OCB Bancorp

Annual Report 2016

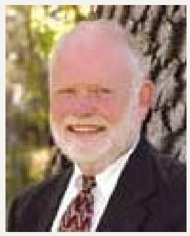
PUTTING COMMUNITY BACK INTO BANKING.

DIRECTORS AND OFFICERS

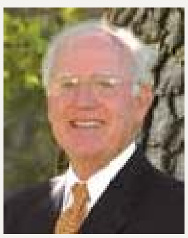
OCB Bancorp Board of Directors

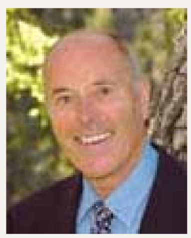

George Melton
Chairman


William B. Sechrest
Vice Chairman


John W. Russell
Director


Dr. Martin Pops
Director


Donald G. Scanlin
Director

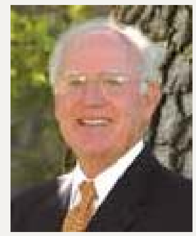

Dietrich Schmidt
Director

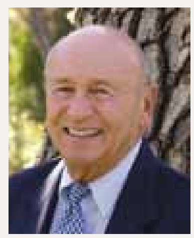

Esther Wachtell
Director

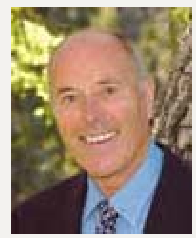

Lawrence E. Wilde III
Director

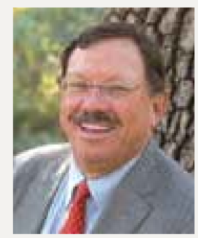

David Brubaker
Director

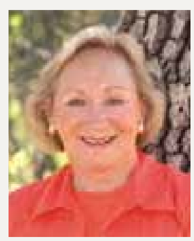
Ojai Community Bank Board of Directors


Donald G. Scanlin
Chairman

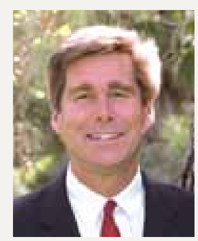

Dr. Martin Pops
Director


Dietrich Schmidt
Director


George Melton
Director


Esther Wachtell
Director


Lawrence E. Wilde III
Director


David Brubaker
Director

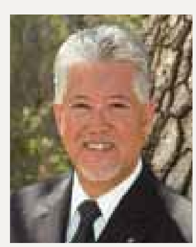
Executive Officers

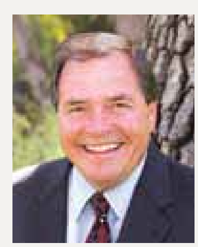

David Brubaker
President/CEO


Michael Orman
Chief Operating Officer


Suzanne Lagos
Chief Financial Officer


Michelle Henson
Chief Credit Officer


Don Tello
Santa Paula
Market President


Eloy Ortega
Santa Barbara
Market President

LETTER TO OUR SHAREHOLDERS

Dear Shareholders:

It is that time of year again for us to look back and review our progress. Seven years in to the economic recovery from the Great Recession and we are proud to say we are continuing to build strength in earnings and asset quality. Looking back at 2011, we have grown from a small footprint with about $125 million in assets to a robust four-branch network surpassing $250 million.

We thank our dedicated staff for their hard work and commitment in this effort. In addition, we want to thank our shareholders for believing in our vision of growth and service to our communities, as we strive to attain an efficient size necessary for providing solid returns on their investment.

With new technologies, regulatory rules and geopolitical influences, banking has become an ever-changing industry. Our country has experienced historic low rates for quite some time, impacting all of us. Personal return on investments has decreased, spreads continue to shrink, products have commoditized, and differentiation is more difficult. We stand alone among banks as the only community bank headquartered in Ventura County. Our level of service and customer support is second to none—we will keep to those strong standards of service.

By maintaining face-to-face customer service, we have been able to consistently grow the Bank each year at a rate exceeding peer average. This is no small task given our local communities low growth/no growth initiatives. Business is competitive with multiple banks vying for the same customer. Our values and service provide us excellent opportunities as larger banks continue to decline in favor.

Our return on equity reached 8.06% in 2016. Our net income at OCB Bancorp increased over calendar 2015 by 39% to $1.28 million. This equates to an earnings per share of $0.58 resulting in a book value of $7.59. Our very good performance was achieved as the result of continued efforts by management to contain costs, increase earning assets and monitor credit.

Through our wholly owned subsidiary, Ojai Community Bank, total loans increased $33 million or 18.5% to finish the year at a record high of $209 million. Loans provide an excellent long-term source of revenue and drive our net interest income as we build our core business.

Loan origination focusing on strong credit quality remains a key priority. This goal ensures we are building a consistent source of revenue to fund growth and returns. We also see a number of new opportunities as the banking landscape changes. Our traditional approach to credit is in high demand in this market—we leverage that uniqueness wherever we can. Our loan structures meet the needs of our customers; simultaneously meeting our need for high credit quality and profitable returns. We are building communities, business relationships and franchise value each day.

Overall, the Bank experienced a successful year. We envision greater future growth and opportunities. Our community banking team continues to execute our strategic plan to grow earnings and further expand existing high quality relationships. We appreciate our shareholder support; commitment is an important part of making a difference—helping businesses and families flourish.

As always, we are happy to discuss the report further, provide more detailed information and answer your questions. Contact Dave Brubaker, President/CEO, by phone or email at 805-633-2444 or dbrubaker@ojaicommunitybank.com.

