Report of Independent Auditors
and Financial Statements

Bank of Napa, N.A.

December 31, 2014 and 2013

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Bank of Napa, N.A.
Napa, California

Report on Financial Statements

We have audited the accompanying financial statements of Bank of Napa, N.A., which comprise the statements of condition as of December 31, 2014 and 2013, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 Bank of Napa, N.A. as of December 31, 2014 and 2013, 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.

Moss Adams LLP

Sacramento, California
March 30, 2015

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

BANK OF NAPA, N.A.

ASSETS

	DECEMBER 31, 2014	DECEMBER 31, 2013
Cash and due from banks	$ 4,513,051	$ 4,374,253
Interest bearing correspondent deposits	5,001,486	5,001,486
Federal funds sold	4,488,000	6,344,000
Total cash and cash equivalents	14,002,537	15,719,739
Investment securities, available-for-sale	55,503,786	46,007,402
Loans, net of deferred costs	103,431,708	99,159,246
Allowance for loan losses	(1,710,523)	(1,562,071)
Loans, net	101,721,185	97,597,175
Premises and equipment, net	580,089	252,881
Correspondent bank stock, at cost	1,444,039	1,255,311
Bank owned life insurance	4,442,465	3,323,954
Interest receivable and other assets	1,640,456	2,341,503
Total assets	$ 179,334,557	$ 166,497,965

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:		
Deposits:		
Non-interest bearing demand	$ 43,901,174	$ 36,847,271
Interest bearing demand	23,958,745	20,977,696
Money market	47,227,900	44,876,082
Savings	6,176,808	4,448,845
Time, less than $250,000	26,314,782	29,574,643
Time, $250,000 or more	7,649,285	7,434,023
Total deposits	155,228,694	144,158,560
Interest payable and other liabilities	911,685	899,875
Total liabilities	156,140,379	145,058,435
Commitments and contingencies (Note 10)		
Stockholders' Equity:		
Common stock - 30,000,000 shares authorized, $5.00 par value, 2,288,884 issued and outstanding at December 31, 2014 and 2013	11,442,233	11,442,233
Additional paid in capital	12,309,046	12,262,193
Accumulated deficit	(680,827)	(1,926,614)
Accumulated other comprehensive income (loss)	123,726	(338,282)
Total stockholders' equity	23,194,178	21,439,530
Total liabilities and stockholders' equity	$ 179,334,557	$ 166,497,965

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

	YEARS ENDED DECEMBER 31, 2014	2013
INTEREST INCOME		
Interest and fees on loans	$ 5,219,698	$ 4,989,058
Interest on investment securities	1,180,646	1,054,711
Interest on Federal funds sold	5,955	9,138
Other interest income	16,951	15,433
Total interest income	6,423,250	6,068,340
INTEREST EXPENSE		
Interest on deposits	362,808	362,626
Interest on other borrowings	-	1,007
TOTAL INTEREST EXPENSE	362,808	363,633
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	6,060,442	5,704,707
Provision for loan losses	84,426	121,412
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,976,016	5,583,295
NON-INTEREST INCOME		
Gain on sale of securities	66,582	55,184
Service charges	157,716	146,169
Earnings on cash surrender value of life insurance	118,511	92,658
Other non-interest income	156,651	137,563
TOTAL NON-INTEREST INCOME	499,460	431,574
NON-INTEREST EXPENSE		
Salaries and benefits	2,671,203	2,669,437
Occupancy	518,115	467,901
Professional services	222,698	219,672
Data processing	406,051	345,618
Marketing	99,043	98,820
Other expenses	504,579	429,438
TOTAL NON-INTEREST EXPENSE	4,421,689	4,230,886
INCOME BEFORE INCOME TAXES	2,053,787	1,783,983
Provision (Benefit) for income taxes	808,000	(142,500)
NET INCOME	$ 1,245,787	$ 1,926,483
NET INCOME PER BASIC SHARE	$ 0.54	$ 0.84
NET INCOME PER DILUTED SHARE	$ 0.54	$ 0.83

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

	Years Ended December 31,	
	2014	2013
Net income	$ 1,245,787	$ 1,926,483
Other comprehensive income (loss):		
Net unrealized gains (losses) on investment securities	851,642	(1,130,047)
Less: reclassification adjustment for gain included in net income	(66,582)	(55,184)
Other comprehensive income (loss) before taxes	785,060	(1,185,231)
Tax benefit	(323,052)	236,538
Other comprehensive income (loss)	462,008	(948,693)
Total comprehensive income	$ 1,707,795	$ 977,790

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

BANK OF NAPA, N.A.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance at December 31, 2012	2,288,884	$ 11,442,233	$ 12,202,783	$ (3,853,097)	$ 610,411	$ 20,402,330
Stock-based compensation			59,410			59,410
Net income				1,926,483		1,926,483
Other comprehensive loss					(948,693)	(948,693)
Balance at December 31, 2013	2,288,884	$ 11,442,233	$ 12,262,193	$ (1,926,614)	$ (338,282)	$ 21,439,530
Stock-based compensation			46,853			46,853
Net income				1,245,787		1,245,787
Other comprehensive income					462,008	462,008
Balance at December 31, 2014	2,288,884	$ 11,442,233	$ 12,309,046	$ (680,827)	$ 123,726	$ 23,194,178

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

	2014	2013
OPERATING ACTIVITIES		
Net income	$ 1,245,787	1,926,483
Adjustments to reconcile net income to net cash		
used by operating activities:		
Depreciation and amortization	104,316	129,627
Amortization and accretion on securities, net	453,898	364,752
Increase in cash surrender value of bank owned life insurance	(118,511)	(92,656)
Gain on sale of securities	(66,582)	(55,184)
Provision for loan losses	84,426	121,412
Stock based compensation expense	46,853	59,410
Net change in deferred tax asset	464,000	(151,500)
Net change in interest receivable and other assets	(86,005)	52,714
Net change in interest payable and other liabilities	11,810	141,055
NET CASH FROM OPERATING ACTIVITIES	2,139,992	2,496,114
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(19,249,949)	(18,946,505)
Proceeds of matured, sold and called securities available-for-sale	7,824,518	7,196,785
Principal paydowns on mortgage backed securities	2,326,791	2,255,991
Net change in loans	(4,208,436)	(11,616,926)
Purchase of premises and equipment	(431,524)	(20,233)
Purchase of bank owned life insurance	(1,000,000)	-
Purchase of correspondent bank stock	(188,728)	(41,940)
NET CASH USED BY INVESTING ACTIVITIES	(14,927,328)	(21,172,827)
FINANCING ACTIVITIES		
Net changes in demand, money market and savings deposits	14,114,733	10,294,789
Net changes in time deposits	(3,044,599)	5,100,818
NET CASH PROVIDED BY FINANCING ACTIVITIES	11,070,134	15,395,607
DECREASE IN CASH AND CASH EQUIVALENTS	(1,717,202)	(3,281,106)
Cash and cash equivalents at beginning of year	15,719,739	19,000,845
Cash and cash equivalents at end of the period	$ 14,002,537	$ 15,719,739
Supplemental disclosures of cash flow information:		
Interest paid	$ 372,908	$ 365,759
Income taxes paid	$ 331,500	$ 9,500
Supplemental disclosure of noncash activities:		
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	$ 462,008	$ (948,693)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Bank of Napa, N.A. (the "Bank") conform to accounting principles generally accepted in the United States of America and general practices within the banking industry. A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

The Bank operates through a main office located at 2007 Redwood Road, Suite 101 in Napa, California and a full service location at 1715 Second St. in Napa, California. The Second St. location opened on January 20, 2015. The Bank's business banking focus is on small to medium sized businesses, professionals and not-for-profit organizations. The Bank offers a broad range of commercial and retail lending programs designed to meet the needs of its target markets. These include commercial loans and lines of credit, construction financing, consumer loans, auto loans, home improvement loans and home equity lines of credit. The Bank offers a proprietary Visa credit card combined with a rewards program to its customers, which includes a Business Visa program for business and professional customers.

