Suncrest Bank

A new day in banking

Annual REPORT

2012

Suncrest Bank
A new day in banking

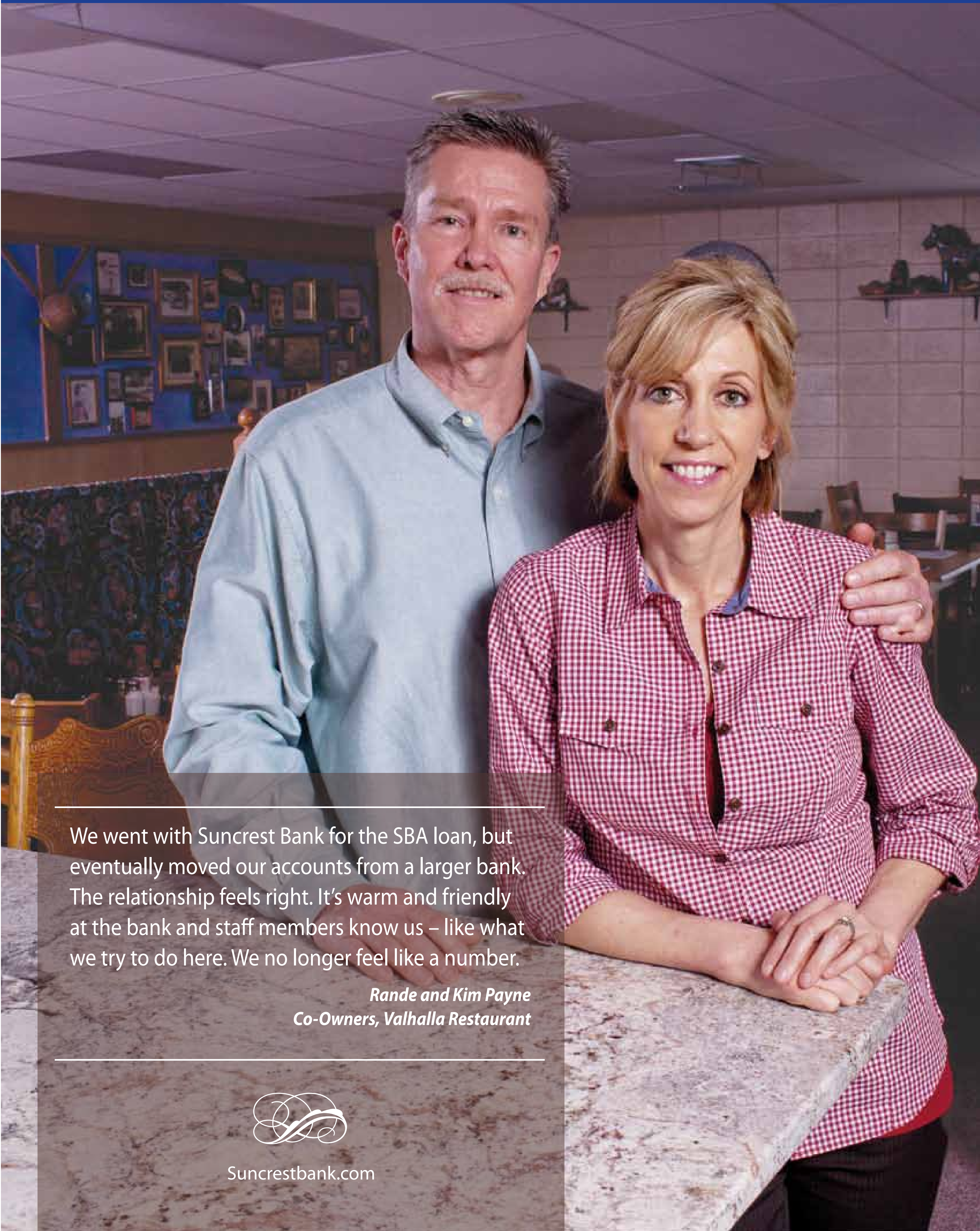
Suncrestbank.com

Visalia Branch
400 West Center Avenue
Visalia, CA 93291
559.802.1000

Porterville Branch
65 West Olive Avenue
Porterville, CA 93257
559.306.1300

Administration
410 West Center Avenue
Suite 101
Visalia, CA 93291
559.802.1060

SUNCREST BANK



Dear Shareholders and Customers,

Suncrest Bank takes pride in meeting our mission to be the premiere independent bank in our region by effectively serving our clientele with exceptional customer service while exceeding customer expectations of their banking experience and creating a secure investment opportunity for our shareholders. Community is defined as a group brought together for the greater good of something and, to Suncrest Bank, community is the cornerstone of who we are as a bank.

We are working hard to create lifelong relationships with our customers in the communities that we serve. Our customers benefit from decisions made locally and they love the hometown service that our expert staff provides. I am very proud of each and every one of our associates. They are the face of Suncrest Bank and they provide our customers with special, personalized service. Their hard work provided the excellent financial results that we enjoyed for the year ending December 31, 2012.