Sincerely,

D. Brubaker

David Brubaker
President/CEO

George Melton

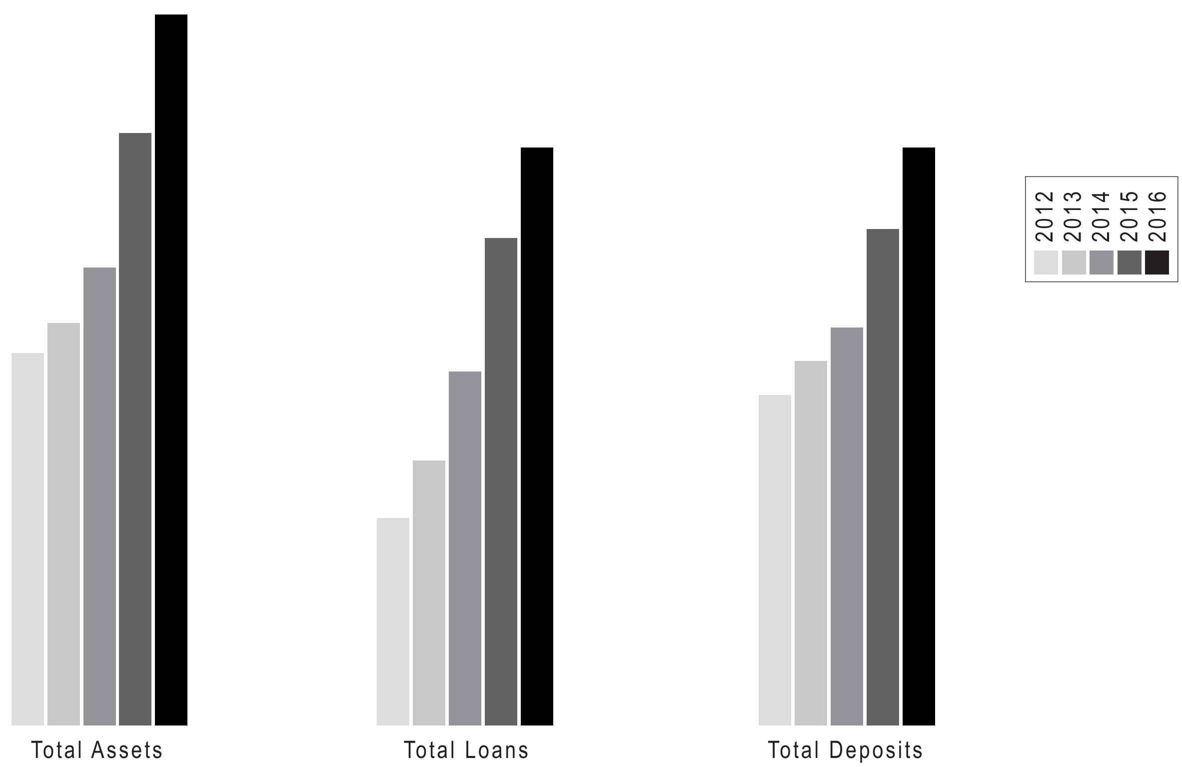
George Melton
OCB Bancorp
Chairman of the Board

Donald Scanlin

Donald Scanlin
Ojai Community Bank
Chairman of the Board

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	2012	2013	2014	2015	2016
Net Interest Income	4,617,861	4,655,475	5,529,698	7,261,452	8,822,025
Provision for Loan Losses	-	-	309,000	546,000	374,990
Non Interest Income	485,036	513,020	517,526	576,463	684,815
Non Interest Expense	4,330,287	4,419,386	5,109,098	5,770,875	7,012,291
Pre Tax Income	772,610	749,109	629,126	1,521,040	2,119,559
Provision for Taxes	(803,084)	307,079	248,872	600,317	837,525
Net Income	1,575,694	442,030	380,254	920,723	1,282,034
Total Assets	134,449,289	145,973,478	165,624,702	213,916,038	256,636,818
Total Loans	74,414,091	96,776,918	128,294,553	176,461,664	209,182,952
Total Deposits	118,701,655	129,696,800	143,116,926	177,553,427	208,438,349