The Bank attracts deposit relationships from individuals, merchants, small-to-medium sized businesses, not-for-profit organizations and professionals who live and/or work in Napa County. The Bank does not directly offer international banking services, but does make such services available to its customers through other financial institutions with whom the Bank has correspondent banking relationships.

Estimates – In preparing financial statements in conformity with Generally Accepted Accounting Principles (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates. The allowance for loan losses is the most significant accounting estimate reflected in the Bank's financial statements.

Other significant management judgments and accounting estimates reflected in the Bank's financial statements include:

- Decisions regarding the timing and placement of loans on non-accrual;
- Determination, recognition, and measurement of impaired loan;
- Determination and evaluation of deferred tax assets and liabilities;
- Determination of other than temporary impairment (OTTI) of securities; and
- Determination of fair values of financial instruments and fair value measurements.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents - Cash and cash equivalents include cash on hand, amounts due from banks, money market funds, and federal funds sold. Generally, federal funds are sold for one-day periods. The Bank maintains the minimum required amount of funds on deposit with other federally insured financial institutions under correspondent banking agreements. Generally, banks are required to maintain noninterest bearing cash reserves equal to a percentage of certain deposits. For the year ended December 31, 2014 and 2013, no reserve balance was required.

Investment securities - Investment securities consist of U.S. agency securities and obligations of states and political subdivisions, corporate securities, mortgage-backed securities and other securities. At the time of purchase of a security, the Bank designates the security as held-to-maturity or available-for-sale, based on its investment objectives, operational needs, and intent to hold. The Bank does not purchase securities with the intent to engage in trading activity. Held-to-maturity securities are recorded at amortized cost, adjusted for amortization of premiums or accretion of discounts. The Bank did not have any investments in the held-to-maturity portfolio at December 31, 2014 or 2013. Securities available-for-sale are recorded at fair value with unrealized holding gains or losses, net of the related tax effect, reported as a separate component of stockholders' equity until realized.

Amortization of premiums and accretion of discounts on debt securities are included in interest income over the life of the related security held-to-maturity or available-for-sale using the effective interest method. Dividend and interest income are recognized when earned.

Realized gains and losses for securities classified as available-for-sale and held-to-maturity are included in results of operations and are derived using the specific identification method for determining the cost of securities sold.

Other than temporary impairment - Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed interest rate investments, from rising interest rates. At each financial statement date, management assesses each investment to determine if impaired investments are other than temporarily impaired. This assessment includes a determination of whether the Bank intends to sell the security, or if it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis. A decline in the fair value of any security available-for-sale or held-to-maturity below cost that is deemed other than temporary results in a charge to results of operations and the corresponding establishment of a new cost basis for the security. For debt securities that are considered other than temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the amount of impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in results of operations and is calculated as the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of the future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive income. For debt securities that are considered other than temporarily impaired that

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the Bank intends to sell or be required to sell, the full amount of other than temporary impairment will be charged against current period earnings.

Correspondent bank stock – The Bank is a member of the Federal Home Loan Bank (FHLB) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. As of, December 31, 2014 and December 31, 2013, the Bank held stock in the FHLB totaling $712,100 and $574,200, respectively. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long term investment, impairment is based on ultimate recovery of par value. As of December 31, 2014 and December 31, 2013, the Bank did not recognize an impairment charge related to the Bank's FHLB stock holdings; however, future negative changes to the financial condition of the FHLB may require the Bank to recognize an impairment charge with respect to such stock holdings. Both cash and stock dividends are reported as income.

The Bank is also member of the Federal Reserve Bank (FRB). FRB stock is carried at cost, classified as a restricted security, periodically evaluated for impairment, and cash dividends are reported as income. As of December 31, 2014 and 2013 the Bank held stock in the FRB totaling $672,850 and $623,450, respectively. As of December 31, 2014 and 2013, FRB stock was not considered impaired.

FHLB and FRB stock is included in correspondent bank stock on the statements of condition. The remaining balance in the correspondent bank stock on the statements of condition includes TIB, The Independent Bankers Bank (TIB) stock of $59,089 and $57,661 as of December 31, 2014 and December 31, 2013, respectively. TIB stock is carried at cost and was not considered impaired as of December 31, 2014 and 2013.

Loans and allowance for loan losses – Loans are reported at the principal amount outstanding, net of deferred loan fees and costs, and the allowance for loan losses. Interest on loans is calculated by using the simple interest method on the daily balance of the principal amount outstanding. Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full and timely collection of interest or principal or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible. Accrual of interest is discontinued on troubled debt restructures until such time that, in the judgment of management, the loans are estimated to be fully collectible. Management will require a period of sustained performance of at least six months payments on a troubled debt restructure prior to putting the loan back on an accrual status. A loan that is more than 90 days delinquent may continue to accrue interest if the loan is well collateralized and in process of collection or renegotiation.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and allowance for loan losses (continued) – The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans, based on evaluations of collectability and prior loss experience of loans. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

The allowance for loan losses includes charges to reduce the recorded balances of loans receivable to their estimated net realizable value. The allowance is based on estimates, and ultimate losses may vary from current estimates. The Bank provides for probable losses on loans receivable inherent in the loan portfolio as of the financial reporting date. These estimates for losses are based on individual assets and their related cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. Although management of the Bank believes the estimates underlying the calculation of specific allowances are reasonable, there can be no assurance that the Bank could ultimately realize these values. In addition to providing valuation allowances on specific assets where a decline in value has been identified, the Bank establishes general valuation allowances for losses based on the overall portfolio composition, general market conditions, concentrations, and prior loss experience.

Impaired loans are measured based on the present value of expected future cash flows discounted at the respective loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. The Bank considers a loan impaired when it is probable that all amounts of principal and interest due, according to the contractual terms of the loan agreement, will not be collected, which is the same criteria used for the transfer of loans to non-accrual status. Interest income is recognized on impaired loans in the same manner as non-accrual loans.

Loans are considered to be troubled debt restructures (TDR's) when the Bank grants concessions to borrowers' who are experiencing financial difficulties. TDR's are considered to be impaired loans and are measured for impairment using a methodology consistent with that noted above.

Premises and equipment – Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

The estimated lives used in determining depreciation and amortization are:

Furniture, fixtures and equipment	2 – 7 years
Data processing and computers	2 – 7 years

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and equipment (continued) - Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease. The straight-line method of depreciation is followed for all assets for financial reporting purposes, but accelerated methods are used for tax purposes.

Bank owned life insurance (BOLI) - Bank owned life insurance is recorded at the cash surrender value of the insurance. The cash surrender value is updated quarterly. Earnings on life insurance policies are reflected on the statements of income as a component of other non-interest income.

Income taxes - The Bank uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (temporary differences). Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes in the period of enactment. A valuation allowance is established to the extent that it is not more likely than not, that the benefits associated with the deferred tax assets will be fully realized.

The Bank files income tax returns in the U.S. federal jurisdiction, and with the state of California. The Bank is not subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2010. The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2014 and 2013 the Bank recognized no interest and penalties. The Bank had no unrecognized tax benefits at December 31, 2014 or December 31, 2013.

