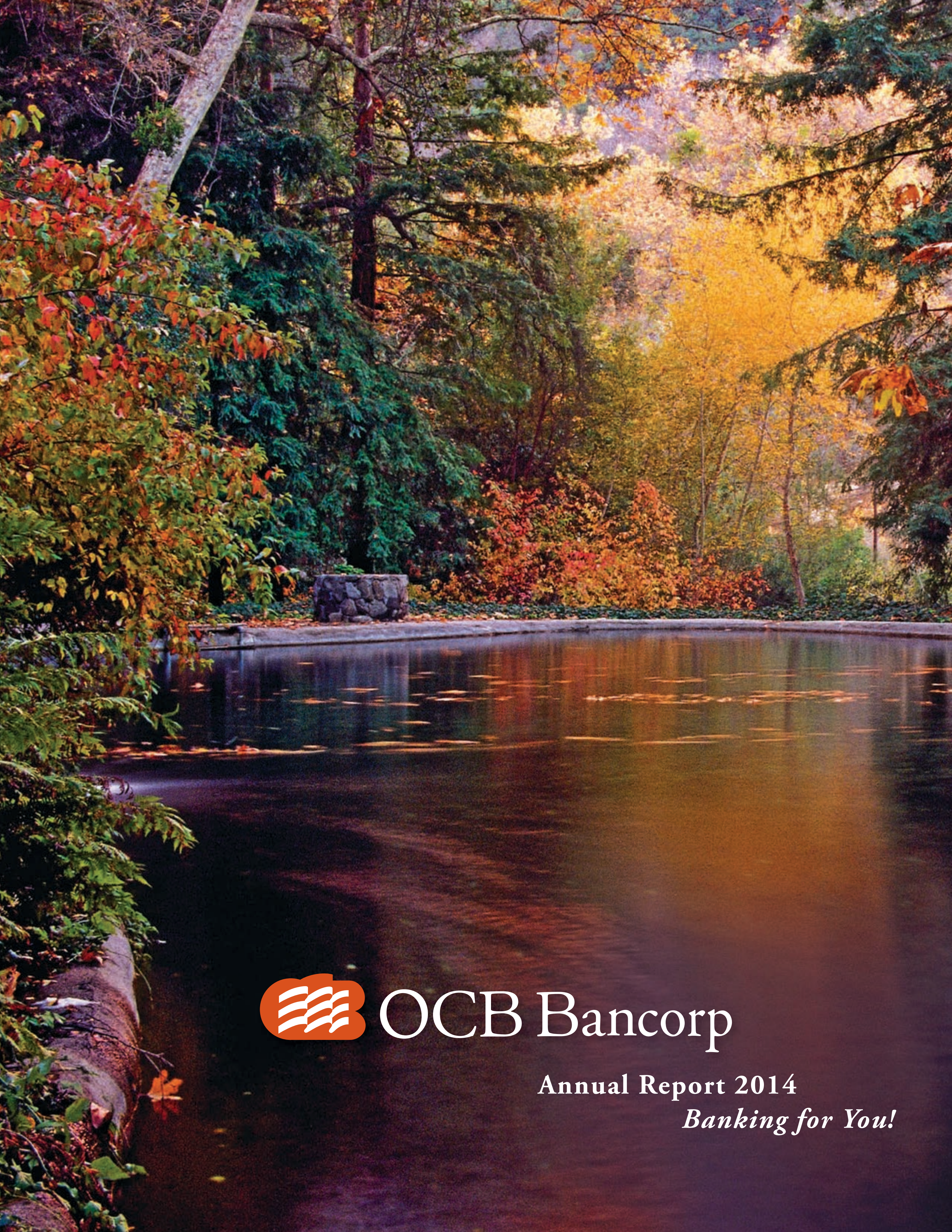


OCB Bancorp

Annual Report 2014

Banking for You!

OCB Bancorp Board of Directors

George Melton
Chairman

William B. Sechrest
Vice Chairman

John W. Russell
Director

Dr. Martin Pops
Director

Donald G. Scanlin
Director

Dietrich Schmidt
Director

David Brubaker
Director

Ojai Community Bank Board of Directors

Donald G. Scanlin
Chairman

John W. Russell
Vice Chairman

Dr. Martin Pops
Director

Dietrich Schmidt
Director

George Melton
Director

Esther Wachtell
Director

Lawrence E. Wilde III
Director

David Brubaker
Director

Executive Officers

David Brubaker
President/CEO

Michael Orman
Chief Operating Officer

Suzanne Lagos
Chief Financial Officer

Michelle Henson
Chief Credit Officer

Don Tello
Santa Paula Community Bank

Eloy Ortega
Santa Barbara Community Bank

L E T T E R T O O U R S H A R E H O L D E R S

Dear Shareholders:

As we review 2014, we feel confident about our accomplishments and see continued strong potential for our future success. We have a sincere appreciation and gratitude for our community, our customers, shareholders, board of directors, and our staff for their continued support and trust.

OCB Bancorp, and its subsidiary, Ojai Community Bank, continues to be solid in the areas of capital, liquidity, and loan quality. With our recent branch expansion and loan growth—critical components to a successful bank—we are poised for even greater results. As the community banking industry continues its recovery, we feel well positioned for sustained success.

During 2014, our total assets ended the year at $166 million, an increase of $20 million, or 14% year over year. Our deposits increased by approximately $13 million to $143 million, or 10%, at the end of 2014. Most impressive is our continued loan growth. We have recruited specific lenders with this goal in mind and, as a result, have increased loans by 32% in 2014. Total loans at the end of 2014 stood at $128 million, an increase of $31 million. This follows a 30% increase for 2013. Our loan portfolio remains well managed, of high quality, and provides significant long term benefit to our future earnings ability.

The loan growth in 2014 supported a 19% increase in net interest income over 2013. Net interest income increased from $4.6 million in 2013 to $5.5 million in 2014. As a result of the cumulative loan growth over the past two years, we have experienced a substantial increase in interest income and believe it will continue as we focus on smart growth.

In recent years, we have invested in staff and expanded locations. Initially, we operated out of Ojai exclusively. We have full service operations in Ojai, Santa Paula, Ventura and Santa Barbara. Our core strategy consists of building successful relationships and hiring key people with existing customer base, to serve growing markets. Our move to Santa Barbara included the hiring of Eloy Ortega, a former bank president and 25-year veteran in the Santa Barbara market. His experience serving the small business community is second to none; we are already seeing the fruits of his labor. As competitors focus on wealth management, our small business niche in Santa Barbara provides us with terrific opportunities, and gives us distinctive positioning advantages in the marketplace.

As a result of the expansion, our earnings have been muted. We believe 2015 will be a stronger year, as we reap the rewards of our loan growth and the recent elimination of the core deposit intangible expense related to the acquisition of the Santa Paula branch. Last year alone, that expense was $475 thousand. In 2015, we expect our investments in Ventura and Santa Barbara to positively impact our bottom line, as the start-up expenses, to a certain extent, are behind us.

