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

V. Recent Accounting Guidance Not Yet Effective, Continued

In August 2018, the FASB issued ASU No. 2018-13, *"Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement."* This ASU eliminates, adds, and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for all entities for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Bank's Financial Statements

W. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Bank recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Bank's financial statements do not reflect subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are issued or are available to be issued.

The Bank has evaluated subsequent events through April 26, 2019 which is the date the financial statements were issued or the date the financial statements were available to be issued.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Bank's loan portfolio as of December 31 was as follows:

	2018	2017
Commercial real estate loans	$ 248,774,340	$ 180,533,529
Commercial and industrial loans	44,388,647	36,003,699
Consumer and overdrafts	310,643	85,726
Total Gross Loans	293,473,630	216,622,954
Deferred loan origination costs, net of fees and discounts	(4,939,324)	(4,549,148)
Allowance for loan losses (ALL)	(3,897,681)	(3,317,434)
Total Loans Net of ALL and Deferred Loan Fees	$ 284,636,625	$ 208,756,372

In June 2012, the Bank purchased approximately $12 million in commercial real estate loans, paying a purchase premium of approximately $515,000. As of December 31, 2018, the aggregate unpaid balance of those loans amounted to approximately $1.6 million with a remaining unamortized purchase premium of approximately $60,880.

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

	2018	2017
Balance, beginning of year	$ 3,317,434	$ 3,273,525
Provision for loan losses	960,000	-
Loan charge-offs	(390,177)	-
Loan recoveries	10,424	43,909
Allowance for Loan Losses as of End of Year	$ 3,897,681	$ 3,317,434

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES, Continued

The following table presents the activity in the allowance for loan losses for 2018 and 2017, and the recorded investment in loans and impairment method as of December 31, 2018 and 2017 by portfolio segment:

December 31, 2018	Commercial Real Estate	Commercial and Industrial	Consumer and Overdraft	Total
Allowance for Loan Losses:				
Beginning of year	$ 2,530,976	$ 784,052	$ 2,406	$ 3,317,434
Provisions	633,339	320,131	6,530	960,000
Charge-offs	-	(390,177)	-	(390,177)
Recoveries	-	10,424	-	10,424
End of Year	$ 3,164,315	$ 724,430	$ 8,936	$ 3,897,681
Reserves:				
Specific	$ -	$ 41,732	$ -	$ 41,732
General	3,164,315	682,698	8,936	3,855,949
Total	$ 3,164,315	$ 724,430	$ 8,936	$ 3,897,681
Loans Evaluated for Impairment:				
Individually	$ 200,227	$ 206,722	$ -	$ 406,949
Collectively	248,574,113	44,181,925	310,643	293,066,681
Total	$ 248,774,340	$ 44,388,647	$ 310,643	$ 293,473,630

December 31, 2017	Commercial Real Estate	Commercial and Industrial	Consumer and Overdraft	Total
Allowance for Loan Losses:				
Beginning of year	$ 2,530,976	$ 740,143	$ 2,406	$ 3,273,525
Charge-offs	-	43,909	-	43,909
End of Year	$ 2,530,976	$ 784,052	$ 2,406	$ 3,317,434
Reserves:				
Specific	$ -	$ 188,532	$ -	$ 188,532
General	2,530,976	595,520	2,406	3,128,902
Total	$ 2,530,976	$ 784,052	$ 2,406	$ 3,317,434
Loans Evaluated for Impairment:				
Individually	$ -	$ 188,532	$ -	$ 188,532
Collectively	180,533,529	35,815,167	85,726	216,434,422
Total	$ 180,533,529	$ 36,003,699	$ 85,726	$ 216,622,954

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES, Continued

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Bank 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 Bank uses the following definitions for risk rating classification ratings:

Pass - Loans classified as pass include larger non-homogeneous loans not meeting the risk rating definitions above and smaller homogeneous loans not assessed on an individual basis.

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.