Stock based compensation - The Bank adopted an Equity Incentive Plan to grant both incentive and non-qualified stock options to its organizers, directors, consultants, executive officers and employees. The Bank has reserved 388,000 shares of common stock for issuance under the Equity Incentive Plan. The Bank is required to measure the cost of employee services received in exchange for an award of equity instruments. The cost is determined based on the fair value of the award on the grant date. That cost must be recognized in the statements of income over the service period of the award. Management estimates the fair value of each option award as of the date of the grant using a Black-Scholes-Merton option pricing formula. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U. S. Treasury yield curve in effect at the time of the grant. Bank of Napa stock has limited liquidity and limited trading activity. Volatility was calculated using peer data and consideration of the Bank's own stock volatility. Calculations derived from a historical data bank of daily stock prices were updated through December 31, 2014. Financial institutions included in the Bank's evaluation of stock volatility have had readily accessible historical "adjusted" stock prices - either traded on a recognized exchange or consistently listed over the counter.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers of financial assets - The Bank has entered into certain participation agreements with other organizations. The Bank accounts for these transfers of financial assets as sales when control over the transferred financial assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee has the right to pledge or exchange the assets (or beneficial interests) it received, free of conditions that constrain it from taking advantage of that right, and (3) the Bank does not maintain effective control over the transferred financial assets or third-party beneficial interests related to those transferred assets. No gain or loss has been recognized by the Bank on the sale of these interests through December 31, 2014 or 2013.

Advertising costs - Advertising costs are expensed as incurred. For the years ended December 31, 2014 and December 31, 2013 advertising costs were approximately $99,000 and $99,000, respectively.

Comprehensive income - Comprehensive income includes net income reported on the statements of income and changes in the fair value of investment securities available for sale, net of related taxes, on the statements of comprehensive income and reported as a component of stockholders' equity.

Net income per common share - Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock such as stock options, result in the issuance of common stock which share in the earnings of the Bank. The treasury stock method is applied to determine the dilutive effect of stock options in computing dilutive earnings per share. For the year ended December 31, 2014, 111,500 stock options were excluded from the dilutive earnings per share calculation because those options were anti-dilutive. For the year ended December 31, 2013, 115,500 options were excluded from the dilutive earnings per share calculation because those options were anti-dilutive.

	TWELVE MONTHS ENDED DECEMBER 31,	
	2014	2013
Net income	$ 1,245,787	$ 1,926,483
Weighted average shares used in computing:		
Basic earnings per share	2,288,884	2,288,884
Effect of dilutive securities	28,552	23,154
Total average shares and equivalents	2,317,436	2,312,038
Basic EPS	$ 0.54	$ 0.84
Diluted EPS	$ 0.54	$ 0.83

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent accounting pronouncements – In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists*. The amendments in this standard clarify that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the applicable jurisdiction does no require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. For the Bank the amendments in the Update are effective beginning in the first quarter 2014 and did not have a significant impact on the Bank's financial condition or results of operations.

In January 2014, the FASB issued ASU 2014-04 , *Receivables – Troubled Debt Restructurings by Creditors.* This ASU provides guidance for situation when a creditor obtains collateral assets in satisfaction of all or part of the receivable due. Current guidance indicates that a creditor should reclassify a collateralized mortgage loan so that the loan should be de-recognized and the collateral asset shall be recognized in situations where a repossession or foreclosure has occurred. However, in substance where a repossession or foreclosure and physical possession is not currently defined and there is diversity about when a creditor should de-recognize the loan and recognize the real estate. This ASU clarifies when an in substance repossession or foreclosure occurs. This ASU is effective, for annual and interim periods, beginning after December 15, 2014. The Bank does not expect this ASU to have a significant impact on the Bank's financial condition or results of operations.

NOTE 2 – CASH AND DUE FROM BANKS

At December 31, 2014 the Bank had cash deposits at other financial institutions in excess of the FDIC insured limits. However, as the Bank places these deposits with major well-capitalized financial institutions and management monitors these institutions on a quarterly basis, management believes the risk of loss to be minimal.

NOTE 3 – INVESTMENT SECURITIES

Management evaluates securities in an unrealized loss position for other-than-temporary impairment on a monthly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or until maturity. Additionally, the Bank assesses whether the Bank intends to sell the security or if it is more likely than not that the Bank will not be required to sell the security before recovery of the amortized cost basis. The Bank does not have the intent to sell the securities that are temporarily impaired, and it is more likely than not that the Bank will not have to sell those securities before recovery of the cost basis. Additionally, the Bank has evaluated the credit ratings of the Bank's investment securities and their issuers. Based on the Bank's evaluation, management does not believe that any security in the portfolio is other-than temporarily impaired.

The Bank's investment securities are reflected in the tables below:

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agency securities	$ 4,515,215	$ 4,939	$ (39,085)	$ 4,481,069
Municipal securities	30,444,650	418,564	(75,159)	30,788,055
Corporate securities	5,297,378	3,031	(33,014)	5,267,395
Mortgage backed securities	15,036,303	136,926	(205,962)	14,967,267
	$ 55,293,546	$ 563,460	$ (353,220)	$ 55,503,786

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agency securities	$ 2,996,767	$ -	$ (98,375)	$ 2,898,392
Municipal securities	23,121,459	165,392	(292,486)	22,994,365
Corporate securities	5,265,415	22,502	(51,831)	5,236,086
Mortgage backed securities	15,198,581	54,565	(374,587)	14,878,559
	$ 46,582,222	$ 242,459	$ (817,279)	$ 46,007,402

During the twelve months ended December 31, 2014, the Bank received proceeds in the amount of $2,519,518 from the sale of municipal securities. The Bank realized gross gains on the sales in the amount of $66,582. During the twelve months ended December 31, 2013, the Bank received proceeds in the amount of $2,236,785 from the sale of municipal securities. The Bank realized gross gains on the sales in the amount of $55,184. No realized losses were recognized in 2014 or 2013.

NOTE 3 – INVESTMENT SECURITIES (CONTINUED)

The following table summarizes securities in an unrealized loss position for less than 12 consecutive months as of December 31, 2014 and 2013:

December 31, 2014	**< 12 continuous months**		
	Estimated Fair Value	**Unrealized Loss**	**Number of Securities**
U.S. Government agency securities	$ 507,165	$ (1,516)	1
Municipal securities	5,429,563	(35,624)	11
Corporate securities	2,094,515	(15,703)	4
Mortgage backed securities	3,545,331	(45,832)	5
	$ 11,576,574	$ (98,675)	21

December 31, 2013	**< 12 continuous months**		
	Estimated Fair Value	**Unrealized Loss**	**Number of Securities**
U.S. Government agency securities	$ 1,959,341	$ (38,788)	6
Municipal securities	10,267,600	(167,893)	19
Corporate securities	3,193,905	(51,831)	6
Mortgage backed securities	8,720,248	(219,785)	7
	$ 24,141,094	$ (478,297)	38

The following table summarizes securities in an unrealized loss position for more than 12 consecutive months as of December 31, 2014 and 2013:

December 31, 2014	**> 12 continuous months**		
	Estimated Fair Value	**Unrealized Loss**	**Number of Securities**
U.S. Government agency securities	$ 4,593,433	$ (37,569)	4
Municipal securities	1,988,800	(39,535)	4
Corporate securities	1,668,570	(17,311)	3
Mortgage backed securities	1,606,165	(160,130)	5
	$ 9,856,968	$ (254,545)	16

December 31, 2013	**> 12 continuous months**		
	Estimated Fair Value	**Unrealized Loss**	**Number of Securities**
U.S. Government agency securities	$ 939,052	$ (59,587)	3
Municipal securities	3,026,329	(124,593)	6
Corporate securities	-	-	-
Mortgage backed securities	1,745,156	(154,802)	1
	$ 5,710,537	$ (338,982)	10

NOTE 3 – INVESTMENT SECURITIES (CONTINUED)

Securities in an unrealized loss position as of December 31, 2014, consist of U.S Government agency securities, municipal securities, corporate securities and mortgage backed securities. The securities in an unrealized loss position were in that position due to significant changes in the treasury yield curve during 2014 and 2013. In determining that no security was other than temporarily impaired each security was individually evaluated for impairment.

The amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2014 are shown below. Under certain interest rate environments, some, or all of these securities may be called for redemption by their issuers prior to scheduled maturities.

	December 31, 2014	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 7,674,074	$ 7,692,679
Due from one year to five years	30,530,801	30,667,787
Due from five years to ten years	15,401,493	15,413,816
Due after ten years	1,687,178	1,729,504
	$ 55,293,546	$ 55,503,786

Securities may be pledged to meet collateral requirements imposed as a condition of receipt of deposits of public funds and other purposes. At December 31, 2014 and 2013, the total estimated fair value of securities pledged was $1.6 million and $1.6 million, respectively, at the Federal Reserve Bank, to provide for any future borrowing needs.

NOTE 4 – LOANS

Loan Origination/Risk Management – The Bank has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. Management also maintains a monthly reporting system related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. The Bank manages risk in economic conditions in part by maintaining a diversified loan portfolio.

Commercial Real Estate Loans – The Bank makes commercial real estate loans. Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type. Construction loans are loans where the loan proceeds are controlled by the Bank and used exclusively for the improvement of real estate in which the Company holds a mortgage. Due to the inherent risk in this type of loan, construction loans are subject to industry specific policy guidelines contained in the Bank's Loan Policy and are closely monitored.

NOTE 4 – LOANS (CONTINUED)

Commercial and Industrial Loans – Commercial credit is extended primarily to small businesses. Such credits typically comprise working capital loans, loans for physical asset expansion, asset acquisition loans and other business loans. Loans to closely held businesses will generally be guaranteed in full or for a meaningful amount by the businesses major owners. Commercial loans are made primarily on the historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Minimum standards and underwriting guidelines have been established for all commercial loan types.

Agricultural Loans – Agricultural loans are loans to business secured by agricultural real estate. Agricultural loans are generally lines of credit used for working capital. Repayments on agricultural loans are largely dependent on the successful operation of the property.

Residential Real Estate & Consumer – The Bank originates secured and unsecured consumer loans. Borrowers are evaluated including debt to income ratios, credit history, and type of collateral and collateral value. Consumer loans include residential real estate and home equity lines and loans. Consumer real estate loans are evaluated on several categories including the prospective borrower's debt to income ratios, credit history, and type of collateral and collateral value.

Credit Review – The Bank hires an outside loan review consultant who reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by credit personnel, as well as the Bank's policies and procedures.

Concentrations of Credit – Most of the Bank's lending activity occurs within Napa County, California. The majority of the Bank's loan portfolio consists of commercial real estate, commercial and home equity loans. As of December 31, 2014 and 2013 there were no concentrations of loans related to any single industry in excess of 10% of total loans.

Major categories of loans at December 31, 2014 and 2013 are as follows:

	December 31, 2014		December 31, 2013	
	Amount	Percent of Total	Amount	Percent of Total
Agricultural	$ 5,392,167	5.2%	$ 1,685,605	1.7%
Commercial and industrial	15,759,500	15.4%	19,385,057	19.6%
Commercial real estate	68,042,717	66.1%	61,809,176	62.6%
Residential real estate & consumer	13,785,824	13.4%	15,815,312	16.0%
Total gross loans	102,980,208	100%	98,695,150	100%
Deferred loan costs	451,500		464,096	
Allowance for loan losses	(1,710,523)		(1,562,071)	
Net loans	$ 101,721,185		$ 97,597,175	

NOTE 4 – LOANS (CONTINUED)

Non-Accrual and Past Due Loans – Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be place on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of the principal due. Loans may be returned to accrual status when all the principal and interest amount contractually due are brought current and future payments are reasonably assured. Year-end non-accrual loans, segregated by class of loans, were as follows:

	12/31/2014	12/31/2013
Commercial real estate		
Buildings	$ -	$ 518,050
Total	$ -	$ 518,050

Had non-accrual loans performed in accordance with their original contract terms, the Bank would have recognized additional interest income of approximately $25,200 for the period ended December 31, 2013.

NOTE 4 – LOANS (CONTINUED)

An age analysis of past due loans, segregated by class of loans, as of December 31, 2014 and 2013, were as follows:

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Recorded Investment > 90 Days and Accruing
Agriculture	$ -	$ -	$ -	$ -	$ 5,392,167	$ 5,392,167	$ -
Commercial and industrial	-	-	-	-	15,759,500	15,759,500	-
Commercial real estate							
Land & construction	-	-	-	-	1,280,473	1,280,473	-
Buildings	-	-	-	-	66,762,244	66,762,244	-
Residential Real Estate & Consumer							
Consumer - home equity lines	-	-	-	-	11,683,171	11,683,171	-
Consumer - other	2,400	-	-	-	2,100,253	2,102,653	
Total	$ 2,400	$ -	$ -	$ -	$ 102,977,808	$ 102,980,208	$ -

December 31, 2013	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Recorded Investment > 90 Days and Accruing
Agriculture	$ -	$ -	$ -	$ -	$ 1,685,605	$ 1,685,605	$ -
Commercial and industrial	-	-	82,510	82,510	19,302,547	19,385,057	82,510
Commercial real estate							
Land & construction	-	-	-	-	719,982	719,982	-
Buildings	-	-	-	-	61,089,194	61,089,194	-
Residential Real Estate & Consumer							
Consumer - home equity lines	-	-	-	-	12,676,431	12,676,431	-
Consumer - other	-	-	-	-	3,138,881	3,138,881	
Total	$ -	$ -	$ 82,510	$ 82,510	$ 98,612,640	$ 98,695,150	$ 82,510

As of December 31, 2014, the Bank had no loans past due more than 90 days. As of December 31, 2013 the Bank had one loan past due more than 90 days. This loan was an Small Business Administration (SBA) loan where the Bank purchases only the guaranteed portion of the loan from the SBA. Return of the Bank's principle is guaranteed under its agreement with the SBA.

Impaired Loans – Loans are considered impaired when, based on current information and events, it is probable the Bank will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impaired loans also include loans that have been modified in a troubled debt restructuring (TDR), where concessions have been granted to borrowers experiencing financial difficulties. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, 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. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

NOTE 4 – LOANS (CONTINUED)

Year-end impaired loans are set forth in the following table. Interest income was recognized on impaired loans if repayment of principal was reasonably assured. No interest income was recognized on a cash basis for the years ended December 31, 2014 or 2013.

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Residential real estate - consumer other	$ 88,927	$ 88,927	$ -	$ 89,733	$ 5,914
Commercial real estate - buildings	1,865,441	1,865,441	-	1,883,332	126,855
With an allowance recorded					
Commercial real estate - buildings	447,012	447,012	26,332	454,758	17,613
Total	$ 2,401,380	$ 2,401,380	$ 26,332	$ 2,427,823	$ 150,381

December 31, 2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Residential real estate - consumer other	$ 90,663	$ 90,663	$ -	$ 91,409	$ 6,024
With an allowance recorded					
Commercial real estate - buildings	981,490	1,035,589	55,082	1,048,842	20,853
Total	$ 1,072,153	$ 1,126,252	$ 55,082	$ 1,140,251	$ 26,877

Troubled Debt Restructurings – The restructuring of a loan is considered a "troubled debt restructuring" if (a) the borrower is experiencing financial difficulties *and* (b) the creditor has granted a concession. Concessions may include interest rate reductions, below market interest rates, principal forgiveness, term alteration, changes in amortization schedules or other actions intended to minimize potential losses. There were no payment defaults on troubled debt restructures for the years ending December 31, 2014, or 2013. There were no troubled debt restructurings entered into during 2014 or 2013. The outstanding balance of troubled debt restructures totaled $518,050 as of December 31, 2013. All restructured loans that were outstanding as of December 31, 2013 remained on non-accrual status as of December 31, 2013. The loan classified as a troubled debt restructure as of December 31, 2013, was paid in full by December 31, 2014.