Net income available to shareholders for 2014 was $380 thousand as opposed to $343 thousand in 2013, an increase of 13%. We remain unsatisfied with this level of earnings; this is an area of key focus for 2015.

As a community bank, we continue to fill a void in the marketplace as big banks continue to pull back on customer service and flexibility. It is gratifying to see the relief on our customers' faces when we listen to their stories and craft solutions to meet their specific needs. Our lenders are experts at creating problem-solving solutions, strengthening long-term relationships and value, while simultaneously meeting credit quality standards.

Our efforts have not gone unrecognized. We continue to receive awards as the Best Bank in Ojai (our fifth year running). We are working on our other markets to achieve the same kind of recognition. This year in Santa Paula, we received the Chamber of Commerce Co-large Business of the Year award. In addition, Ojai Community Bank capped off the year achieving a top rating of 5 stars from the Bauer Financial Group.

In an effort to improve strategic performance, we enhanced our governance. OCB Bancorp is now led by George Melton as Chairman and Bill Sechrest as Vice Chairman. Their strategy is to investigate opportunities for growth and increase capital sources. Both George and Bill have significant experience in larger company operations and financial overview, which will be extremely beneficial.

Ojai Community Bank continues to be led by Don Scanlin, Chairman, and John Russell, Vice Chairman. The Bank's strategy is to be excellent stewards of capital, maintain strict regulatory compliance and be responsible for the business of banking and community support. We are excited about the new flexibility and opportunities this enhancement will provide.

As we celebrate our 10-year anniversary, we are proud of our accomplishments, but more importantly, we are proud of who we are—a community bank that helps the communities we serve. We believe that by making a difference, we can grow a bank for long-term success.

Thank you for your support as we build a successful banking family together. As always, we are happy to discuss the report further, provide more detailed information and answer your questions. Contact David Brubaker, President/CEO, at the main office located at 402 W. Ojai Avenue, Ojai, CA 93023, dbrubaker@ojaicommunitybank.com or 805-646-9909.

Sincerely,

D. Brubaker | Donald Scanlin | George Melton

David Brubaker
President/CEO

Donald Scanlin
Chairman of the Board
Ojai Community Bank

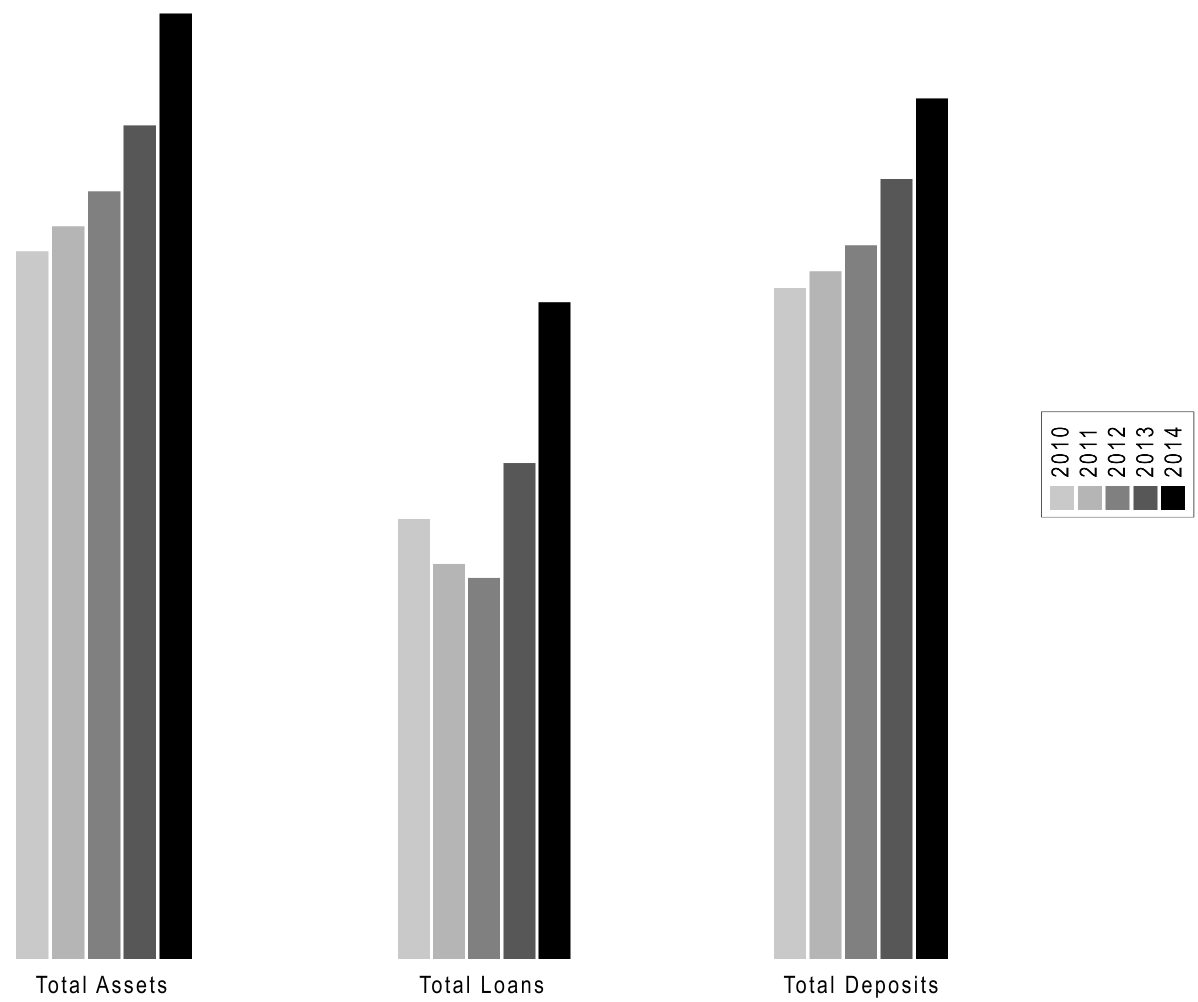
George Melton
Chairman of the Board
OCBancorp

This letter includes forward-looking information, which is subject to the "safe harbor" created Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act and the Private Securities Litigation Reform Act of 1995. When the Bank uses or incorporates by reference in this letter the words "anticipate," "estimate," "expect," "project," "intend," "commit," "believe," and similar expressions, the Company intends to identify forward-looking statements. Our actual results may differ materially from those projected in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors that are beyond our control.

This statement has not been reviewed, or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

Our Mission Statement

We provide personal service to the residents and businesses of the communities we serve and we strive to achieve maximum value for stakeholders as an ethically and socially responsible provider of financial products.