We are very appreciative of our shareholders

NOTES

OCB BANCORP AND SUBSIDIARY

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2016 AND 2015

OCB BANCORP AND SUBSIDIARY

DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 16, 2017

10681 Foothill Blvd., Suite 300 Rancho Cucamonga, CA 91730 Tel: 909.466.4410 www.vtdcpa.com Fax: 909.466.4431

OCB BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash and due from banks	$ 6,653,635	$ 5,828,910
Interest bearing deposits with other financial institutions	26,365,000	15,575,000
Cash and Cash Equivalents	33,018,635	21,403,910
Time deposits with other financial institutions	349,000	1,096,000
Investment securities held-to-maturity	6,499,047	6,998,586
Loans, net of unearned income	209,182,952	176,461,664
Allowance for loan losses	(2,647,147)	(2,110,649)
Net Loans	206,535,805	174,351,015
Restricted Bank stock, at cost	1,267,700	907,300
Premises and equipment, net	1,014,448	395,414
Other real estate owned	3,377,173	3,362,981
Bank owned life insurance	2,258,751	2,192,306
Net deferred tax asset	1,348,212	1,135,099
Accrued interest receivable and other assets	968,047	2,073,427
Total Assets	$ 256,636,818	$ 213,916,038
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing deposits	$ 77,787,540	$ 71,036,781
Interest-bearing deposits	130,650,809	106,516,646
Total Deposits	208,438,349	177,553,427
Borrowings from Federal Home Loan Bank	21,000,000	13,500,000
Other borrowings	6,807,682	6,346,747
Subordinated notes	3,000,000	-
Accrued interest payable and other liabilities	801,494	1,362,126
Total Liabilities	240,047,525	198,762,300
Commitments and Contingencies (Note 8)	-	-
Stockholders' Equity		
Preferred stock, no par value, 5,000,000 shares authorized; zero shares issued and outstanding for 2016 and 2015	-	-
Common stock, no par value, 6,250,000 shares authorized; 2,187,184 and 2,184,684 shares issued and outstanding for 2016 and 2015, respectively	14,701,494	15,648,766
Additional paid in capital	589,693	436,172
Retained earnings (Accumulated deficit)	1,298,106	(931,200)
Total Stockholders' Equity	16,589,293	15,153,738
Total Liabilities and Stockholders' Equity	$ 256,636,818	$ 213,916,038

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, 2016 AND 2015

	2016	2015
Interest Income		
Interest and fees on loans	$ 9,566,690	$ 7,509,441
Interest on Federal funds sold and interest bearing deposits in other financial institutions	134,087	51,076
Interest on investment securities	64,909	67,225
Interest on time deposits with other financial institutions	13,989	27,756
Total Interest Income	9,779,675	7,655,498
Interest Expense		
Interest expense on deposits	344,694	154,944
Interest expense on borrowed funds	612,956	239,102
Total Interest Expense	957,650	394,046
Net Interest Income	8,822,025	7,261,452
Provision for Loan Losses	374,990	546,000
Net Interest Income After Provision for Loan Losses	8,447,035	6,715,452
Noninterest Income		
Service charges on deposit accounts	309,992	274,710
Other fees and miscellaneous income	374,823	301,753
Total Noninterest Income	684,815	576,463
Noninterest Expense		
Salaries and other employee benefits	4,368,889	3,633,251
Occupancy and equipment	728,913	610,258
Advertising and marketing	410,178	334,318
Stationery and supplies	248,175	235,752
Professional services	621,362	606,410
Insurance and regulatory assessments	200,982	152,748
Other	433,792	198,138
Total Noninterest Expense	7,012,291	5,770,875
Net Income Before Provision for Income Taxes	2,119,559	1,521,040
Provision for Income Taxes	837,525	600,317
Net Income	$ 1,282,034	$ 920,723
Income Per Share		
Basic	$ 0.58	$ 0.42
Diluted	$ 0.58	$ 0.42

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, 2016 AND 2015

	Common Stock		Additional	Retained Earnings/	Total
	Shares Outstanding	Amount	Paid In Capital	(Accumulated Deficit)	Stockholders' Equity
Balance, January 1, 2015	2,184,684	$ 14,230,735	$ 314,187	$ (433,892)	$ 14,111,030
Dividend reclassification	-	1,418,031	-	(1,418,031)	-
Share-based compensation expense	-	-	121,985	-	121,985
Net income	-	-	-	920,723	920,723
Balance, December 31, 2015	2,184,684	15,648,766	436,172	(931,200)	15,153,738
Dividend reclassification	-	(947,272)	-	947,272	-
Share-based compensation expense	-	-	153,521	-	153,521
Issuance of restricted shares	2,500	-	-	-	-
Net income	-	-	-	1,282,034	1,282,034
Balance, December 31, 2016	2,187,184	$ 14,701,494	$ 589,693	$ 1,298,106	$ 16,589,293

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, 2016 AND 2015

	2016	2015
Cash Flows from Operating Activities		
Net income	$ 1,282,034	$ 920,723
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	209,572	157,221
Provision for loan losses	374,990	546,000
Net increase in bank owned life insurance	(66,445)	(68,933)
Net amortization of premiums/discounts on securities	(961)	(7,219)
Share-based compensation expense	153,521	121,985
Increase in deferred tax assets	(213,113)	(83,511)
(Increase) decrease in accrued interest receivable and other assets	1,105,380	(1,134,105)
Increase (decrease) in accrued interest payable and other liabilities	(560,632)	911,766
Net Cash Flows Provided by Operating Activities	2,284,346	1,363,927
Cash Flows from Investing Activities		
Purchase of investment securities held-for-maturity	(1,499,500)	(2,999,034)
Maturities of investment securities held-for-maturity	2,000,000	2,000,000
Net decrease in deposits with other institutions	747,000	3,984,000
Net increase in loans	(32,559,780)	(49,876,161)
Purchase of restricted stock	(360,400)	(72,100)
Purchase of premises and equipment	(828,606)	(85,488)
Net Cash Flows Used in Investing Activities	(32,501,286)	(47,048,783)
Cash Flows from Financing Activities		
Net increase in deposits	30,884,922	34,436,501
Changes in FHLB advances and other borrowings	10,946,743	10,553,614
Net Cash Flows Provided by Financing Activities	41,831,665	44,990,115
Net Increase (Decrease) in Cash and Cash Equivalents	11,614,725	(694,741)
Cash and Cash Equivalents, Beginning of Year	21,403,910	22,098,651
Cash and Cash Equivalents, End of Year	$ 33,018,635	$ 21,403,910
Supplemental Disclosures Cash Flow Information:		
Interest paid	$ 860,261	$ 337,357
Taxes paid	$ 650,000	$ 550,000
Transfer of loan to other real estate owned	$ -	$ 1,721,700
Assumption of senior debt on foreclosed asset	$ -	$ 1,346,747

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, 2016 and 2015. 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. Federal Home Loan Bank (FHLB) Stock

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

G. 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

H. Other Real Estate Owned

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Loan balances in excess of fair value of the real estate acquired at the date of acquisition are charged against the allowance for loan losses. 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.