NOTE 4 – LOANS (CONTINUED)

Credit Quality Indicators – As part of the on-going monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators including trends related to (i) the weighted-average risk grade of commercial loans, (ii) the level of classified commercial loans, (iii) net charge offs (iv) non-performing loans (see details above) and (v) the general economic conditions.

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. Loans are graded on scale of 1 – 8. Classes one (1) through four (4) are considered pass credits. A description of the general characteristics of the 8 risk grades is as follows:

- Class 1 – Premier - Credit is to the highest quality borrower with unquestioned financial standing. Class 1 credits are considered Pass credits in the following table.
- Class 2 – High Quality - Credits to borrowers with above average credit strength. The borrower is not quite as strong as those categorized as Risk Grade 1. This might be due to less liquidity, equity and length of time in business. Borrower has consistent earnings and a clear credit history and without any apparent weakness, and able to sustain minor, negative market fluctuations, but might be challenged by any major setbacks. Class 2 credits are considered Pass credits in the following table.
- Class 3 – Satisfactory Quality - Credits to borrowers with identified primary and secondary sources of repayment who demonstrate fundamentally sound, financial strength and debt-servicing capacity. The borrower does not present an abnormal risk to the Bank, and does not have any collateral, control or documentation weakness that would impact the Bank's position. Class 3 credits are considered Pass credits in the following table.
- Class 4 – Watch - Credits that have possible, emerging problems that require special attention. These credits are of higher quality than those graded 5, 6 or 7, but have been identified as having emerging weaknesses that could have a negative impact on the borrower's ability to repay the Bank in a timely manner. The weakness may be attributed to technical deficiencies due to improperly documented loans, delays in providing financial reports, non-compliance with loan agreement covenants or aging reports not being provided in a timely manner. Class 4 credits are considered pass credits in the following table.
- Class 5 – Special Mention - A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special Mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.
- Class 6 – Substandard - A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.

NOTE 4 – LOANS (CONTINUED)

- Class 7 – Doubtful - An loan classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans.
- Class 8 – Loss - Loans classified loss are considered uncollectable and of such little value that their continuance as bankable loans is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless loan even though partial recovery may be effected in the future. Banks are not allowed to attempt long-term recoveries while the loan remains on its books. Losses should be taken in the period in which they surface as uncollectable.

The following table presents loan balances by class of loans and loan grade as of December 31, 2014 and 2013:

December 31, 2014	Commercial and Industrial	Commercial Real Estate Land & Construction	Commerical Real Estate - Buildings	Agriculture	Residential Real Estate & Consumer - Home Equity Lines	Residential Real Estate & Consumer - Other	Total
Pass	$ 15,748,231	$ 1,280,473	$ 63,734,432	$ 5,003,742	$ 10,386,046	$ 1,467,312	$ 97,620,236
Special Mention	11,269	-	715,359	388,425	1,008,357	635,341	2,758,751
Substandard	-	-	2,312,453	-	288,768	-	2,601,221
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total Loans	$ 15,759,500	$ 1,280,473	$ 66,762,244	$ 5,392,167	$ 11,683,171	$ 2,102,653	$ 102,980,208

December 31, 2013	Commercial and Industrial	Commercial Real Estate Land & Construction	Commerical Real Estate - Buildings	Agriculture	Residential Real Estate & Consumer - Home Equity	Residential Real Estate & Consumer - Other	Total
Pass	$ 19,385,057	$ 719,982	$ 60,107,704	$ 1,685,605	$ 11,895,657	$ 3,131,951	$ 96,925,956
Special Mention	-	-	-	-	490,270	6,930	497,200
Substandard	-	-	981,490	-	290,504	-	1,271,994
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total Loans	$ 19,385,057	$ 719,982	$ 61,089,194	$ 1,685,605	$ 12,676,431	$ 3,138,881	$ 98,695,150

NOTE 4 – LOANS (CONTINUED)

Allowance for Loan Losses – The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Bank's allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, "Receivables" and allowance allocations calculated in accordance with ASC Topic 450, "Contingencies." Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for loan losses reflects loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors. The provision for loan losses also reflects the totality of actions taken on all loans for a particular period. In other words the amount of the provision reflects not only the necessary increases in the allowance for loan losses related to newly identified criticized loans, but it also reflects actions taken related to other loans including, among other things, any necessary increases or decreases in required allowances for specific loans or loan pools.

The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Bank's control, including, among other things, the performance of the Bank's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Bank's allowance for loan losses consists of three elements: (i) specific valuation allowances determined in accordance with ASC Topic 310 based on probable losses on specific loans; (ii) historical valuation allowances determined in accordance with ASC Topic 450 based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) general valuation allowances determined in accordance with ASC Topic 450 based on general economic conditions and other qualitative risk factors both internal and external to the Bank.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) the obligor's ability to repay, (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed by credit administration for all commercial loans. When a loan is graded class 5 or higher, the Chief Credit Officer analyzes the loan to determine whether the loan is impaired and, if impaired, the need to specifically allocate a portion of the allowance for loan losses to the loan. Specific valuation allowances are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things.

NOTE 4 – LOANS (CONTINUED)

Historical valuation allowances are calculated based on the Bank's historical loss experience of specific types of loans and the internal risk grade of such loans at the time they were charged-off. The Bank calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experience to the total population of loans in the pool. The Bank also considers the historical loss rate of its peer group. The peer group is Northern California banks between $100 million and $300 million in assets. The historical loss ratios are updated quarterly based on actual charge-off experience. A historical valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio and the total dollar amount of the loans in the pool. The Bank's pools of similar loans include similarly risk-graded groups of commercial and industrial loans, commercial real estate loans, consumer real estate loans and consumer and other loans.

General valuation allowances are based on general economic conditions and other qualitative risk factors both internal and external to the Bank. In general, such valuation allowances are determined by evaluating, among other things: (i) the experience, ability and effectiveness of the Bank's lending management and staff; (ii) the effectiveness of the Bank's loan policies, procedures and internal controls; (iii) changes in asset quality; (iv) changes in loan portfolio volume; (v) the composition and concentrations of credit; (vi) the impact of competition on loan structuring and pricing; (vii) the effectiveness of the internal loan review function; (viii) the impact of environmental risks on portfolio risks; and (ix) the impact of rising interest rates on portfolio risk. Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. Each component is determined to have either a high, moderate or low degree of risk. The results are then input into a "general allocation matrix" to determine an appropriate general valuation allowance.

Included in the general valuation allowances are allocations for groups of similar loans with risk characteristics that exceed certain concentration limits established by management. Concentration risk limits have been established, among other things, for certain industry concentrations, large balance and highly leverage credit relationships that exceed specified risk grades, and loans originated with policy exceptions that exceed specified risk grades.

Loans identified as losses by management, loan review, and/or bank examiners are charged-off. Furthermore, consumer loan accounts are charged-off automatically based on regulatory requirements.