FINANCIAL HIGHLIGHTS	2010	2011	2012	2013	2014
Net Interest Income	4,749,596	4,476,791	4,617,861	4,655,475	5,529,698
Provision for Loan Losses	1,910,146	490,000	-	-	309,000
Non Interest Income	906,812	392,526	485,036	513,020	517,526
Non Interest Expense	4,034,637	3,832,944	4,330,287	4,419,386	5,109,098
Pre Tax Income	(288,375)	546,373	772,610	749,109	629,126
Provision for Taxes	800	800	(803,084)	307,079	248,872
Net Income	(289,175)	545,573	1,575,694	442,030	380,254
Total Assets	123,917,342	128,344,479	134,449,289	145,973,478	165,624,702
Total Loans	85,845,277	77,204,617	74,414,091	96,776,918	128,294,553
Total Deposits	111,611,178	114,299,040	118,701,655	129,696,800	143,116,926

We are very appreciative of our shareholders

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders of
OCB Bancorp and Subsidiary
Ojai, California

We have audited the accompanying consolidated financial statements of OCB Bancorp and Subsidiary (the Company), which are comprised of the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OCB Bancorp and Subsidiary 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
March 23, 2015

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

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OCB BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and due from banks	$ 6,688,651	$ 5,456,568
Interest bearing deposits with other financial institutions	15,410,000	29,375,000
Cash and Cash Equivalents	22,098,651	34,831,568
Time deposits with other financial institutions	5,080,000	6,325,000
Investment securities held-to-maturity	5,992,333	4,993,907
Loans, net of unearned income	128,294,553	96,776,918
Allowance for loan losses	(1,551,999)	(1,355,182)
Net Loans	126,742,554	95,421,736
Restricted Bank stock, at cost	835,200	190,000
Premises and equipment, net	467,147	1,127,098
Core deposit intangible	-	474,463
Bank owned life insurance	2,123,373	1,060,681
Net deferred tax asset	1,051,588	972,424
Accrued interest receivable and other assets	1,233,856	576,601
Total Assets	$ 165,624,702	$ 145,973,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing deposits	$ 54,852,582	$ 39,717,544
Interest-bearing deposits	88,264,344	89,979,256
Total Deposits	143,116,926	129,696,800
Borrowings from Federal Home Loan Bank	6,000,000	-
Other borrowings	1,946,386	2,240,976
Accrued interest payable and other liabilities	450,360	341,482
Total Liabilities	151,513,672	132,279,258
Commitments and Contingencies (Note 9)	-	-
Stockholders' Equity		
Preferred stock, no par value, 5,000,000 shares authorized; zero shares issued and outstanding for 2014 and 2013	-	-
Common stock, no par value, 6,250,000 shares authorized; 2,184,684 and 2,080,778 shares issued and outstanding for 2014 and 2013, respectively	14,230,735	13,633,276
Additional paid in capital	314,187	276,867
Accumulated deficit	(433,892)	(215,923)
Total Stockholders' Equity	14,111,030	13,694,220
Total Liabilities and Stockholders' Equity	$ 165,624,702	$ 145,973,478

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

OCB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Interest Income		
Interest and fees on loans	$ 5,639,862	$ 4,716,117
Interest on Federal funds sold and interest bearing deposits in other financial institutions	60,078	96,390
Interest on investment securities	57,241	74,069
Interest on time deposits with other financial institutions	51,526	36,645
Total Interest Income	5,808,707	4,923,221
Interest Expense		
Interest expense on deposits	169,170	237,845
Interest expense on borrowed funds	109,839	29,901
Total Interest Expense	279,009	267,746
Net Interest Income	5,529,698	4,655,475
Provision for Loan Losses	309,000	-
Net Interest Income After Provision for Loan Losses	5,220,698	4,655,475
Noninterest Income		
Service charges on deposit accounts	293,745	268,909
Loss on sale of other real estate owned	-	(27,694)
Other fees and miscellaneous income	223,781	271,805
Total Noninterest Income	517,526	513,020
Noninterest Expense		
Salaries and other employee benefits	2,769,777	2,241,999
Occupancy and equipment	543,297	544,240
Advertising and marketing	251,475	201,133
Stationery and supplies	180,601	150,992
Professional services	560,608	613,284
Insurance and regulatory assessments	135,171	144,140
Amortization of core deposit intangible	474,463	375,914
Other	193,706	147,684
Total Noninterest Expense	5,109,098	4,419,386
Net Income Before Provision for Income Taxes	629,126	749,109
Provision for Income Taxes	248,872	307,079
Net Income	380,254	442,030
Dividends and Accretion on Preferred Stock	-	(105,820)
Net Income Available to Common Shareholders	$ 380,254	$ 336,210
Income Per Share		
Basic	$ 0.17	$ 0.15
Diluted	$ 0.17	$ 0.15

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

OCB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Preferred Stock		Common Stock		Additional		Total
	Shares Outstanding	Amount	Shares Outstanding	Amount	Paid In Capital	Accumulated Deficit	Stockholders' Equity
Balance, January 1, 2013	2,184	$ 2,146,216	2,080,778	$13,747,876	$ 238,471	$ (637,153)	$15,495,410
Preferred shares accretion	-	20,800	-	-	-	(20,800)	-
Dividends paid on common stock	-	-	-	(97,616)	-	-	(97,616)
Share-based compensation expense	-	-	-	-	38,396		38,396
Redemption of preferred stock	(2,184)	(2,167,016)		(16,984)			(2,184,000)
Net income	-	-	-	-	-	442,030	442,030
Balance, December 31, 2013	-	-	2,080,778	13,633,276	276,867	(215,923)	13,694,220
Preferred shares accretion	-	-	-	-	-	-	-
Stock dividend issued on common stock	-	-	103,906	597,459	-	(597,459)	-
Share-based compensation expense	-	-	-		37,320	-	37,320
Cash paid in lieu of fractional shares	-	-		-		(764)	(764)
Net income	-	-	-	-	-	380,254	380,254
Balance, December 31, 2014	-	$ -	2,184,684	$14,230,735	$ 314,187	$ (433,892)	$14,111,030