Based on the most recent analysis performed, the risk classification categories of loans as of December 31 were as follows:

December 31, 2018	Pass	Special Mention	Substandard	Impaired	Total
Commercial real estate	$ 244,463,766	$ 3,966,344	$ 144,003	$ 200,227	$ 248,774,340
Commercial and Industrial	43,541,029	252,719	388,177	206,722	44,388,647
Consumer and Overdrafts	310,643	-	-	-	310,643
	$ 288,315,438	$ 4,219,063	$ 532,180	$ 406,949	$ 293,473,630

December 31, 2017	Pass	Special Mention	Substandard	Impaired	Total
Commercial real estate	$ 178,971,898	$ 1,358,136	$ 203,495	$ -	$ 180,533,529
Commercial and industrial	35,746,425	56,221	12,521	188,532	36,003,699
Consumer and overdrafts	85,726	-	-	-	85,726
	$ 214,804,049	$ 1,414,357	$ 216,016	$ 188,532	$ 216,622,954

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES, Continued

The following table presents the recorded investment in, and the aging of past due loans by class as of December 31, 2018 and 2017:

December 31, 2018	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Current	Total	Nonaccrual
Loans:						
Commercial real estate	$ 200,227	$ -	$ -	$ 248,574,113	$ 248,774,340	$ 200,227
Commercial and industrial	56,169	128,946	-	44,203,532	44,388,647	206,722
Consumer and overdraft	-	-	-	310,643	310,643	-
	$ 256,396	$ 128,946	$ -	$ 293,088,288	$ 293,473,630	$ 406,949

December 31, 2017	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Current	Total	Nonaccrual
Loans:						
Commercial real estate	$ -	$ -	$ -	$ 180,533,529	$ 180,533,529	$ -
Commercial and industrial	-	-	-	36,003,699	36,003,699	188,532
Consumer and overdraft	-	-	-	85,726	85,726	-
	$ -	$ -	$ -	$ 216,622,954	$ 216,622,954	$ 188,532

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES, Continued

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2018 and 2017:

December 31, 2018	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a Related Allowance					
Commercial and Industrial	$ 217,213	$ 206,722	$ 41,732	$ 231,029	$ -
Without a Related Allowance					
Commercial real estate	$ 214,601	$ 200,227	$ -	$ 210,159	$ -

December 31, 2017	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a Related Allowance					
Commercial and Industrial	$ 200,383	$ 188,532	$ 188,532	$ 200,466	$ -

Troubled Debt Restructurings (TDR)

As of December 31, 2018, the bank did not have any troubled debt restructurings. As of December 31 2017, the Bank had a recorded investment in troubled debt restructurings of $188,532 and allocated $188,532 of specific allowance for those loans.

NOTE 3 - PREMISES AND EQUIPMENT

Premises and equipment at December 31 were as follows:

	2018	2017
Furniture, fixtures and equipment	$ 1,904,733	$ 1,703,885
Leasehold improvements	2,366,708	2,350,283
Construction in progress	718,245	-
	4,989,686	4,054,168
Less: Accumulated depreciation and amortization	(3,188,386)	(2,932,807)
	$ 1,801,300	$ 1,121,361

Total depreciation expense for the years ended December 31, 2018 and 2017, was $255,579 and $177,516, respectively.

NOTE 4 - SALES OF SBA LOANS AND SERVICING RIGHTS

The Bank was servicing $176,520,978 and $152,091,484 in SBA loans previously sold as of December 31, 2018 and 2017, respectively.

The activity for SBA servicing rights, included with other assets on the balance sheet, that are measured at amortized cost and the related valuation allowance, fair value and key assumptions used to estimate the fair value were as follows:

	2018	2017
Carrying amount at beginning of year	$ 3,315,362	$ 1,833,999
Addition from SBA loan sales	992,081	2,182,256
Amortization	(1,293,098)	(700,893)
Carrying amount at end of year	$ 3,014,345	$ 3,315,362
Fair value, beginning of year	$ 4,258,977	$ 2,406,170
Fair value, end of year	$ 4,203,137	$ 4,258,977
Discount rate	10.97% to 11.71%	9.40% to 9.74%
Prepayment speeds	11.40% to 13.30%	8.30% to 10.00%

Fair Value is estimated by discounting future cash flows from the servicing assets using discount rates that approximate current market rates over the expected lives of the loans being serviced. For the purposes of measuring impairment, the Bank has identified each servicing asset with the underlying loan being serviced. A valuation allowance is recorded where the fair value is below the carrying amount of asset.