NOTE 4 – LOANS (CONTINUED)

The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2014 and 2013. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

12/31/2014

Allowance for loan losses	Commercial and Industrial	Commercial Real Estate	Agriculture	Residential Real Estate & Consumer	Unallocated	Totals
Beginning Balance, 1/1/2014	$ 158,866	$ 1,093,470	$ 23,009	$ 286,726	$ -	$ 1,562,071
Charge-offs	-	-	-	-	-	-
Recoveries	60,707	3,319	-	-	-	64,026
Provision	(38,941)	69,795	(4,578)	7,257	50,893	84,426
Ending Balance, 12/31/14	$ 180,632	$ 1,166,584	$ 18,431	$ 293,983	$ 50,893	$ 1,710,523
Ending balance: individually evaluated for impairment	$ -	$ 26,332	$ -	$ -	$ -	$ 26,332
Ending balance: collectively evaluated for impairment	$ 180,632	$ 1,140,252	$ 18,431	$ 293,983	$ 50,893	$ 1,684,191
Loan Balances						
Ending Balance	$ 15,759,500	$ 68,042,717	$ 5,392,167	$ 13,785,824	$ -	$ 102,980,208
Ending Balance: individually evaluated for impairment	$ -	$ 2,312,453	$ -	$ 88,927	$ -	$ 2,401,380
Ending balance: collectively evaluated for impairment	$ 15,759,500	$ 65,730,264	$ 5,392,167	$ 13,696,897	$ -	$ 100,578,828

12/31/2013

Allowance for loan losses	Commercial and Industrial	Commercial Real Estate	Agriculture	Residential Real Estate & Consumer	Unallocated	Totals
Beginning Balance, 1/1/2013	$ 175,681	$ 977,929	$ 24,149	$ 322,100	$ -	$ 1,499,859
Charge-offs	62,515	-	-	-	-	62,515
Recoveries	-	3,315	-	-	-	3,315
Provision	45,700	112,226	(1,140)	(35,374)	-	121,412
Ending Balance, 12/31/13	$ 158,866	$ 1,093,470	$ 23,009	$ 286,726	$ -	$ 1,562,071
Ending balance: individually evaluated for impairment	$ -	$ 55,082	$ -	$ -	$ -	$ 55,082
Ending balance: collectively evaluated for impairment	$ 158,866	$ 1,038,388	$ 23,009	$ 286,726	$ -	$ 1,506,989
Loan Balances						
Ending Balance	$ 19,385,057	$ 61,809,176	$ 1,685,605	$ 15,815,312	$ -	$ 98,695,150
Ending Balance: individually evaluated for impairment	$ -	$ 981,490	$ -	$ 90,663	$ -	$ 1,072,153
Ending balance: collectively evaluated for impairment	$ 19,385,057	$ 60,827,686	$ 1,685,605	$ 15,724,649	$ -	$ 97,622,997

NOTE 5 –PREMISES AND EQUIPMENT

Bank premises and equipment consist of leasehold improvements, furniture, fixtures and equipment and are stated at cost, less accumulated depreciation and amortization, which are calculated on a straight-line basis over the estimated useful life of the property or the term of the lease (if less).

A summary of premises and equipment as of December 31, 2014 and 2013 follows:

	December 31, 2014	December 31, 2013
Leasehold improvements	$ 711,428	$ 711,427
Furniture, fixtures, and equipment	466,638	438,410
Data processing & computers	223,335	182,340
Construction in progress	362,300	-
	1,763,701	1,332,177
Less: Accumulated depreciation and amortization	(1,183,612)	(1,079,296)
	$ 580,089	$ 252,881

Depreciation and amortization expense totaled $104,316 and $129,627 for the years ended December 31, 2014 and 2013, respectively.

NOTE 6 – DEPOSITS

Interest expense recognized on interest bearing deposits for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
Interest bearing demand	$ 15,744	$ 16,152
Savings	3,403	3,618
Money Market	90,904	90,643
Time, less than $250,000	200,491	198,106
Time, $250,000 or more	52,266	54,107
Total Interest Expense on Deposits	$ 362,808	$ 362,626

NOTE 6 – DEPOSITS (CONTINUED)

Maturities of time deposits at December 31, 2014 and 2013 are as follows:

	2014	2013
90 days or less	$ 9,875,468	$ 7,172,234
Over 90 days through 180 days	7,314,181	6,433,818
Over 180 days through one year	8,432,427	11,267,304
Over one year	8,341,991	12,135,310
Total	$ 33,964,067	$ 37,008,666

NOTE 7 - INCOME TAXES

Deferred tax assets and liabilities as of December 31, 2014, and 2013 consisted of the following:

	2014	2013
Deferred tax assets:		
Pre-opening expenses	$ 370,000	$ 426,000
Net operating loss carryforwards	-	542,000
Allowance for loan loss	602,000	572,000
Deferred Compensation	209,000	126,000
Unrealized loss on available for sale securities	-	237,000
Other	53,000	79,000
Deferred tax assets	1,234,000	1,982,000
Deferred tax liabilities:		
Unrealized gains on available for sale securites	(87,000)	-
Accumulated depreciation	(26,000)	(32,000)
Accrual to cash	(77,000)	(141,000)
Deferred loan costs	(235,000)	(223,000)
Other	(59,000)	(48,000)
Deferred tax liabilities	(484,000)	(444,000)
Net deferred tax assets	$ 750,000	$ 1,538,000

At December 31, 2013, the Bank had Federal net operating loss carryforwards totaling approximately $1.2 million. Additionally, at December 31, 2013, the Bank had state net operating loss carryforwards totaling approximately $1.9 million. During 2014, the net operating loss carryforwards were fully utilized and none remain outstanding as of December 31, 2014.

NOTE 7 - INCOME TAXES (CONTINUED)

The provision (benefit) for income taxes consists of the following for the years ending:

	DECEMBER 31,	
	2014	**2013**
Current		
Federal	$ 327,000	$ -
State	17,000	9,000
	344,000	9,000
Deferred		
Federal	272,000	329,500
State	192,000	110,000
	464,000	439,500
Change in valuation allowance	-	(591,000)
	464,000	(151,500)
Provision (Benefit) from income taxes	$ 808,000	$ (142,500)

The following summarizes the difference between the provision for income taxes for financial statement purposes and the federal statutory rate of 34% for the years ending December 31, 2014 and 2013:

	2014	**2013**
Federal Statutory rate	34.0%	34.0%
State Franchise tax, ner of federal benefit	7.0%	7.1%
Equity Based Compensation	0.7%	1.0%
Cash surrender value of life insurance	-2.0%	-1.8%
Other	-0.4%	-15.2%
Valuation allowance	0.0%	-33.1%
Benefit for income taxes	39.3%	-8.0%

NOTE 8 – FINANCIAL INSTRUMENTS

The Bank is a 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 include commitments to extend credit in the form of loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank had standby letters of credit outstanding as of December 31, 2014 totaling $159,800. There were no standby letters of credit outstanding as of

NOTE 8 – FINANCIAL INSTRUMENTS (CONTINUED)

December 31, 2013. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Financial instruments whose contract amount represents credit risk:

Undisbursed loan commitments at December 31, 2014	$28,216,521
Undisbursed loan commitments at December 31, 2013	$25,140,424

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily 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 extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. For the years ended December 31, 2014 and 2013, there were reserves against off-balance sheet commitments of approximately $2,000 and $16,000, respectively. These reserves are recorded in interest payable and other liabilities in the statements of condition.

NOTE 9 - RELATED-PARTY TRANSACTIONS

The Bank, in the normal course of business, makes loans to and receives deposits from its directors, officers, principal shareholders and their associates. In management's opinion, these transactions are on substantially the same terms as comparable transactions with other customers of the Bank. The Bank's related party loan and deposit activity for the years ended December 31, 2014 and 2013, is summarized below:

	2014	2013
Beginning Balance	$ 2,916,649	$ 2,455,665
New loans or advances during the period	966,838	1,438,125
Repayments during period	309,149	977,141
Aggregate amount outstanding	$ 3,574,338	$ 2,916,649
Loan commitments	$ 4,201,193	$ 3,564,805
Related party deposits	$ 2,403,925	$ 2,592,550

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Bank entered into a lease agreement in January 2006 on its administrative office and branch at 2007 Redwood Rd. Ste. 101 for a term of two years, with two four and two five year options. On August 23, 2011, the Bank exercised its second four year option. The lease was renewed on January 1, 2012 for four years ending December 31, 2015. Under the lease agreement, the Bank will pay $24,324 a month adjusted annually based on the Consumer Price Index. The Bank is obligated for a rental payment under a certain operating lease agreement, which contains renewal options and an escalation clause that provide for increased rent.