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

OCB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

		2014		2013
Cash Flows from Operating Activities				
Net income	$	380,254	$	442,030
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization		143,634		154,240
Amortization of intangible assets		474,463		375,914
Provision for loan losses		309,000		-
Loss on sale of other real estate owned		-		27,694
Net increase in bank owned life insurance		(1,062,692)		(39,265)
Net amortization of premiums/discounts on securities		207		15,721
Share-based compensation expense		37,320		38,396
Decrease (Increase) in deferred tax assets		(79,164)		101,576
Increase in accrued interest receivable and other assets		(657,255)		(177,663)
Increase in accrued interest payable and other liabilities		108,878		89,258
Net Cash Flows Provided by (Used in) Operating Activities		(345,355)		1,027,901
Cash Flows from Investing Activities				
Purchase of investment securities held-for-maturity		(2,998,633)		(2,986,250)
Maturities of investment securities held-for-maturity		2,000,000		4,000,000
Net increase in deposits with other institutions		1,245,000		(2,590,000)
Net increase in loans		(31,629,818)		(22,371,319)
Proceeds from sale of other real estate owned		-		816,056
Purchase of restricted stock		(645,200)		-
Purchase of premises and equipment		(195,958)		(73,744)
Proceeds from sale of premises and equipment		712,275		227,515
Net Cash Flows Used in Investing Activities		(31,512,334)		(22,977,742)
Cash Flows from Financing Activities				
Net increase in deposits		13,420,126		10,995,145
Cash dividends paid		-		(97,616)
Cash paid in lieu of fractional shares		(764)		-
Net increase in other borrowings		5,705,410		2,240,976
Redemption of preferred stock		-		(2,184,000)
Net Cash Flows Provided by Financing Activities		19,124,772		10,954,505
Net Decrease in Cash and Cash Equivalents		(12,732,917)		(10,995,336)
Cash and Cash Equivalents, Beginning of Year		34,831,568		45,826,904
Cash and Cash Equivalents, End of Year	$	22,098,651	$	34,831,568
Supplemental Disclosures Cash Flow Information:				
Interest paid	$	281,565	$	307,079
Taxes paid	$	540,000	$	328,000

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of OCB Bancorp and Subsidiary (the Company) 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 accompanying consolidated financial statements follows:

A. Principles of Consolidation

The financial statements include the accounts of OCB Bancorp and its wholly owned subsidiary, Ojai Community Bank (the Bank), collectively referred to herein as (the Company). All significant intercompany transactions have been eliminated.

B. Nature of Operations

The Bank was incorporated on July 23, 2004, and commenced operations on March 3, 2005. The Bank operates as a full service commercial bank offering loans and depository services to businesses and customers in the cities of Ojai, Santa Paula, Santa Barbara, and Ventura, California. The Bank has one branch office in Santa Paula, one in Ventura, one in Santa Barbara, and one in Ojai, California. OCB Bancorp was formed as of January 26, 2013, and operates Ojai Community Bank. OCB Bancorp has no significant business activity other than its investment in Ojai Community Bank. Accordingly, no separate financial information on OCB Bancorp is provided.

C. Cash and Due From Banks

Banking regulations require that all banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Company complied with the reserve requirements as of December 31, 2014 and 2013. The Company maintains amounts due from banks that may exceed federally insured limits. The Company has not experienced any losses in such accounts.

D. Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, Federal funds sold, and short-term interest bearing deposits in other financial institutions.

E. Investment Securities

In accordance with Accounting for Certain Investments in Debt and Equity Securities, which addresses the accounting for investments in equity securities that have readily determinable fair values and for investments in all debt securities, securities are classified in three categories and accounted for as follows: debt and equity that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are measured at amortized cost; debt and equity securities bought and held principally for the purpose of selling in the near term are classified as trading securities and are measured at fair value, with unrealized gains and losses included in earnings; debt and equity securities not classified as either held-to-maturity or trading securities are deemed as available-for-sale and are measured at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of other comprehensive income. Gains or losses on sales of investment securities are determined on the specific identification method. Premiums and discounts are amortized or accreted using the interest method over the expected lives of the related securities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Investment Securities, Continued

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other than temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows; OTTI related to credit loss, which must be recognized in the income statement and; OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

F. Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan.

Interest income is accrued daily as earned on all loans. Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on contractual terms of the loan or when, in the opinion of management there is reasonable doubt as to collectability. When loans are placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on non-accrual 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 when, in the judgment of management, the loans are estimated to be fully collectible as to all principle and interest.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Other Real Estate Owned

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

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

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

The Company recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired with measurement of impairment based on expected future cash flows discounted using the loan's effective rate immediately prior to the restructuring.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Allowance for Loan Losses, Continued

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 n the experience, ability and depth of lending management on other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Portfolio segments identified by the Company include real estate, commercial, and consumer loans. Relevant risks 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 for consumer loans.

I. Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

J. Premises and Equipment

Land is carried at cost. Company premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful lives of fixtures and equipment utilizing estimated useful lives of three to seven years. Leasehold improvements are amortized on a straight-line basis over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

K. Bank Owned Life Insurance

Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. 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 consolidated 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. Deferred tax assets and liabilities are adjusted for the effects of change in tax laws and rates on the date of enactment.

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

The Company is subject to Federal income tax and income tax of the State of California. The Company's Federal income tax returns for the years ended December 31, 2013, 2012 and 2011, are open to audit by the Federal authorities and our California state tax returns for the years ended December 31, 2013, 2012, 2011 and 2010, are open to audit by State authorities.

The Company records interest and penalties related to uncertain tax positions as part of operating expense. There was no penalty or interest expense recorded as of December 31, 2014 and 2013. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next 12 months.

M. Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

N. Advertising Costs

The Company expenses the cost of advertising in the period incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. That guidance 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 an entity's own assumptions about the factors that market participants would use in pricing an asset or liability

See Note 14 for more information and disclosures relating to the Company's fair value measurements.

P. Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note 11. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Q. 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. The Company's only component of comprehensive income is net income.

R. Reclassification

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

S. Income Per Share EPS

The basic income per share ratio excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. As of December 31, 2014, diluted income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Weighted average shares outstanding used in the computation of basic income per share were 2,184,684 in 2014 and 2013, respectively. Weighted average shares outstanding used in the computation of dilutive income per share were 2,187,411 and 2,188,318 in 2014 and 2013, respectively.

T. Share-Based Compensation

The Company 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.

U. Intangible Assets

Intangible assets include identifiable assets, such as core deposit intangibles, resulting from the acquisition of two branches. Core deposit intangibles are amortized over six years which approximates the estimated life.

V. Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 23, 2015, which is the date the consolidated financial statements were available to be issued.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

W. Adoption of New Accounting Standards

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

In January 2014, the FASB issued ASU No. 2014-02, *Intangibles – Goodwill and Other (Topic 350): "Accounting for Goodwill".* This Update allows an accounting alternative for the subsequent measurement of goodwill for entities that are not considered public business entities. An entity that elects the accounting alternative in this Update would amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. An entity that elects the accounting alternative is further required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. Goodwill would be tested for impairment when a triggering event occurs that indicates that the fair value of an entity (or a reporting unit) may be below its carrying amount. The accounting alternative, if elected, would be applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill recognized in annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early application is permitted, including application to any period for which the entity's annual or interim financial statements have not yet been made available for issuance. The Company is currently in the process of evaluating the impact of the adoption of this Update, but does not expect a material impact on the Company's consolidated financial statements.