Our net income of **$411,980** was an increase of **$804,871** over the loss for the prior year. This marks our first year of profitable operating results for each quarter. Our assets increased **$7,931,894** over the December 31, 2011, record year, and totaled **$99,122,016** at year end December 31, 2012. This was another year end record for Suncrest Bank.

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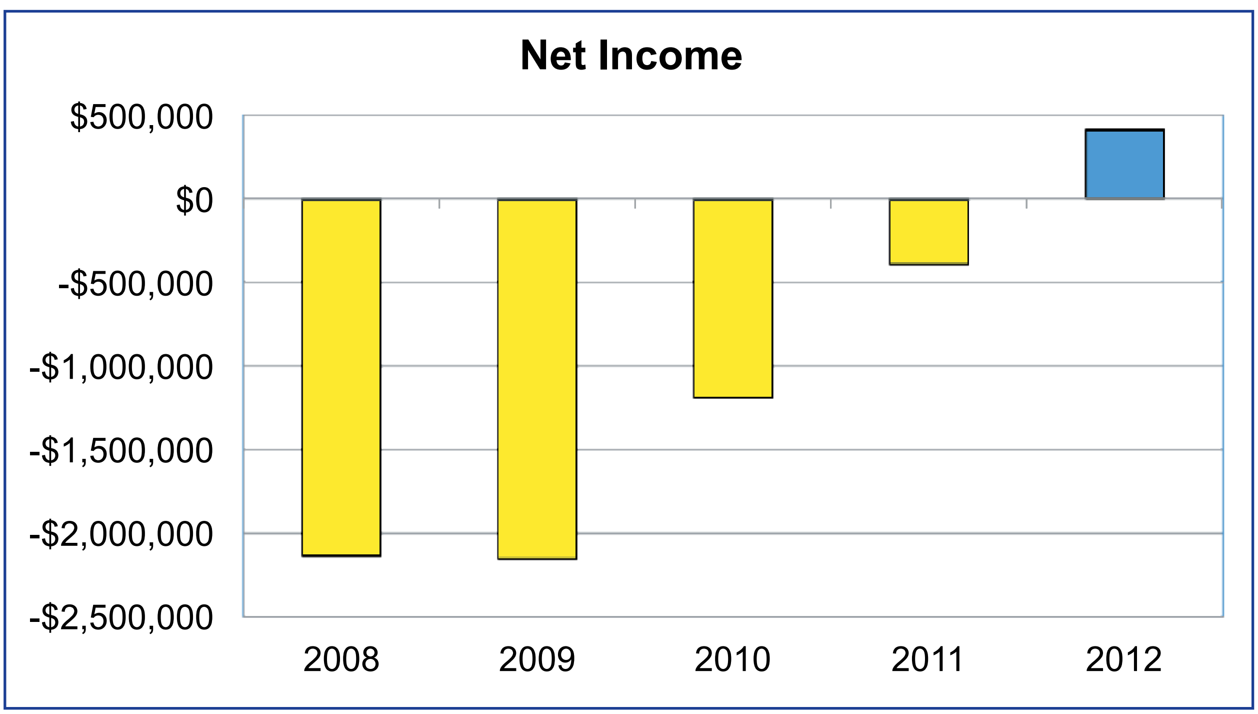


We continue to grow and expand our loan and deposit products. Suncrest Bank is an exceptional agribusiness bank for growers, packers and processors because our staff and Board of Directors are rich in agribusiness experience. We are pleased to offer an outstanding level of expertise to business and agri-business borrowers of all types.

Our founding CEO/President and Director, Michael Wilson, made a career change this year, stepping down as our CEO/ President and member of our Board of Directors. I, my co-directors and the staff of Suncrest Bank wish Mike the best of everything in the future and thank him for his years of excellent service to our Bank.