Total rental expense related to this lease agreement for each year ended December 31, 2014 and 2013 was $300,501 and $296,676, respectively.

As of December 31, 2014, the future estimated minimum rental payment under the non-cancellable operating lease is as follows:

Extension of second 4-year option

Year	Amount
2015	317,503
	$ 317,503

The Bank entered into a lease agreement in September 2014 on its full service branch facility at 1715 Second Street for a term of five years, with three five year options. The Bank will pay $15,000 a month for two years and then the Bank's rent will increase 3% per year.

Total rental expense for the year ended December 31, 2014 was $58,871.

As of December 31, 2014, the future estimated minimum rental payment under the non-cancellable operating lease is as follows:

Lease agreement effective September 2014

Year	Amount
2015	$ 180,000
2016	181,800
2017	187,254
2018	192,872
2019	131,127
	$ 873,053

The Bank has two unsecured Federal funds borrowing lines totaling $11.9 million with its correspondent banks. On September 22, 2008 the Bank was approved for membership to the FHLB. The Bank is eligible to obtain credit equal to 25 percent of its total assets, with original terms out to 120 months. The Bank is required to pledge collateral in order to obtain credit. As of December 31, 2014, the Bank had pledged collateral to borrow $44.8 million through the FHLB. The Bank is also approved to borrow from the Federal Reserve Bank Discount Window. There were no amounts outstanding under these facilities at December 31, 2014 or 2013.

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values for financial instruments are management's estimates of the values at which instruments could be exchanged in a transaction between willing parties. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. Further, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of these estimates. The following table presents estimated fair values of the Bank's financial instruments as of December 31, 2014 and 2013.

		December 31, 2014	
	Fair Value Measurement	Carrying Value	Fair Value
Financial Assets:			
Cash and Due From Banks	Level 1	$ 4,513,051	$ 4,513,051
Interest Bearing Correspondent Deposits	Level 1	5,001,486	5,001,486
Federal Funds Sold	Level 1	4,488,000	4,488,000
Investment Securities	Level 2	55,503,786	55,503,786
Loans, net	Level 3	101,721,185	103,455,467
Correspondent bank stock, at cost	Level 2	1,444,039	1,444,039
Interest receivable	Level 2	694,621	694,621
Financial Liabilities:			
Deposits	Level 2	$ 155,228,694	$ 155,286,241
Interest payable	Level 2	74,596	74,596

		December 31, 2013	
	Fair Value Measurement	Carrying Value	Fair Value
Financial Assets:			
Cash and Due From Banks	Level 1	$ 4,374,523	$ 4,374,523
Interest Bearing Correspondent Deposits	Level 1	5,001,486	5,001,486
Federal Funds Sold	Level 1	6,344,000	6,344,000
Investment Securities	Level 2	46,007,402	46,007,402
Loans, net	Level 3	97,597,175	99,054,641
Correspondent bank stock, at cost	Level 2	1,255,311	1,255,311
Interest receivable	Level 2	651,618	651,618
Financial Liabilities:			
Deposits	Level 2	$ 144,158,560	$ 144,256,038
Interest payable	Level 2	84,696	84,696

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following methods and assumptions were used to estimate the fair value of financial assets and liabilities.

Cash and Due From Banks, Interest Bearing Correspondent Deposits, Federal Funds Sold and Interest Receivable and Payable – The carrying amount approximates fair value because of the short maturities of these instruments. Cash and due from banks, interest bearing correspondent deposits and Federal funds sold were measured at Level 1. Interest receivable and interest payable were measured at Level 2.

Investment Securities and Correspondent Bank Stock – Available-for-sale securities are recorded at their fair value on a recurring basis. Quoted market prices (Level I) are used to determine the fair value of available-for-securities when available. If quoted market prices are not available, the Bank obtains pricing information from a third-party service provider. The service provider utilizes various valuation techniques including bid/ask prices, dealer-quotes, interest rates benchmark yield curves, prepayment speeds, probability of default, loss severity and credit spreads (Level 2). Level 2 securities included U.S. agencies, government sponsored agencies', corporate securities, municipal securities, mortgage-backed securities, government agency-issued and privately issued collateralized mortgage obligations. As of December 31, 2014 and 2013 there are no securities considered Level 1 or Level 3. The par value of available for sale securities as of December 31, 2014 and 2013, was $55.3 million and $46.6 million respectively. The carrying amount of correspondent bank stock reported on the statements of condition approximates fair value as the shares can only be redeemed by the issuing institution. Investments and correspondent bank stock's fair values were measured at Level 2.

Loans – Loans with similar financial characteristics are grouped together for purposes of estimating their fair value. Loans are segregated by type such as commercial, term real estate, residential construction, and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms.

The fair value of performing, fixed rate loans is calculated by discounting scheduled future cash flows using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. The fair value of variable rate loans approximates the carrying amount as these loans generally reprice within 90 days. The allowance for loan losses is considered to be a reasonable estimate of loan discount due to credit risk. The fair value of loans was measured at Level 3.

Deposits – The fair value of deposits with no stated maturity, such as noninterest bearing demand deposits, savings, and money market accounts, approximates the amount payable on demand. The carrying amount approximates the fair value of time deposits with a remaining maturity of less than 90 days. The fair value of all other time deposits is calculated based on discounting the future cash flows using rates currently offered by the Bank for time deposits with similar remaining maturities. Deposits fair values were measured at Level 2.

Transfer Policy – Transfers between levels of the fair value hierarchy are recognized on the actual date of the events or circumstances that caused the transfer, which generally corresponds to the Bank's quarterly valuation process.

The following table presents information about the Bank's assets measured at fair value on a recurring basis as of December 31, 2014 and 2013, and indicates the fair value hierarchy of the valuation techniques utilized by the Bank to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Bank's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Impaired loans are measured at their fair value on a non-recurring basis. When a loan is identified as impaired, it is reported at the lower of cost or fair value, measured at the loans observable market price (Level 1) or for collateral dependent loans, the current appraised value of the underlying collateral securing the loan (Level 3). Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Management also incorporates assumptions regarding market trends or other relevant factors and selling and commission costs of 6%. Such adjustments and assumptions are typically significant and result in a Level 3 classification of the inputs for determining fair value.

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets measured at a fair value on a recurring basis were:

		Fair Value at December 31, 2014, Using		
Description	Fair Value December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Agency securities	$ 4,481,069	$ -	$ 4,481,069	$ -
Municipal securities	30,788,055	-	30,788,055	-
Corporate securities	5,267,395	-	5,267,395	-
Mortgage-backed securities	14,967,267	-	14,967,267	-
Total assets measured at fair value	$ 55,503,786	$ -	$ 55,503,786	$ -

		Fair Value at December 31, 2013, Using		
Description	Fair Value December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Agency securities	$ 2,898,392	$ -	$ 2,898,392	$ -
Municipal securities	22,994,365	-	22,994,365	-
Corporate securities	5,236,086	-	5,236,086	-
Mortgage-backed securities	14,878,559	-	14,878,559	-
Total assets measured at fair value	$ 46,007,402	$ -	$ 46,007,402	$ -

Assets measured at a fair value on a non-recurring basis were:

		Fair Value Measurements at December 31, 2014, Using		
Description		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral Dependent Impaired Loans	$ 420,680	$ -	$ -	$ 420,680
Total assets measured at fair value	$ 420,680	$ -	$ -	$ 420,680

		Fair Value Measurements at December 31, 2013, Using		
Description		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral Dependent Impaired Loans	$ 926,408	$ -	$ -	$ 926,408
Total assets measured at fair value	$ 926,408	$ -	$ -	$ 926,408

NOTE 12 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2014, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2014, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events that management believes have changed the Bank's category.