NOTE 5 - DEPOSITS

Interest-bearing deposits at December 31, 2018 and 2017, consisted of the following:

	2018	2017
NOW Accounts	$ 849,432	$ 236,985
Savings	5,836,543	2,984,485
Money market	100,624,668	119,505,659
Time certificate of deposit accounts $250,000 or under	67,734,623	41,054,527
Time certificate of deposit accounts over $250,000	88,689,194	50,956,278
	$ 263,734,460	$ 214,737,934

As of December 31, 2018 and 2017, all noninterest-bearing deposits were demand deposits. The maturity of time certificates deposit was as follows:

	2018	2017
Three months or less	$ 28,720,604	$ 29,577,205
Over three months through one year	119,565,809	54,842,355
One year to three years	8,137,404	7,343,245
Over three years to five years	-	248,000
Total Time Deposits	$ 156,423,817	$ 92,010,805

NOTE 6 - BORROWINGS

Borrowings include the borrowings from the FHLB. As part of the asset-liability management, the Bank utilizes FHLB borrowings to supplement the deposit source of funds. Therefore, there may be fluctuations in these balances depending on the short-term liquidity and longer-term financing needs of the Bank. Advances from the FHLB outstanding at December 31, 2018 and December 31, 2017 consisted of the following:

	Balance at December 31,			
	2018		2017	
Borrowings	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Short-term	$ 1,500,000	2.74%	$ 6,500,000	1.50%

NOTE 6 – BORROWINGS, Continued

The Bank's FHLB membership was approved in June 2008. The borrowing capacity was $58.1 million and $67.0 million at December 31, 2018 and 2017, respectively. The Bank's borrowing capacity is based on the lower of the value of the collateral or 25 percent of total assets at December 31, 2018 and 2017, respectively, of the Bank's total assets. The terms of this credit facility require the Bank to pledge to the FHLB eligible collateral of at least 100 percent of outstanding advances. As of December 31, 2018, the Bank pledged 65 loans to the FHLB secured by real estate with an aggregate unpaid principal balance of $133,111,845. At December 31, 2017, the Bank pledged 51 loans to the FHLB secured by real estate with an aggregate principal balance of $104,124,987.

The Bank also had a FHLB Letter of credit of $27,000,000 and $22,000,000 as of December 31, 2018 and 2017, respectively, to secure public deposits.

NOTE 7 – FEDERAL FUNDS LINE OF CREDIT

The Bank had Federal fund lines of credit of $5.0 million, $4.5 million and $7.2 million with Zions Bank, Pacific Coast Bankers Bank, and The Independent Bankers' Bank, respectively at December 31, 2018. The Bank had Federal fund lines of credit of $5 million and $4.5 million with Zions Bank and Pacific Coast Bankers Bank, respectively at December 31, 2017. There were no borrowings outstanding at December 31, 2018 and 2017

NOTE 8 - NONINTEREST EXPENSE - OTHER

A summary of other non-interest expense for the years ended December 31, 2018 and 2017, was as follows:

	2018	2017
Outside services	$ 1,046,409	$ 670,018
Regulatory assessment	141,674	111,429
Professional services	270,858	254,600
Corporate expense	824,156	596,419
Business development	354,479	413,028
Office supplies and communication	221,873	191,666
Operating losses	1,464	6,634
Other	233,419	60,271
Total Noninterest Expense - Other	$ 3,094,332	$ 2,304,065

NOTE 9 - INCOME TAXES

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Income tax expense consists of the following:

	2018	2017
Currently payable:		
Federal	$ 931,000	$ 2,303,000
State	621,000	673,000
	1,552,000	2,976,000
Deferred Taxes	236,000	(350,000)
Change in valuation allowance	-	(3,850,000)
Deferred Tax Asset Adjustment for Enacted Change in Tax Rate	-	1,158,000
	$ 1,788,000	$ (66,000)

Income tax expense for 2017 includes a downward adjustment of net deferred tax assets in the amount of $1,158,000, recorded as a result of the enactment of H.R.1 Tax Cuts and Jobs Act on December 22, 2017. The Act reduced the corporate Federal tax rate from 34% to 21% effective January 1, 2018.