NOTE 2 - INVESTMENT SECURITIES

The amortized cost and fair values of securities held-to-maturity with gross unrealized gains as of December 31, 2014 and 2013, are as follows:

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency Securities	$ 5,992,333	$ 4,597	$ (29,834)	$ 5,967,096
December 31, 2013				
U.S. Agency Securities	$ 4,993,907	$ -	$ (79,060)	$ 4,914,847

The gross unrealized losses and related fair value of investment securities that have been in a continuous loss position for less than twelve and over twelve months at December 31, 2014 and 2013 are as follows:

	Less than Twelve Months		Over Twelve Months		Total	
December 31, 2014	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Agency Securities	$ (3,891)	$ 1,995,548	$ (25,943)	$2,967,445	$ (29,834)	$ 4,962,993
December 31, 2013						
U.S. Agency Securities	$ (73,055)	$ 3,915,024	$ (6,005)	$ 999,823	$ (79,060)	$ 4,914,847

As of December 31, 2014, the Company has five agency mortgage backed security that are in unrealized loss positions. Unrealized loss on this investment security has not been recognized into income as management does not intend to sell, and it is not "more likely than not" that management would be required to sell the security prior to its anticipated recovery, and the decline in fair value is largely due to change in interest rates. The fair value is expected to recover as the security approaches maturity. As of December 31, 2013, the Company had one agency mortgage backed security that was in an unrealized loss position.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2014, is shown below.

	Held-to-Maturity	
	Amortized Cost	Fair Value
Due within one year	$ -	$ -
Due after one year through five years	5,992,333	5,967,096
	$ 5,992,333	$ 5,967,096

At December 31, 2014 and 2013, all investment securities were pledged to secure public deposits and for other purposes as required by law.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consist of the following:

	December 31, 2014	December 31, 2013
Real estate	$ 102,671,896	$ 84,265,525
Commercial	23,789,487	10,444,451
Consumer	1,913,446	2,112,742
Loans Receivable	128,374,829	96,822,718
Allowances for loan losses	(1,551,999)	(1,355,182)
Net deferred loan origination fees	(80,276)	(45,800)
Loans Receivable, net	$ 126,742,554	$ 95,421,736

Changes in the allowance for loan losses at December 31 are as follows:

	2014	2013
Balance, beginning of year	$ 1,355,182	$ 1,363,674
Provision for credit losses	309,000	-
Loans charged-off	(114,134)	(16,322)
Recoveries of loans previously charged-off	1,951	7,830
Balance, end of year	$ 1,551,999	$ 1,355,182

At December 31, 2014, the Company had two impaired loans totaling $1,701,794. At December 31, 2013, the Company had three impaired loans totaling $2,212,376. No additional funds are committed to be advanced in connection with impaired loans as of December 31, 2014 and 2013. The Company did not have any loans past due 90 days or more and still accruing interest as of December 31, 2014 and 2013. If interest on non-accruing loans had been recognized at the interest rates stipulated in the respective loan agreements, interest income would have increased by $109,469 and $106,900 in 2014 and 2013, respectively.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, Continued

The following table presents the activity in the allowance for loan losses for the year 2014, and the recorded investment in loans and impairment method as of December 31, 2014 and 2013, by portfolio segment:

December 31, 2014	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	$ 1,239,565	$ 108,424	$ 7,193	$ 1,355,182
Provisions	75,286	230,403	3,311	309,000
Charge-offs	(178)	(113,956)	-	(114,134)
Recoveries	691	1,260	-	1,951
End of Year	$ 1,315,364	$ 226,131	$ 10,504	$ 1,551,999
Reserves:				
Specific	$ 492	$ -	$ -	$ 492
General	1,314,872	226,131	10,504	1,551,507
	$ 1,315,364	$ 226,131	$ 10,504	$ 1,551,999
Loans Evaluated for Impairment:				
Individually	$ 1,684,145	$ 17,649	$ -	$ 1,701,794
Collectively	100,987,751	23,771,838	1,913,446	126,673,035
	$ 102,671,896	$ 23,789,487	$ 1,913,446	$ 128,374,829
December 31, 2013				
Allowance for Loan Losses:				
Beginning of Year	$ 1,236,582	$ 105,400	$ 21,692	$ 1,363,674
Charge-offs	-	-	(16,322)	(16,322)
Recoveries	2,983	3,024	1,823	7,830
End of Year	$ 1,239,565	$ 108,424	$ 7,193	$ 1,355,182
Reserves:				
Specific	$ 80,302	$ -	$ -	$ 80,302
General	1,159,263	108,424	7,193	1,274,880
	$ 1,239,565	$ 108,424	$ 7,193	$ 1,355,182
Loans Evaluated for Impairment:				
Individually	$ 2,212,376	$ -	$ -	$ 2,212,376
Collectively	82,053,149	10,444,451	2,112,742	94,610,342
	$ 84,265,525	$ 10,444,451	$ 2,112,742	$ 96,822,718

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, Continued

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

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

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

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

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

The risk category of loans by class of loans was as follows as of December 31, 2014 and 2013:

December 31, 2014	Pass	Special Mention	Substandard	Impaired	Total
Real estate	$ 100,970,102	$ -	$ -	$ 1,701,794	$ 102,671,896
Commercial	23,789,487	-	-	-	23,789,487
Consumer	1,913,446	-	-	-	1,913,446
	$ 126,673,035	$ -	$ -	$ 1,701,794	$ 128,374,829
December 31, 2013					
Real estate	$ 82,001,320	$ -	$ 51,829	$ 2,212,376	$ 84,265,525
Commercial	10,444,451	-	-	-	10,444,451
Consumer	2,112,742	-	-	-	2,112,742
	$ 94,558,513	$ -	$ 51,829	$ 2,212,376	$ 96,822,718

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, Continued

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

		Still Accruing			
December 31, 2014	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Real estate	$ 100,970,102	$ -	$ 17,649	$ -	$ 1,684,145
Commercial	23,789,487	-		-	-
Consumer	1,913,446	-	-	-	-
	$ 126,673,035	$ -	$ 17,649	$ -	$ 1,684,145
December 31, 2013					
Real estate	$ 82,087,727	$ -	$ -	$ -	$ 2,177,798
Commercial	10,444,451	-	-	-	-
Consumer	2,111,896	846	-	-	-
	$ 94,644,074	$ 846	$ -	$ -	$ 2,177,798

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2014 and 2013. The Company did not have any impaired loans without a related allowance as of December 31, 2013.

December 31, 2014	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a Related Allowance Recorded					
Commercial	$ 17,649	$ 17,649	$ 492	$ 19,354	$ 1,210
Without a Related Allowance Recorded					
Real estate	$ 1,684,145	$ 1,684,145	$ -	$ 1,673,323	$ -
December 31, 2013					
With a Related Allowance Recorded					
Real estate	$ 2,212,376	$ 2,212,376	$ 80,302	$ 2,214,620	$ 12,132

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, Continued

The Company had two loans classified as troubled debt restructurings totaling $1,701,794 at December 31, 2014, and one loan classified as troubled debt restructurings totaling $1,664,535 at December 31, 2013. The modification of the terms of the loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market. Modifications involving a reduction of the stated interest rate were from interest rates ranging from 6.25 percent to 5.0 percent for a period of up to 60 months for the restructured real estate loan.