NOTE 12 – REGULATORY MATTERS (CONTINUED)

The Bank's actual capital amounts and ratios are presented in the following table.

$ in thousands	Actual		Capitalized		Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014						
Total capital to risk-weighted assets	$ 24,556	20.7%	$ 9,488	8.0%	$ 11,860	10.0%
Tier 1 capital to risk-weighted assets	$ 23,070	19.5%	$ 4,744	4.0%	$ 7,116	6.0%
Tier 1 capital to average assets	$ 23,070	12.9%	$ 6,785	4.0%	$ 8,482	5.0%
As of December 31, 2013						
Total capital to risk-weighted assets	$ 22,553	20.2%	$ 8,938	8.0%	$ 11,173	10.0%
Tier 1 capital to risk-weighted assets	$ 21,154	18.9%	$ 4,469	4.0%	$ 6,704	6.0%
Tier 1 capital to average assets	$ 21,154	13.0%	$ 6,520	4.0%	$ 8,150	5.0%

Payment of dividends is subject to legal restrictions. A national bank cannot pay dividends that exceed its current net profits and prior two years' retained net profits except with the consent of the OCC. The Board of Directors has no present intention to pay dividends.

The Federal Reserve and the Federal Deposit Insurance Corporation approved final capital rules in July 2013, that substantially amend the existing capital rules for banks. These new rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as “Basel III”) as well as requirements contemplated by the Dodd-Frank Act.

Under the new capital rules, the Bank will be required to meet certain minimum capital requirements that differ from current capital requirements. The rules implement a new capital ratio of common equity Tier 1 capital to risk-weighted assets. Common equity Tier 1 capital generally consists of retained earnings and common stock (subject to certain adjustments) as well as accumulated other comprehensive income (“AOCI”), except to the extent that the Bank exercises a one-time irrevocable option to exclude certain components of AOCI as of March 31, 2015. The Bank will also be required to establish a “conservation buffer,” consisting of a common equity Tier 1 capital amount equal to 2.5% of risk-weighted assets to be phased in by 2019. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

The prompt corrective action rules are modified to include the common equity Tier 1 capital ratio and to increase the Tier 1 capital ratio requirements for the various thresholds. For example, the requirements for the Bank to be considered well-capitalized under the rules will be a 5.0% leverage ratio, a 6.5% common equity Tier 1 capital ratio, an 8.0% Tier 1 capital ratio, and a 10.0% total capital ratio. To be adequately capitalized, those ratios are 4.0%, 4.5%, 6.0%, and 8.0%, respectively.

The rules modify the manner in which certain capital elements are determined. The rules make changes to the methods of calculating the risk-weighting of certain assets, which in turn affects the calculation of the risk-weighted capital ratios. Higher risk weights are assigned to various categories of assets, including commercial real estate loans, credit facilities that finance the acquisition, development or construction of real property,

NOTE 12 – REGULATORY MATTERS (CONTINUED)

certain exposures or credit that are 90 days past due or are nonaccrual, securitization exposures, and in certain cases mortgage servicing rights and deferred tax assets.

The Bank is required to comply with the new capital rules on January 1, 2015, with a measurement date of March 31, 2015. The conservation buffer will be phased-in beginning in 2016, and will take full effect on January 1, 2019. Certain calculations under the rules will also have phase-in periods.

NOTE 13 – STOCK OPTION PLAN

During 2006, the Bank's Board of Directors approved a stock option plan (the Plan) under which incentive and non-qualified stock options may be granted to key employees and directors, respectively, to purchase up to 388,000 shares of the authorized and un-issued common stock of the Bank at a price equal to the fair market value on the date of grant. The Plan provides that the incentive options are exercisable in equal increments over a three year period from the date of grant or over any other schedule approved by the Board of Directors. In addition, the Plan provides that all non-qualified stock options issued to the Bank's Directors are fully vested upon issuance. All incentive and non-qualified stock options expire no later than 10 years from the date of grant. The Plan was ratified by the shareholders at the Bank's annual meeting in August 2006.

The fair value of each option grant is estimated on the date of grant using a Black-Scholes-Merton options-pricing model. The model is updated for each stock option grant. Stock option grants were made with the following assumptions for the 1,000 incentive stock options granted in 2014: a weighted average expected volatility of 47.85%; a weighted average risk-free interest rate of 1.69%; expected life of 5.75 years and no dividend yield.

Stock option grants were made with the following assumptions for the 10,000 incentive stock options granted in 2013: a weighted average expected volatility of 35.73%; a weighted average risk-free interest rate of 1.76%; expected life of 6.0 years and no dividend yield.

A summary of the status of the Bank's stock option plan and changes during the periods ending:

	December 31, 2014			December 31, 2013		
	Shares	Weighted Average Exercise Price	Weighted Average Fair Value on Grant Date	Shares	Weighted Average Exercise Price	Weighted Average Fair Value on Grant Date
Outstanding at beginning of period	237,500	$ 7.76	$ 2.97	227,500	$ 7.70	$ 2.97
Granted	1,000	8.30	3.83	10,000	9.00	3.36
Exercised	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Outstanding at end of period	238,500	$ 7.76	2.97	237,500	$ 7.76	$ 2.97
Options exercisable at end of period	212,833	$ 7.06	$ 3.06	199,000	$ 7.54	$ 3.06
Weighted average fair value of options granted during the period		$ 3.83			$ 3.36	

At December 31, 2014 and 2013, the weighted-average remaining contractual life of the outstanding stock options was approximately 4.2 years and 5.0 years, respectively. The remaining contractual life of vested

NOTE 13 – STOCK OPTION PLAN (CONTINUED)

stock options was 4.0 years as of December 31, 2014 and 4.8 years as of December 31, 2013.

In 2014 and 2013, stock option compensation expense charged against income was approximately $47,000 and $59,000, respectively. As of December 31, 2014, there was approximately $28,000 of total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a period of 3 years.

NOTE 14 -EMPLOYEE BENEFIT PLANS

The Bank implemented a Safe Harbor 401k plan in October of 2006, which is available to all employees who are 21 years of age or older and have completed 90 days of service with the Bank. Under the plan employees can reduce their compensation by a specific percentage or dollar amount and have that amount contributed to the Safe Harbor Plan on a pre-tax basis as a salary deferral. The Bank makes a safe harbor matching contribution equal to 100% of the salary deferrals that do not exceed 3% of each employee's compensation plus 50% of the salary deferrals between 3% and 5% of each employee's compensation. Employer contributions in 2014 and 2013 were approximately $71,000 and $66,000, respectively.

On January 1, 2011, the Bank established a Salary Continuation plan to a select group of executive management. Each participant vests a portion of their benefit on January 1 of each year. Full vesting occurs at each executive's retirement age, which varies from age 65 to age 72. Salary continuation benefits are paid monthly after retirement over a ten-year period. This plan is unfunded and nonqualified for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974. The Bank's liability under the salary continuation plan was approximately $494,000 and $306,000 was recorded on the statements of condition in interest payable and other liabilities as of December 31, 2014 and 2013, respectively.

NOTE 15 – SUBSEQUENT EVENTS

The Bank has evaluated the effects of subsequent events that have occurred subsequent to the balance sheet date for potential recognition and/or disclosure through the date of the Report of Independent Auditors included in the financial statements. Management does not believe any subsequent events have occurred that would require further disclosure or adjustment to the financial statements.