NOTE 9 - INCOME TAXES, Continued

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:

	2018	2017
Deferred Tax Assets:		
Allowance for Loan Losses Due to Tax Limitations	$ 503,000	$ 231,000
Depreciation	119,000	367,000
Operating loss carryforwards	1,861,000	2,162,000
Share-based compensation	123,000	129,000
Deferred rent	64,000	53,000
Off-balance sheet reserve	42,000	16,000
Pre-opening expenses	51,000	71,000
Other	71,000	22,000
	2,834,000	3,051,000
Deferred Tax Liabilities:		
FHLB stock	(1,000)	(1,000)
Cash basis reporting for income tax purposes	(26,000)	(7,000)
	(27,000)	(8,000)
Net Deferred Tax Assets	$ 2,807,000	$ 3,043,000

A full valuation allowance was established in prior years because the Bank had not reported earnings sufficient enough to support the recognition of all of the deferred tax assets. As of December 31, 2017, the Bank reversed the valuation allowance as it was determined that it was more likely than not that the deferred tax assets will be realized.

NOTE 9 - INCOME TAXES, Continued

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

	2018		2017	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 1,223,000	21.00%	$ 2,255,000	34.00%
State Franchise Tax, Net of Federal Benefit	454,000	7.80%	479,000	7.20%
Tax Impact from Enacted Change in Tax Rate	-	-	1,158,000	17.50%
Valuation allowance	-	-	(3,850,000)	-58.00%
Other Items, Net	111,000	1.90%	(108,000)	-1.60%
Actual Tax Expense	$ 1,788,000	30.70%	$ (66,000)	-0.90%

The Bank records interest and penalties related to uncertain tax positions as part of income tax expense. As of December 31, 2018, the Bank recognized penalties of approximately $3,000 for Federal income tax and $3,000 for California franchise tax. There was no penalty or interest expense recorded as of December 31, 2017. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

The Bank has net operating loss carryforwards of approximately $6,237,000 for Federal income and approximately $6,431,000 for California franchise tax purposes. Net operating loss carryforwards to the extent not used will expire through 2034. Net operating loss carryforwards available are limited by Section 382 of the Internal Revenue Code and benefits not expected to be realized due to the limitation have been excluded from the deferred tax asset and net operating loss carryforward amounts noted above.

The Bank is subject to federal income tax, California franchise tax, Texas franchise tax, and Washington state tax. Federal income tax returns for the years ended on or after December 31, 2015 are open to audit by the federal authorities, California and Texas returns for the years ended on or after December 31, 2014 are open to audit by state authorities.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Financial Instruments With Off-Balance-Sheet Risk

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit. These instruments involve, to varying degrees, elements of credit in excess of the amounts recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments for these commitments is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The following is a summary of contractual or notional amount of off-balance sheet financial instruments that represent credit risk at December 31:

	2018	2017
Financial instruments whose contract amounts represents credit risks:		
Commitments to extend credit	$ 31,948,460	$ 29,473,910
Standby letters of credit	1,574,662	571,400
	$ 33,523,122	$ 30,045,310

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitment and letter of credit generally have variable rates that are tied to the prime rate. Commitments generally have fixed expiration dates of not more than 12 months and may require payment of a fee. Since many of the commitments are not expected to be drawn upon, the total commitment amounts may not represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis.

The amount of collateral obtained, if deemed necessary by the Bank upon an extension of credit, is based on management's credit evaluation. Collateral held varies, but may include marketable investment securities, accounts receivable, inventory, property, plant, and equipment, and real estate.

The Bank from time to time is subject to legal proceedings and claims arising in the ordinary course of business. The Bank, 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 Bank's financial condition or results of operations.

NOTE 10 - COMMITMENTS AND CONTINGENCIES, Continued

Lease Commitments

The Bank leases its headquarters in Garden Grove, branches in Anaheim, Los Angeles, and LPO in Dallas under operating lease agreements. The Garden Grove office lease expires in 2020, with one renewal option period of five years. The Anaheim office lease expires in 2026 with two renewal option periods of five years each. The Fullerton office lease expires in 2029 with two renewal option periods of five years each. The Los Angeles Wilshire office lease expires in 2027 with two renewal option periods of five years each. The Los Angeles Fashion District office lease expires in 2022 with two renewal option periods of five years each. The Dallas LPO lease expires in 2020 with no renewal options. The Bank is responsible for common area expenses including maintenance, taxes, and insurance. Rent expense totaled approximately $616,773 and $477,399 for the years ended December 31, 2018 and 2017, respectively.