The following table presents loans by class modified as TDRs that occurred during the year ended December 31, 2014:

December 31, 2014	Number of Contracts	Pre-Modification Investment	Post-Modification Investment
TDR's			
Commercial	1	$ 17,649	$ 17,649

The Company did not have any loans modified as troubled debt restructuring for which there was a payment default within twelve months following the modification during the years ended December 31, 2014 and 2013

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment at December 31, is as follows:

	2014	2013
Premises	$ -	$ 397,513
Fixtures and equipment	869,167	726,631
Computer software	86,171	66,815
Leasehold improvements	699,910	665,845
	1,655,248	1,856,804
Accumulated depreciation and amortization	(1,188,101)	(1,109,829)
	467,147	746,975
Land	-	380,123
	$ 467,147	$ 1,127,098

Total depreciation expense for the years ended December 31, 2014 and 2013, was $143,634 and $154,240, respectively.

NOTE 5 - INTANGIBLE ASSETS

Core Deposit Intangible (CDI)

In October 2008, the Company recorded approximately $2,656,181 in CDI related to core deposits it obtained in the acquisition of the two Santa Barbara Bank and Trust branches. Accumulated amortization of the CDI was $2,656,181 and $2,181,718 as of December 31, 2014 and 2013, respectively. Amortization expense recorded in 2014 and 2013 was $474,463 and $375,914, respectively. CDI was fully amortized as of December 31, 2014; accordingly, there will be no future amortization of CDI.

NOTE 6 - DEPOSITS

Interest-bearing deposits at December 31 consist of the following:

	2014	2013
NOW accounts	$ 12,157,415	$ 11,776,075
Savings and money market	48,403,257	45,656,040
Time certificate of deposit accounts under $250,000	25,102,762	29,207,553
Time certificate of deposit accounts over $250,000	2,600,910	3,339,588
	$ 88,264,344	$ 89,979,256

As of December 31, 2014, all noninterest-bearing deposits are demand deposits. The maturity of time certificates of deposit is as follows:

Year Ending	Amount
2015	$ 22,181,592
2016	4,272,762
2017	1,037,387
2018	178,646
2019	33,285
Total	$ 27,703,672

Interest expense on deposit accounts is summarized as follows:

	2014	2013
NOW accounts	$ 4,373	$ 5,547
Savings and money market	51,391	50,153
Time certificate of deposit accounts	113,406	182,145
	$ 169,170	$ 237,845

NOTE 7 - INCOME TAXES

The components of the provision for income taxes were as follows for the years ended December 31:

	2014	2013
Current Taxes:		
Federal	$ 244,844	$ 135,477
State	83,192	70,026
	328,036	205,503
Deferred Taxes:		
Federal	70,816	(91,131)
State	8,348	(10,445)
	79,164	(101,576)
Income tax expense	$ 248,872	$ 307,079

The following table reconciles the statutory Federal income tax rate to the Company's effective income tax rate for the years ended December 31:

	2014	2013
Federal tax rate	34.0%	34.0%
State taxes, net of Federal tax benefits	7.2%	7.2%
Bank Owned Life Insurance	-3.4%	-1.8%
Other	1.8%	1.6%
Provision for Income Tax	39.6%	41.0%

NOTE 7 - INCOME TAXES, Continued

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

	2014	2013
Deferred Tax Assets:		
Pre-opening expenses	$ 53,000	$ 60,000
Allowance for loan losses due to tax limitations	305,000	277,000
Charitable contributions	-	68,000
Share-based compensation	59,000	51,000
Purchase accounting adjustment	765,000	656,000
Non-accrued interest	100,000	57,000
Other	55,000	32,000
	1,337,000	1,201,000
Deferred Tax Liabilities:		
Depreciation	(14,000)	(5,000)
Loan origination costs	(188,000)	(137,000)
Cash basis reporting for income tax purposes	(84,000)	(87,000)
	(286,000)	(229,000)
Net Deferred Tax Assets	$ 1,051,000	$ 972,000

NOTE 8 - STOCK OPTION PLAN

The Company's 2005 Stock Plan (the Plan), was approved by its shareholders in April 2005. Under the terms of the 2005 Stock Plan, officers and key employees may be granted both nonqualified and incentive stock options, and directors and consultants, who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase 433,125 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. Stock options expire no later than ten years from the date of the grant and vest based on a schedule determined by the Company's Stock Option Committee. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan.

In 2014 the shareholder's approved the 2013 Omnibus Stock Incentive Plan (2013 Plan), a replacement of the 2005 Stock Plan. Under the terms of the 2013 Plan, employees, nonemployee directors and consultants may be granted stock option grants, stock appreciation rights, restricted stock, deferred shares, performance shares, or performance units. The 2013 Plan provides for 655,445 shares of common stock subject to adjustment by the Board for stock splits, stock dividends, recapitalizations and other similar transactions or events. Awards expire no later than ten years from the date of grant and vest based on a schedule determined by the Board. The 2013 Plan provides for accelerated vesting if there is a change of control as defined in the 2013 Plan.

NOTE 8 - STOCK OPTION PLAN, Continued

The Company recognized stock-based compensation cost of $37,320 in 2014 and $38,396 in 2013. The Company recognized income tax benefits related to stock-based compensation of $8,060 in 2014 and $8,060 in 2013. As of December 31, 2014, there was $53,904 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 2.26 years.

The fair value of each option grant in 2013 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions presented below. There were no options granted in 2014.

	2013
Dividend yield	0.00%
Expected life	6.5 Years
Expected volatility	40.83%
Risk-free interest rate	1.44%
Weighted-average grant date fair value	$2.84

Since the Company 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 Company 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 Company's stock option plan as of December 31, 2014, and changes during the year ending thereon is presented below:

	2014		Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	Options	Exercise Price		
Balance, beginning of year	163,669	$ 6.43		
Granted	-	-		
Balance, end of year	163,669	$ 6.43	5.28 Years	$ -
Options exercisable	122,719	$ 6.75	4.33 Years	$ -
Options available for granting	655,445			

NOTE 8 - STOCK OPTION PLAN, Continued

A summary of the status of the Company's stock option plan as of December 31, 2013, and changes during the year ending thereon is presented below:

	2013		Weighted-Average Remaining Contractual	Aggregate Intrinsic
	Options	Exercise Price	Term	Value
Balance, beginning of year	153,169	$ 6.42		
Granted	10,500	6.67		
Balance, end of year	163,669	$ 6.43	6.03 Years	$ -
Options exercisable	104,869	$ 6.95	4.94 Years	$ -
Options available for granting	269,456			

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Company leases office facilities and equipment under operating leases which expires through 2016. Rental expense in 2014 and 2013, was $258,840 and $223,411, respectively. Future minimum rental payments under the operating lease as of December 31, 2014, are as follows:

Year Ending December 31,	Amount
2015	$ 244,934
2016	334,344
2017	249,023
2018	161,664
2019	100,822
Total	$ 1,090,787

The Company is not currently a party to any legal proceedings.