I. 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

I. 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 in 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.

J. 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.

K. 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.

L. 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. Increases in the cash value of the policies are recorded in other noninterest income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Income Taxes

Deferred income tax assets are computed using the balance sheet method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the 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, 2015, 2014 and 2013, are open to audit by the Federal authorities and our California state tax returns for the years ended December 31, 2015, 2014, 2013 and 2012, 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, 2016 and 2015. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next 12 months.

N. 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.

O. Advertising Costs

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. 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.

Q. 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 12. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

R. 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.

S. Reclassification

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

T. 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, 2016 and 2015, 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.

U. 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.

V. Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 16, 2017, which is the date the consolidated financial statements were available to be issued.

W. Recent Accounting Guidance Not Yet Effective

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

W. Recent Accounting Guidance Not Yet Effective, Continued

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

W. Recent Accounting Guidance Not Yet Effective, Continued

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

NOTE 2 - INVESTMENT SECURITIES

The amortized cost and fair values of securities held-to-maturity with gross unrealized gains as of December 31, 2016 and 2015, are as follows:

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency Securities	$ 6,499,047	$ 8,871	$ (8,749)	$ 6,499,169
December 31, 2015				
U.S. Agency Securities	$ 6,998,586	$ 7,419	$ (25,711)	$ 6,980,294

NOTE 2 - INVESTMENT SECURITIES, Continued

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, 2016 and 2015, are as follows:

	Less than Twelve Months		Over Twelve Months		Total	
December 31, 2016	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Agency Securities	$ (2,983)	$ 1,496,519	$ (5,766)	$1,993,881	$ (8,749)	$ 3,490,400
December 31, 2015						
U.S. Agency Securities	$ (14,185)	$ 2,985,428	$ (11,526)	$2,987,819	$ (25,711)	$ 5,973,247

As of December 31, 2016 and 2015, the Company had four agency securities and six agency securities respectively, that were in an unrealized loss positions. Unrealized loss on these investment securities 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 securities 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 securities approach maturity.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2016, is shown below.

	Held-to-Maturity	
	Amortized Cost	Fair Value
Due within one year	$ 3,000,148	$ 2,998,564
Due after one year through five years	3,498,899	3,500,605
	$ 6,499,047	$ 6,499,169

At December 31, 2016 and 2015, 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,	
	2016	**2015**
Real estate	$ 180,937,198	$ 147,424,839
Commercial	27,789,293	28,301,285
Consumer	507,181	820,213
Loans Receivable	209,233,672	176,546,337
Allowances for loan losses	(2,647,147)	(2,110,649)
Net deferred loan origination fees	(50,720)	(84,673)
Loans Receivable, net	$ 206,535,805	$ 174,351,015

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

	2016	**2015**
Balance, beginning of year	$ 2,110,649	$ 1,551,999
Provision for credit losses	374,990	546,000
Loans charged-off	-	(45,706)
Recoveries of loans previously charged-off	161,508	58,356
Balance, end of year	$ 2,647,147	$ 2,110,649

At December 31, 2016, the Company had one impaired loan totaling $11,418. At December 31, 2015, the Company had one impaired loan totaling $14,755. No additional funds are committed to be advanced in connection with impaired loans as of December 31, 2016 and 2015.

The Company did not have any loans past due 90 days or more and still accruing interest as of December 31, 2016 and 2015, and no non-accruing loan.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, Continued

The following table presents the activity in the allowance for loan losses for the year 2016, and the recorded investment in loans and impairment method as of December 31, 2016 and 2015, by portfolio segment:

December 31, 2016	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	$ 1,836,204	$ 265,507	$ 8,938	$ 2,110,649
Provisions	402,394	(24,362)	(3,042)	374,990
Charge-offs	-	-	(312)	(312)
Recoveries	116,970	42,850	2,000	161,820
End of Year	$ 2,355,568	$ 283,995	$ 7,584	$ 2,647,147
Reserves:				
Specific	$ -	$ 1,713	$ -	$ 1,713
General	2,355,568	282,282	7,584	2,645,434
	$ 2,355,568	$ 283,995	$ 7,584	$ 2,647,147
Loans Evaluated for Impairment:				
Individually	$ -	$ 11,418	$ -	$ 11,418
Collectively	180,937,198	27,777,875	507,181	209,222,254
	$ 180,937,198	$ 27,789,293	$ 507,181	$ 209,233,672
December 31, 2015				
Allowance for Loan Losses:				
Beginning of Year	$ 1,315,364	$ 226,131	$ 10,504	$ 1,551,999
Provisions	520,840	26,726	(1,566)	546,000
Charge-offs	-	(45,706)	-	(45,706)
Recoveries	-	58,356	-	58,356
End of Year	$ 1,836,204	$ 265,507	$ 8,938	$ 2,110,649
Reserves:				
Specific	$ -	$ 492	$ -	$ 492
General	1,836,204	265,015	8,938	2,110,157
	$ 1,836,204	$ 265,507	$ 8,938	$ 2,110,649
Loans Evaluated for Impairment:				
Individually	$ -	$ 14,755	$ -	$ 14,755
Collectively	147,424,839	28,286,530	820,213	176,531,582
	$ 147,424,839	$ 28,301,285	$ 820,213	$ 176,546,337