The future annual minimum lease payments under these operating leases as of December 31, 2018, were as follows:

Year Ending	Amount
2019	$ 667,163
2020	640,071
2021	532,034
2022	558,480
2023	501,583
Thereafter	1,970,278
Total	$ 4,869,609

NOTE 11 - REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its 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 Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation approved the Basel III regulatory capital framework. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The rules also revise the regulatory capital elements, add a new common equity Tier I capital ratio, and increase the minimum Tier I capital ratio requirement. The revisions permit banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. Additionally, the rules implement a new capital conservation buffer. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the capital conservation buffer amount. 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. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0 percent for 2015, to 2.50 percent by 2019. The capital conservation buffer for 2018 is 1.875 percent. The Bank will continue to evaluate the new changes, and expects that it will meet the capital requirements.

Federal and State banking regulations place certain restrictions on dividends and other capital distributions paid to shareholders. The total amount of dividends that may be paid at any date is generally limited to the lesser of the Bank's retained earnings or net income for the last three years, subject to minimum capital requirements.

The Bank is also subject to additional capital guidelines under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum ratios of total and Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets as set forth in the table on the following page. The most recent notification from the FDIC categorized the Bank as well capitalized under these guidelines. There are no conditions or events since that notification that management believes have changed the Bank's category.

NOTE 11 - REGULATORY CAPITAL REQUIREMENTS, Continued

As of December 31, 2018 and 2017, the actual amounts and ratios of capital and the required minimum total risk-based, Tier 1 risk based, Common Equity Tier 1 risk based capital, and Tier 1 leverage ratios for capital adequacy purposes and to be categorized as well capitalized under prompt corrective action were as follows:

	Actual		Amount of Capital Required: Adequately Capitalized		Amount of Capital Required: To Be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018:						
Total Capital (to risk-weighted assets)	$ 54,597,601	18.29%	$ 23,886,789	8.0%	$ 29,858,486	10.0%
Tier 1 Capital (to risk-weighted assets)	50,861,458	17.03%	17,915,092	6.0%	23,886,789	8.0%
Common Equity Tier 1 Capital (to risk-weighted assets)	50,861,458	17.03%	13,436,319	4.5%	19,408,016	6.5%
Tier 1 Capital (to average assets)	50,861,458	12.87%	15,811,616	4.0%	17,764,520	5.0%
As of December 31, 2017:						
Total Capital (to risk-weighted assets)	$ 49,303,178	21.69%	$ 18,186,679	8.0%	$ 22,733,349	10.0%
Tier 1 Capital (to risk-weighted assets)	46,449,581	20.43%	13,640,009	6.0%	18,186,679	8.0%
Common Equity Tier 1 Capital (to risk-weighted assets)	46,449,581	20.43%	10,230,007	4.5%	14,776,677	6.5%
Tier 1 Capital (to average assets)	46,449,581	15.97%	11,634,317	4.0%	14,542,896	5.0%

Capital Offering

On August 12, 2016, the Bank commenced a private placement offering to issue up to 7,200,000 shares of its common stock at an offering price of $2.50 per share (the "2016 Offering"). The agreement allows the Bank to conduct various closings of the 2016 Offering at various times at the Bank's discretion. The effective date of the First Closing was September 30, 2016, and on that date, US Metro Bank authorized the issuance of 1,572,000 shares of its common stock at an issue price of $2.50 per share. On September 30, 2016, $3,884,000 net of offering expenses of $46,000, were transferred to the Bank's permanent capital. The effective date of the Final Closing was March 14, 2017, and on that date, US Metro Bank authorized the issuance of 6,828,000 shares of its common stock at an issue price of $2.50 per share. On March 14, 2017, $16,479,322 net of offering expenses of $590,678, were transferred to the Bank's permanent capital.