NOTE 10 - BORROWING ARRANGEMENTS

The Company may borrow up to $2,000,000 overnight on an unsecured based form Pacific Coast Bankers Bank. As of December 31, 2014, the Company had an available line of credit with the Federal Home Loan Bank of San Francisco ("FHLBSF") secured by the assets of the Bank. Under this line, the Company may borrow up to $32.976 million subject to providing adequate collateral and continued compliance with the Advances and Security Agreement and other eligibility requirements established by the FHLBSF. The Company has pledged loans in the amount of $49.484 million as collateral for this line.

As of December 31, 2014 the Company had the following FHLB advances outstanding:

Maturity	Weighted-Average Rate	Amount
2015	0.47%	$ 2,000,000
2016	0.94%	2,000,000
2017	1.35%	2,000,000
	0.92%	$ 6,000,000

As of December 31, 2014, the Company had unused borrowing capacity of approximately $9,844,345 secured by $14,314,609 in loans pledged as collateral to the Federal Reserve Bank.

On September 27, 2013, the Company entered into a borrowing arrangement that provides a $100,000 line of credit with a one year maturity and a variable interest rate. Regular quarterly payments of all accrued unpaid interest were due beginning December 27, 2013. Interest was calculated from the date of each advance. The Company had an outstanding balance on this line of credit of $10,000 as of December 31, 2013. The principal was paid in full upon maturity during 2014.

NOTE 10 - BORROWING ARRANGEMENTS, Continued

On September 27, 2013, the Company also entered into a borrowing arrangement for $2,300,000 in conjunction with redeeming the preferred stock of Ojai Community Bank. The note provides for principal and interest at a rate of 5 percent to be paid by the Company in twenty-eight quarterly payments of $98,093, maturing September 27, 2020. These payments began on December 27, 2013. As of December 31, 2014, the outstanding balance on this note totaled $1,946,386. The following is a summary of principal payable by the Bank on the note through maturity:

Year Ending	Principal Payable
2015	$ 298,713
2016	314,005
2017	330,573
2018	347,762
2019	365,845
Thereafter	289,488
Total	$ 1,946,386

NOTE 11 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company 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 and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying balance sheet.

The Company's exposure to credit losses in the event of nonperformance by the other parties for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

NOTE 11 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK, Continued

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

	2014	2013
Financial instruments whose contract amounts represent credit risks:		
Commitments to extend credit	$ 21,465,000	$ 16,233,000
Standby letters of credit	305,000	318,000
	$ 21,770,000	$ 16,551,000

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. 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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon 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 properties.

NOTE 12 - RELATED-PARTY TRANSACTIONS

As of December 31, 2014 and 2013, the Company's balance sheet included deposits from executive officers and directors totaling $5,499,742 and $2,345,420, respectively, and loans to executive officers and directors, which are detailed below.

	2014	2013
Outstanding balance, beginning of year	$ 2,075,962	$ 2,087,525
Credit granted, including renewals	-	-
Repayments	(478,542)	(11,563)
Outstanding balance, end of year	$ 1,597,420	$ 2,075,962
Undisbursed commitments at end of year	$ 720,000	$ 513,009

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

NOTE 13 - REGULATORY MATTERS

The Company and Ojai Community Bank are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC). Failure to meet these minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. As a small bank holding company, the Company is not subject to specific regulatory capital requirements. The risk-based capital guidelines described below apply on a consolidated basis to bank holding companies with consolidated assets of $500 million or more. For bank holding companies with less than $500 million in consolidated assets, the guidelines will be applied on a bank-only basis unless: (a) the parent bank holding company is engaged in nonbank activity involving significant leverage; or (b) the parent company has a significant amount of outstanding debt that is held by the general public. Because neither (a) nor (b) apply to the Company, regulators look to the Bank's capital ratios when assessing the adequacy of the Company's capital.

Under capital adequacy guidelines, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. These quantitative measures are established by regulation and require that minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets be maintained as set forth in the table below. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Management believes the Company and Bank met all of their capital adequacy requirements as of December 31, 2014 and 2013.

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 FRB 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 13 - REGULATORY MATTERS, Continued

The Bank's actual and required capital amounts and ratios are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total capital (to risk-weighted assets)	$ 17,516,000	12.64%	$ 11,086,076	8.0%	$ 13,857,595	10.0%
Tier 1 capital (to risk-weighted assets)	15,934,000	11.50%	5,542,261	4.0%	8,313,391	6.0%
Tier 1 capital (to average assets)	15,934,000	10.13%	6,291,807	4.0%	7,864,758	5.0%
December 31, 2013						
Total capital (to risk-weighted assets)	$ 16,539,000	15.28%	$ 8,660,560	8.0%	$ 10,825,700	10.0%
Tier 1 capital (to risk-weighted assets)	15,186,000	14.03%	4,330,280	4.0%	6,495,420	6.0%
Tier 1 capital (to average assets)	15,186,000	10.26%	5,919,120	4.0%	7,398,900	5.0%

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company determines the fair market values of certain financial instruments based on the fair value hierarchy established by Financial Accounting Standards which requires an entity to maximize the use of observable inputs 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.

Fair Value Measurements

The Company used the following methods and significant assumptions to estimate fair value:

- Impaired Loans

  A loan is considered impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Impairment is measured based on the fair value of the underlying collateral or the discounted expected future cash flows. The Company measures impairment on all nonaccrual loans for which it has established specific reserves as part of the specific allocated allowance component of the allowance for loan losses. As such, the Company records impaired loans as non-recurring Level 2 when the fair value of the underlying collateral is based on an observable market price or current appraised value. When current market prices are not available or the Company determines that the fair value of the underlying collateral is further impaired below appraised values, the Company records impaired loans as non-recurring Level 3.

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

The fair value of financial instruments is the amount at which an asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced liquidation. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information.

Because no quoted market price exists for a significant portion of the Company's financial instruments, the fair values of such financial instruments are derived based on the amount and timing of future cash flows, estimated discount rates, as well as management's best judgment with respect to current economic conditions. Many of these estimates involve uncertainties and matters of significant judgment and cannot be determined with precision.

The fair value information provided is indicative of the estimated fair values of those financial instruments and should not be interpreted as an estimate of the fair market value of the Company taken as a whole. The disclosures do not address the value of recognized and unrecognized non-financial assets and liabilities or the value of future anticipated business. In addition, tax implications related to the realization of the unrealized gains and losses could have a substantial impact on these fair value estimates and have not been incorporated into any of the estimates.