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, 2016 and 2015:

December 31, 2016	Pass	Special Mention	Substandard	Impaired	Total
Real estate	$ 180,146,930	$ 790,268	$ -	$ -	$ 180,937,198
Commercial	27,518,674	259,201	-	11,418	27,789,293
Consumer	507,181	-	-	-	507,181
	$ 208,172,785	$1,049,469	$ -	$ 11,418	$ 209,233,672
December 31, 2015					
Real estate	$ 147,424,839	$ -	$ -	$ -	$ 147,424,839
Commercial	28,286,530	-	-	14,755	28,301,285
Consumer	820,213	-	-	-	820,213
	$ 176,531,582	$ -	$ -	$ 14,755	$ 176,546,337

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, 2016	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Real estate	$ 180,502,049	$ 435,149	$ -	$ -	$ -
Commercial	27,689,447	99,846		-	-
Consumer	507,181	-	-	-	-
	$ 208,698,677	$ 534,995	$ -	$ -	$ -
December 31, 2015					
Real estate	$ 147,424,839	$ -	$ -	$ -	$ -
Commercial	28,263,934	37,351	-	-	-
Consumer	820,213	-	-	-	-
	$ 176,508,986	$ 37,351	$ -	$ -	$ -

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2016 and 2015. The Company did not have any impaired loans without a related allowance as of December 31, 2016.

December 31, 2016	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a Related Allowance Recorded					
Commercial	$ 11,418	$ 11,418	$ 1,713	$ 13,097	$ 667
December 31, 2015					
With a Related Allowance Recorded					
Commercial	$ 14,755	$ 14,755	$ 492	$ 16,222	$ 777

The Company has one loan classified as troubled debt restructurings totaling $11,418 at December 31, 2016, and one loan classified as troubled debt restructurings totaling $14,755 at December 31, 2015. 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.

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, 2016 and 2015.

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment at December 31, is as follows:

	2016	2015
Fixtures and equipment	$ 941,270	$ 917,283
Computer software	90,620	90,620
Leasehold improvements	1,392,558	732,833
	2,424,448	1,740,736
Accumulated depreciation and amortization	(1,410,000)	(1,345,322)
	$ 1,014,448	$ 395,414

Total depreciation expense for the years ended December 31, 2016 and 2015, was $209,572 and $157,221, respectively.

NOTE 5 - DEPOSITS

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

	2016	2015
NOW accounts	$ 14,329,425	$ 11,725,455
Savings and money market	91,768,624	68,913,485
Time certificate of deposit accounts under $250,000	20,468,661	22,733,491
Time certificate of deposit accounts over $250,000	4,084,099	3,144,215
	$ 130,650,809	$ 106,516,646

As of December 31, 2016, all noninterest-bearing deposits are demand deposits.

The maturity of time certificates of deposit at December 31, 2016, is as follows:

Year Ending	Amount
2017	$ 20,740,337
2018	3,189,629
2019	453,246
2020	168,640
2021	908
Total	$ 24,552,760

NOTE 5 - DEPOSITS, Continued

Interest expense on deposit accounts is summarized as follows:

	2016	2015
NOW accounts	$ 5,212	$ 4,706
Savings and money market	270,537	77,238
Time certificate of deposit accounts	68,945	73,000
	$ 344,694	$ 154,944

NOTE 6 - INCOME TAXES

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

	2016	2015
Current Taxes:		
Federal	$ 782,942	$ 501,334
State	267,698	182,494
	1,050,640	683,828
Deferred Taxes:		
Federal	180,372	57,596
State	32,741	25,915
	213,113	83,511
Income Tax Expense	$ 837,527	$ 600,317

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

	2016	2015
Federal tax rate	34.0%	34.0 %
State taxes, net of Federal tax benefits	7.2%	7.2 %
Bank Owned Life Insurance	(1.1)%	(1.5)%
Other	(0.6)%	(0.2)%
Provision for Income Tax	39.5%	39.5%

NOTE 6 - 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:

	2016	2015
Deferred Tax Assets:		
Pre-opening expenses	$ 37,332	$ 44,874
Allowance for loan losses due to tax limitations	684,166	529,837
State taxes	86,799	59,551
Share-based compensation	133,600	95,647
Purchase accounting adjustment	589,625	676,989
Other real estate owned	64,351	-
Cash basis reporting for income tax purposes	12,645	-
Other	118,866	76,656
	1,727,384	1,483,554
Deferred Tax Liabilities:		
Depreciation	(26,023)	(61,924)
Loan origination costs	(353,149)	(278,568)
Cash basis reporting for income tax purposes	-	(7,963)
	(379,172)	(348,455)
Net Deferred Tax Assets	$ 1,348,212	$ 1,135,099

NOTE 7 - STOCK INCENTIVE PLANS

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 Board of Directors. 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 units, 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 7 - STOCK INCENTIVE PLANS, Continued

The Company recognized stock-based compensation cost of $153,251 in 2016 and $121,985 in 2015. The Company recognized income tax benefits related to stock-based compensation of $37,860 in 2016 and $36,046 in 2015. At December 31, 2016 and 2015, there was $262,862 and $343,880, respectively, of total unrecognized compensation cost related to the outstanding stock options and restricted stock that will be recognized over a weighted average period of 2.26 and 2.88 years.

The fair value of each option grant in 2016 and 2015 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions presented below.