NOTE 12 - EMPLOYEE BENEFIT PLANS

401 (k) Plan

The Bank has adopted a defined 401(k) Plan for the benefit of its employees in November 2006. Under the Plan, employees will be permitted to designate a certain percentage of their pre-tax wages to be deposited into their 401(k) account. The Bank will match a portion of every dollar contributed, up to the maximum permitted by law. Enrollment to the 401(k) Retirement program is at open enrollment and after 180 days of uninterrupted service with the Bank. The Board of Directors determines contributions to the Plan annually. The Bank contributed $$241,481 to the Plan in 2018. The Bank did not contribute to the Plan in 2017.

Stock Option Plan

The Bank's 2006 Stock Option Plan was approved by its shareholders in November 2006. Under the terms of the 2006 Stock Option Plan, officers and key employees may be granted both nonqualified and incentive stock options. Directors and organizers, who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides 594,000 shares of common stock at a price not less than 100 percent of the fair market value of the stock on the date of grant. As of December 31, 2018, there were no options available for granting. Stock options expire no later than ten years from the date of the grant and generally vest over three to five years. The Plan provides for accelerated vesting if there is a change of control as defined by the Plan.

In January 2014, the Board of Directors of the Bank granted a restricted stock award for shares, which became vested in August 2017 after satisfying certain performance criteria stated in the restrictive stock award agreement. The Bank expensed $180,000 related to this award in August 2017.

The Bank's 2017 Omnibus Stock Incentive Plan was approved by its shareholders in May 2017. Under the terms of the 2017 Omnibus Stock Incentive Plan, officers, key employees and consultants of the may be granted both nonqualified and incentive stock options. Directors and organizers, who are not also an officer or an employee, may only be granted nonqualified stock options. The Plan provides 3,226,000 shares of common stock at a price not less than 100 percent of the fair market value of the stock on the date of grant. As of December 31, 2018, there were 2,776,000 options available for granting. Stock options expire no later than ten years from the date of the grant and generally vest over two to three years. The Plan provides for accelerated vesting if there is a change of control as defined by the Plan. The Bank granted 450,000 stock options in 2017. There were no stock options granted in 2018.

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.

	2017
Dividend yield	0.00%
Expected life	3.0 Years
Expected volatility	33.13%
Risk-free interest rate	1.51%
Weighted average grant date fair value	$ 0.72

NOTE 12 - EMPLOYEE BENEFIT PLANS, Continued

Since the Bank has a limited amount of historical stock activity, the expected volatility is based on the historical volatility of similar banks that have a longer trading history. The expected term represents the estimated average period of time that the options remain outstanding. Since the Bank does not have sufficient historical data on the exercise of stock options, the expected term is based on the "simplified" method that measures the expected term as the average of the vesting period and the contractual term. The risk free rate of the return reflects the grant date interest rate offered for zero coupon U.S. Treasury bonds over the expected term of the options.

A summary of the status of the Bank's stock option plan as of December 31, 2018 and 2017, and changes during the year ending is presented below:

	2018			**2017**		
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of year	940,000	$ 2.61		520,000	$ 2.29	
Granted	-	-		450,000	2.95	
Forfeitures	-	-		(30,000)	2.00	
Outstanding at end of year	940,000	$ 2.61	7.98 Years	940,000	$ 2.61	8.98 Years
Options exercisable	840,002	$ 2.60	7.94 Years	810,000	$ 2.59	8.92 Years

The Bank recognized share-based compensation costs of $33,000 in 2018, and $275,829 in 2017. The Bank did not recognize any income tax benefits related to share-based compensation in 2018 and 2017. As of December 31, 2018, there was $38,000 in unrecognized share-based compensation, which will be recognized over 1.75 years. The aggregate intrinsic value of stock options outstanding and exercisable at December 31, 2018 was $863,500 and $792,902, respectively. The aggregate intrinsic value of stock options outstanding and exercisable at December 31, 2017 was $1,681,300 and $1,467,600, respectively.

NOTE 13 - RELATED PARTY TRANSACTIONS

As of December 31, 2018 and 2017, the Bank's balance sheet included deposits from executive officers and directors totaling $11,885,948 and $12,498,417, respectively, and loans to executive officers and directors, which are detailed below:

	2018	2017
Outstanding balance, beginning of year	$ -	$ 1,247,004
Loans (repayments)	570,000	(1,247,004)
Outstanding balance, end of year	$ 570,000	$ -

In management's opinion, the terms and conditions associated with these arrangements are comparable to those of transactions with unaffiliated parties.