The following tables provide a summary of the financial instruments the Company measures at fair value on a non-recurring basis as of December 31, 2014 and 2013:

December 31, 2014	Level 2
Assets Measured on a Non-Recurring Basis	
Impaired loans	$ 1,701,794

December 31, 2013	
Assets Measured on a Non-Recurring Basis	
Impaired loans	$ 2,212,376

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2014 and 2013.

Cash and Due From Banks - The carrying amounts of cash and short-term investments approximate their fair value.

Interest-Bearing and Time Deposits with Other Institutions - Interest-bearing deposits in banks are reported at their fair values asked on quoted market prices.

Investment Securities Held-to-Maturity - Fair value of securities are based on market price or dealer quote.

Restricted Stock at Cost – The carrying amount of restricted stock is considered to reasonably estimate the fair value.

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

Loans - For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. The fair values for other loans (e.g., real estate construction and mortgage, commercial and installment loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued Interest Receivable - The carrying amounts of accrued interest approximate their fair value.

Deposits - The fair values of demand deposits, savings deposits, and money market accounts were the amounts payable on demand at December 31, 2014 and 2013. The fair value of time deposits was based on the discounted value of contractual cash flows. The discount rate was estimated utilizing the rates currently offered for deposits of similar remaining maturities.

Other Borrowings - The fair value of long-term debt is based on rates currently available to the Company for debt with similar terms and remaining maturities.

Accrued Interest Payable - The carrying amounts of accrued interest approximate their fair value.

Commitment to Fund Loans - The fair value of commitment to fund loans represents fees currently charged to enter into similar agreements with similar remaining maturities.

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

		December 31, 2014		December 31, 2013	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Cash and due from banks	Level 1	$ 6,688,651	$ 6,688,651	$ 5,456,568	$ 5,456,568
Interest-bearing deposits with other institutions	Level 1	15,410,000	15,410,000	29,375,000	27,375,000
Investment securities held-to-maturity	Level 2	5,992,333	5,967,096	4,993,907	4,914,847
Time deposits with other institutions	Level 1	5,080,000	5,080,000	6,325,000	6,325,000
Restricted stock at cost	Level 2	835,200	835,200	190,000	190,000
Loans, net	Level 3	126,742,554	126,265,597	95,421,736	94,335,034
Accrued interest	Level 1	388,152	388,152	315,584	315,584
Liabilities					
Deposits	Level 2	$ 143,116,926	$ 143,120,884	$ 129,696,800	$ 129,708,517
Other borrowings	Level 2	7,946,386	7,946,386	2,240,976	2,240,976
Accrued interest	Level 1	3,545	3,545	6,101	6,101

		Notional Amount	Cost to Cede or Assume	Notional Amount	Cost to Cede or Assume
Off-balance sheet instruments					
Unused commitments and financial standby letters of credit	Level 1	$ 21,770,000	$ 217,700	$ 16,551,000	$ 165,510

NOTE 15 - PREFERRED STOCK

On January 27, 2009, the Company, in connection with the Troubled Assets Relief Program (TARP) Capital Purchase Program, entered into a Purchase Agreement with the United States Department of Treasury (the Treasury), pursuant to which the Company issued and sold 2,080 shares of the Company's Preferred Stock as Fixed Rate Non-cumulative Perpetual Warrant Preferred Stock, Series A (Series A) and 104 shares of Fixed Rate Non-cumulative Perpetual Warrant Preferred Stock, Series B (Series B) for an aggregate purchase price of $2,080,000 in cash. The redemption of both Series A and Series B Preferred Stock was $2,184,000. The discount of $104,000 has been accreted against retained earnings over the estimated five-year life of the Preferred Stock reducing the reported income available for common shareholders.

The Series A Preferred Stock qualified as Tier 1 capital and paid non-cumulative dividends at a rate of five percent (5%) per annum for the first five years and nine percent (9%) per annum thereafter. Series A stock may be redeemed by the Company after three years. Prior to the end of three years, Series A stock may be redeemed only with the proceeds from the sale of qualifying equity securities of the Company. The Series B Preferred Stock may only be redeemed after all of the Series A stock has been redeemed. For as long as any Preferred Stock is outstanding and held by the Treasury, no dividends may be declared on common shares.

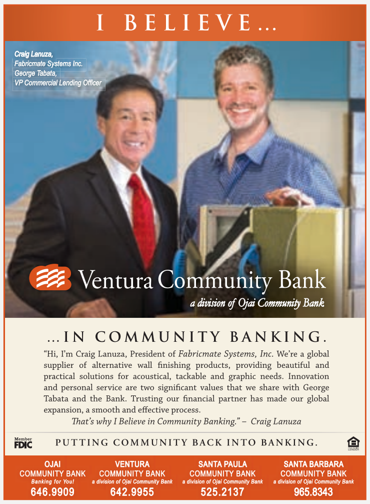
In the Purchase Agreement, the Company agreed that, until such time as the Treasury ceases to own any debt or equity securities of the Company acquired pursuant to the Purchase Agreement, the Company will take all necessary actions to ensure that its benefit plans, with respect to its senior executive officers, comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 (the EESA) as implemented by any guidance or regulation under the EESA that has been issued and is in effect as of the date of the issuance of the Preferred Stock, and has agreed to not adopt any benefit plans with respect to, or which covers, its senior executive officers that do not comply with the EESA, and the applicable executives have consented to the foregoing.

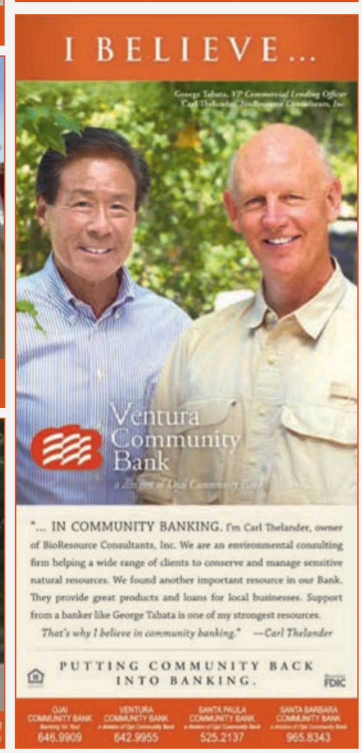
On September 25, 2013, the Company fully redeemed all of its Preferred Stock under the TARP Capital Purchase Program. The redemption was funded by the net proceeds from a $2,300,000 promissory note. See Note 10 for more information and disclosures relating to the Company's borrowings.

NOTE 16 - STOCK DIVIDEND

On May 18, 2014, the Board of Directors declared a five percent (5%) stock dividend which was payable on June 16, 2014, to shareholders of record on May 9, 2014. All share and per share amounts have been restated to give retroactive effect for this stock dividend.

S E R V I N G   O U R   C O M M U N I T Y





Ojai Community Bank

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