	2016	2015
Dividend yield	0.00%	0.00%
Expected life	6.5 Years	6.5 Years
Expected volatility	47.12%	50.23%
Risk-free interest rate	2.16%	1.83%
Weighted-average grant date fair value	$2.89	$2.88

The following is the listing of the input variables and the assumptions utilized by the Company for each parameter used in the Black-Scholes option pricing model:

Risk-free Rate - The risk-free rate for periods within the contractual life of the option have been based on the U.S. Treasury rate that matures on the expected assigned life of the option at the date of the grant.

Expected Life of Options - The expected life of options is based on the period of time that options granted are expected to be outstanding.

Expected Volatility - The expected volatility has been based on the historical volatility for the Company's shares.

Dividend Yield - The dividend yield has been based on historical experience and expected future changes on dividend payouts.

NOTE 7 - STOCK INCENTIVE PLANS, Continued

A summary of the status of the Company's stock option plan as of December 31, 2016 and 2015, and changes during the year ending thereon is presented below:

	2016 Options	2016 Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance, beginning of year	168,175	$ 5.74		
Granted	13,651	5.90		
Forfeited or expired	(16,111)	5.65		
Balance, end of year	165,715	$ 5.76	5.87 Years	$ 479,196
Options exercisable	113,350	$ 5.79	4.89 Years	$ 324,392
Options available for granting	412,271			
	2015			
Balance, beginning of year	163,669	$ 6.43		
Granted	49,000	5.65		
Forfeited or expired	(44,494)	8.19		
Balance, end of year	168,175	$ 5.74	6.83 Years	$ 10,690
Options exercisable	96,285	$ 5.85	5.59 Years	$ -
Options available for granting	409,811			

NOTE 7 - STOCK INCENTIVE PLANS, Continued

Restricted Stock

Below is a summary of the restricted unit activity in the Plans for the years ended December 31:

	2016		2015	
	Shares	Weighted Average Grant-Date Fair Value Per Share	Shares	Weighted Average Grant-Date Fair Value Per Share
Unvested at the beginning of year	42,565	$ 5.69	-	$ -
Granted	7,772	5.92	47,565	5.70
Vested	7,500	5.65	5,000	5.85
Unvested at the end of year	42,837	$ 5.73	42,565	$ 5.69

Compensation expense of $73,108 and $67,464 was recorded related to the above restricted unit grants for the years ended December 31, 2016 and 2015. Restricted unit awards are valued at the closing stock price on the date of grant and are expensed to stock based compensation expense over the period for which the related service is performed. The total grant date fair value of awards was $45,585 and $271,242 for 2016 and 2015, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Company leases office facilities and equipment under operating leases which expires through 2021. Rental expense in 2016 and 2015, was $351,170 and $300,312, respectively. Future minimum rental payments under the operating lease as of December 31, 2016, are as follows:

Year Ending December 31,	Amount
2017	$ 360,804
2018	354,797
2019	224,180
2020	238,047
2021	97,152
Total	$ 1,274,980

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

NOTE 9 - BORROWING ARRANGEMENTS

The Company may borrow up to $2,000,000 overnight on an unsecured basis from Pacific Coast Bankers Bank. As of December 31, 2016, 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 $94.1 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 under a blanket lien in the amount of $133.2 million as collateral for this line.

As of December 31, 2016, the Company had the following FHLB advances outstanding. The average balance outstanding during the year was $21,378,415, and the maximum outstanding at any month-end during the year was $24.5 million.

Maturity	Weighted-Average Rate	Amount
2017	1.09%	$ 11,000,000
2018	0.97%	10,000,000
		$ 21,000,000

As of December 31, 2016, the Company had unused borrowing capacity of approximately $5,000,000 secured by approximately $7,400,000 in loans pledged as collateral to the Federal Reserve Bank.

During 2015, the Company entered into a $4,000,000 borrowing arrangement. The note bears interest at a fixed interest rate of 5.5 percent. The note provides for quarterly interest payments with the first interest payment occurring on July 1, 2015. Principal is due at maturity on June 23, 2019. The note is secured by 100 percent of the issued and outstanding shares of the Bank and a $220,000 deposit account in the name of the Company. The principle balance outstanding as of December 31, 2016, was $4,000,000.

During 2015, the Company entered into a borrowing arrangement that provides a $3,000,000 revolving note. Interest is payable quarterly at the Wall Street Journal Prime plus 2.75 percent for a rate of 6.50 percent at December 31, 2016. Principal is due at maturity on June 23, 2019. The note is secured by 100 percent of the issued and outstanding shares of the Bank. The principle balance outstanding as of December 31, 2016, was $1,500,000.

During 2016, the Company issued $3,000,000 in subordinated notes to certain Directors and executive officers of the Company. The notes bear interest at a fixed interest rate of 6.5 percent. The note provides for interest payments due July 1st and January 1st of each year with principal due at maturity on August 1, 2021. The notes are subordinate and junior in right of payment to depositors, obligations under bankers' acceptances and letters of credit, obligations to the Federal Reserve Bank and Federal Deposit Insurance Corporation and obligations to other creditors, except to other creditors holding obligations ranking on a parity with or junior to the subordinates notes.

NOTE 9 - BORROWING ARRANGEMENTS, Continued

In connection with the foreclosure of real estate during 2015, the Company assumed existing senior debt totaling $1,346,747. The note pays interest at three percent annually. Monthly principal and interest payments are due through the maturity date of June 1, 2038. The following is a summary of principal payments to be made by the Company through maturity. Subsequent to December 31, 2016, the Company paid off the principal in full.