NOTE 14 - FAIR MARKET VALUE

Fair value measurements, establishes a fair value hierarchy, which requires an entity to maximize the use of observable input and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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 reporting entity's own assumptions about the assumptions that market participants would use pricing an asset and liability.

The Bank had no financial instruments measured at fair value on a recurring basis as of December 31, 2018 and 2017.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Financial Assets

The carrying amounts of cash, short-term investments due from customers on acceptance and Bank acceptances outstanding are considered to approximate fair value. Short-term investments include Federal funds sold, securities purchased under agreements to resell, and interest-bearing deposits with other financial institutions. Loans held-for-sale is reported at the lower of cost or market. Fair value is determined based on quotes, bids, or indications from potential purchasing institutions. The fair values of loans are based on the exit price notion set forth by ASU 2016-01 effective January 1, 2018 and estimated using discounted cash flow analyses. The estimation of fair values of loans results in a Level 3 classification as it requires various assumptions and considerable judgement to incorporate factors relevant when selling loans to market participants, such as funding costs, return requirements of likely buyers and performance expectations of the loans given the current market environment and quality of loans. Estimated fair value of loans carried at cost at December 31, 2017 were based on an entry price notion. The fair value of non-performing loans is estimated at the fair value of the related collateral or, when, in management's opinion, foreclosure upon the collateral is unlikely, by discounting future cash flows using rates that take into account management's estimate of excess credit risk.

Financial Liabilities

The carrying amounts of deposit liabilities payable on demand, and other borrowed funds are considered to approximate fair value. For fixed maturity deposits, fair value is estimated by discounting estimated future cash flows using currently offered rates for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates fair value

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 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

Off-Balance Sheet Financial Instruments, Continued

The following table represents fair values of financial instruments at December 31, 2018:

2018	Carrying Amount	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets				
Cash and due from banks	$ 12,194,423	$ 12,194,423	$ -	$ -
Interest-bearing balances with other financial institutions	80,881,679	80,881,679	-	-
Federal Home Loan Bank stock	1,069,900	-	1,069,900	-
Loans held for sale	994,584	1,071,166	-	-
Loans, net	284,636,625	-	-	285,535,767
Loan servicing rights	3,014,345	-	4,203,137	-
Accrued interest receivable	1,105,281	1,105,281	-	-
Liabilities				
Demand deposits	69,063,049	69,063,049	-	-
Interest-bearing deposits	263,734,460	105,038,241	158,546,447	-
Accrued interest payable	874,814	874,814	-	-
FHLB Borrowings	1,500,000	1,500,000	-	-

The following table represents fair values of financial instruments at December 31, 2017:

2017	Carrying Amount	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets				
Cash and due from banks	$ 13,380,570	$ 13,380,570	$ -	$ -
Interest-bearing balances with other financial institutions	87,123,766	87,123,766	-	-
Federal Home Loan Bank stock	707,800	-	707,800	-
Loans held for sale	6,416,627	7,135,642	-	-
Loans, net	208,756,372	-	-	238,076,481
Loan servicing rights	3,315,362	-	4,258,977	-
Accrued interest receivable	836,573	836,573	-	-
Liabilities				
Demand deposits	54,353,304	54,353,304	-	-
Interest-bearing deposits	214,737,934	121,757,133	92,767,775	-
Accrued interest payable	234,564	234,564	-	-
FHLB Borrowings	6,500,000	6,500,000	-	-

NOTE 16 – EARNINGS PER SHARE ("EPS")

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

	2018		2017	
	Income	Shares	Income	Shares
Net income as reported	$ 4,033,909		$ 6,699,560	
Shares outstanding		16,230,000		16,230,000
Impact of weighting shares		-		(1,429,436)
Used in basic EPS	4,033,909	16,230,000	6,699,560	14,800,564
Dilutive effect of outstanding stock options		316,510		102,646
Used in dilutive EPS	$ 4,033,909	16,546,510	$ 6,699,560	14,903,210

There were no anti-dilutive stock options in 2018. Stock options for 450,000 shares of common stock were not considered in computing diluted earnings per share in 2017 because they were anti-dilutive.