Year Ending	Principal Payable
2017	$ 43,858
2018	45,192
2019	46,566
2020	47,982
2021	49,442
Thereafter	1,074,642
Total	$ 1,307,682

NOTE 10 - EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	2016		**2015**	
	Income	Shares	Income	Shares
Net income as reported	$ 1,282,037	-	$ 920,723	-
Weighted average shares outstanding at year-end		2,186,166	-	2,184,684
Dilutive effect of vested outstanding restricted shares	-	10,000	-	5,000
Used in Basic EPS	1,282,037	2,196,166	920,723	2,189,684
Dilutive effect of outstanding stock options	-	17,089	-	4,311
Used in Diluted EPS	$ 1,282,037	2,213,255	$ 920,723	2,193,995

Stock options and restricted units of 92,238 and 133,315 were not considered in computing diluted earnings per common share for 2016 and 2015 because they were antidilutive.

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.

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

	2016	2015
Financial instruments whose contract amounts represent credit risks:		
Commitments to extend credit	$ 35,781,000	$ 24,728,000
Standby letters of credit	261,000	305,000
	$ 36,042,000	$ 25,033,000

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, 2016 and 2015, the Company's balance sheet included deposits from executive officers and directors totaling $8,369,100 and $2,368,890, respectively, and loans to executive officers and directors, which are detailed below.

	2016	2015
Outstanding balance, beginning of year	$ 1,988,270	$ 1,771,603
Credit granted, including renewals	492,022	1,976,001
Repayments	(606,924)	(1,759,334)
Outstanding balance, end of year	$ 1,873,368	$ 1,988,270
Undisbursed commitments at end of year	$ 562,152	$ 620,482

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 $1 billion or more. For bank holding companies with less than $1 billion 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 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 final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0 percent for 2015 to 2.50 percent by 2019. The capital conservation buffer for 2016 is 0.625 percent.

NOTE 13 - REGULATORY MATTERS, Continued

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum capital ratios as set forth in the following table. The Bank's actual capital amounts and ratios as of December 31, 2016 and 2015 are also presented in the table. Management believes, as of December 31, 2016 and 2015, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2016 and 2015, the most recent notification from the FDIC categorized the Bank as 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 1 risk-based, and Tier 1 leverage ratios as set forth in the following table.

There are no conditions or events since notification that management believes have changed the Bank's category.

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

The Bank'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
			(Dollars in Thousands)			
December 31, 2016						
Total capital (to risk-weighted assets)	$ 26,697	12.56%	$ 17,010	8.0%	$ 21,263	10.0%
Tier 1 capital (to risk-weighted assets)	24,039	11.31%	12,758	6.0%	17,010	8.0%
Common Tier 1 (CET1)	24,039	11.31%	9,568	4.5%	13,821	6.5%
Tier 1 capital (to average assets)	24,039	9.24%	10,411	4.0%	13,013	5.0%
December 31, 2015						
Total capital (to risk-weighted assets)	$ 21,692	12.27%	$ 14,143	8.0%	$ 17,679	10.0%
Tier 1 capital (to risk-weighted assets)	19,551	11.06%	10,606	6.0%	14,142	8.0%
Common Tier 1 (CET1)	19,551	11.06%	7,955	4.5%	11,490	6.5%
Tier 1 capital (to average assets)	19,551	9.41%	8,311	4.0%	10,388	5.0%

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Collateral-Dependent Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs, through charge-offs or specific reserve allowance, that are based on the current appraised on market-quoted value of the underlying collateral. The fair value estimates for collateral-dependent impaired loans are generally based on recent real estate appraisals or broker opinions, obtained from independent third parties, which are frequently adjusted by management to reflect current conditions and estimated selling costs (Level 3).

Other Real Estate Owned

Other real estate owned represents real estate that has been foreclosed and adjusted to fair value. At the time of foreclosure, these assets are recorded at fair value less costs to sell, which becomes the asset's new basis. Any write-downs based on the asset's fair value at the date of foreclosure are charged to the allowance for loan losses. The fair value of other real estate owned is generally based on recent real estate appraisals or broker opinions, obtained from independent third parties, which are frequently adjusted by management to reflect current conditions and estimated selling costs (Level 3).

Appraisal for collateral-dependent loans and other real estate owned are performed by certified general appraisers whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the loan department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value. The Company also determines what additional adjustments, if any, should be made to the appraisal values on any remaining other real estate owned to arrive at fair value. No significant adjustments to appraised values have been made as a result of this comparison process as of December 31, 2016.

The following provides a summary of the financial instruments the Company measures at fair value on a non-recurring basis as of December 31, 2016 and 2015:

December 31, 2016	Level 3
Assets Measured on a Non-Recurring Basis	
OREO	$ 3,377,173

December 31, 2015	Level 3
Assets Measured on a Non-Recurring Basis	
OREO	$ 3,362,981

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

Quantitative information about the Company's nonrecurring Level 3 fair value measurements as of December 31, 2016 and 2015, is as follows:

December 31, 2016	Fair Value Amount	Valuation Technique	Unobservable Input	Weighted-Average Adjustment
Other Real Estate Owned	$ 3,377,173	Third Party Appraisals	Management Adjustment to Reflect Current Conditions and Selling Costs	11%
December 31, 2015				
Other Real Estate Owned	$ 3,362,981	Third Party Appraisals	Management Adjustment to Reflect Current Conditions and Selling Costs	14%

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

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

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS, Continued

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2016 and 2015.

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.

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, 2016 and 2015. 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.

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, 2016		December 31, 2015	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Cash and due from banks	Level 1	$ 6,653,635	$ 6,653,635	$ 5,828,910	$ 5,828,910
Interest-bearing deposits with other institutions	Level 1	26,365,000	26,365,000	15,575,000	15,575,000
Investment securities held-to-maturity	Level 2	6,499,047	6,499,169	6,998,586	6,980,294
Time deposits with other institutions	Level 1	349,000	349,265	1,096,000	1,095,686
Restricted stock at cost	Level 2	1,267,700	1,267,700	907,300	907,300
Loans, net	Level 3	206,535,805	207,782,028	174,351,015	178,192,598
Accrued interest	Level 1	595,600	595,600	515,040	515,040
Liabilities					
Deposits	Level 2	$ 208,438,349	$ 208,439,098	$ 177,553,427	$ 177,554,130
Borrowings	Level 2	27,807,682	29,419,718	19,846,747	19,839,806
Accrued interest	Level 1	157,623	157,623	60,234	60,234
		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	$ 36,042,000	$ 360,420	$ 25,033,000	$ 250,330

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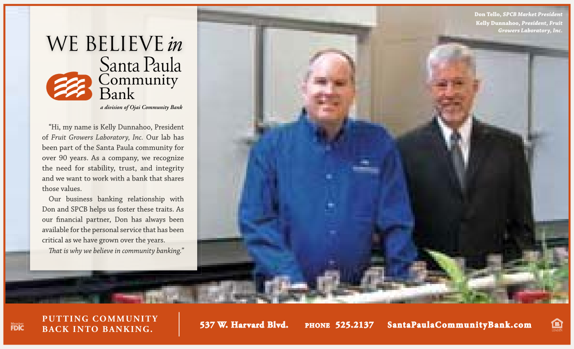

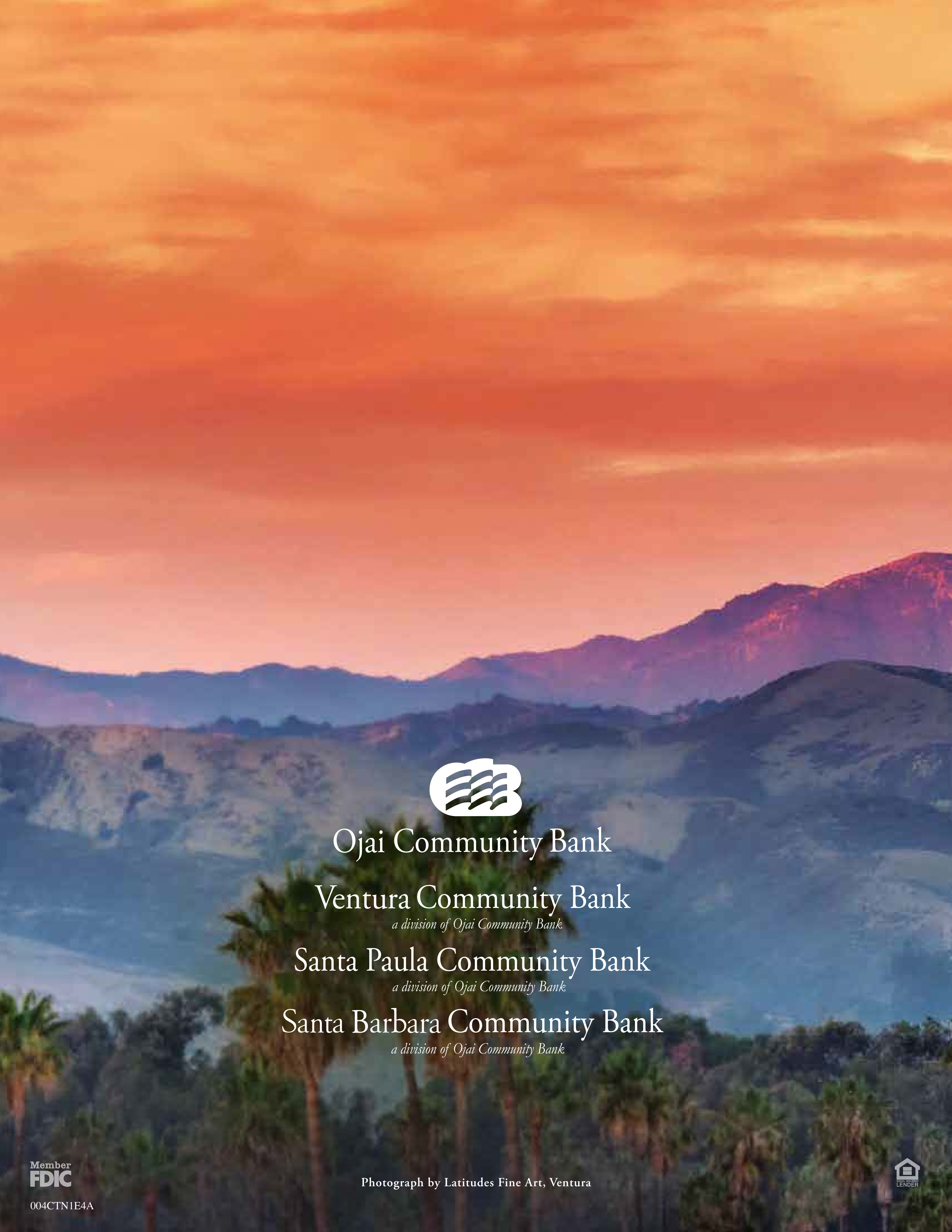

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