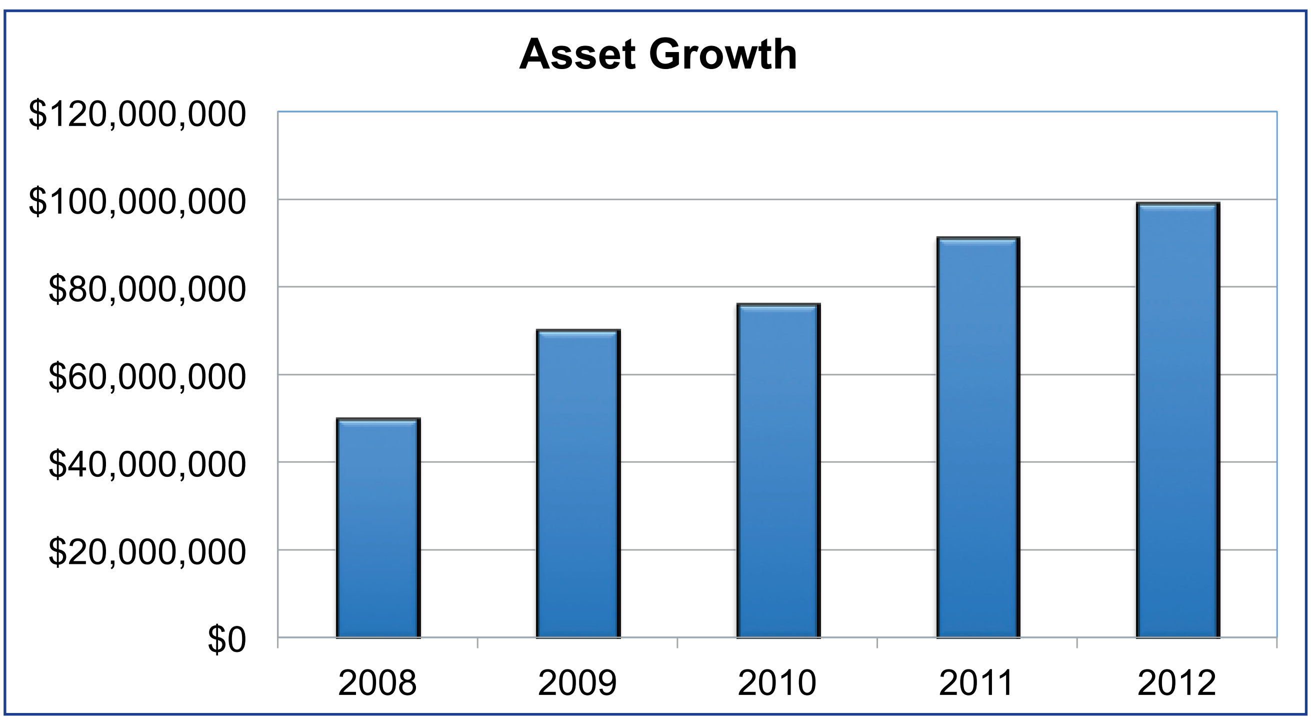
I am grateful to the members of our Board of Directors, whose hard work and dedication help make Suncrest Bank the success that it is. I'd also like to extend a special recognition to Board members Bob Lowery, who left the Board in August, and Steve Worthley, who leaves the Board in April. Both provided Suncrest Bank with outstanding service during their terms and we are a stronger organization thanks to their participation and counsel.

We sincerely appreciate and thank each of you, our shareholders and customers, for your continued support and referrals. You are the reason we are in business, and we appreciate all you do for us.

On behalf of Suncrest Bank, thank you.

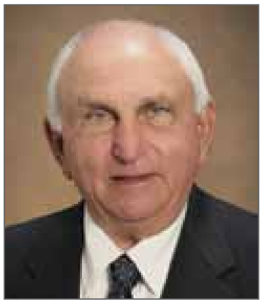
Sincerely,

William A. Benneyan
Interim CEO/President
Chairman of the Board of Directors



This letter includes forward-looking information, which is subject to the "safe harbor" created by 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 which are beyond our control.

Board of Directors



William A. Benneyan

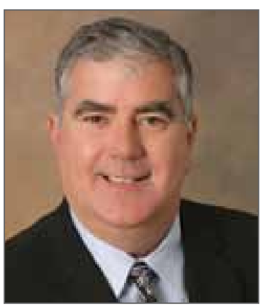
Bill was born and educated in Fresno, CA, and is a graduate of California State University, Fresno. He has lived in the Visalia, Lindsay and Fresno areas nearly his entire life. Bill is a former Certified Public Accountant and owned a CPA practice in Lindsay and Visalia. However, for the past 25 years, Bill has specialized in custom home construction. Bill is a former Vice Chairman of Mineral King National Bank, a highly succesful community bank in Visalia that sold to Vallicorp in 1994.

David C. Crinklaw

Dave is a resident of Reedley, with business interests throughout the Central Valley. Dave sold his home construction business in 2000 and now specializes in commercial construction. He also farms grapes in Fresno and Tulare counties and manages a farm services company serving the Central Valley.

Gary E. Esajian

Gary has lived in the Lemoore area most of his life. He farms in Kings, Fresno and Tulare counties and manages real estate development interests here and in San Luis Obispo County. Gary serves on the Board of the Westlands Water District and the San Joaquin Valley Cotton Board, and is active in local farm bureaus and chambers of commerce.

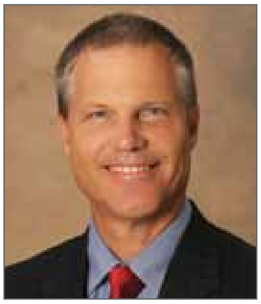


Thomas J. O'Sullivan

Tom was born in Chicago, but for the past 30 years has lived in the Porterville area, where he operated a chain of grocery stores. Tom is a farmer and real estate investor and volunteers with a variety of civic organizations.

Florencio "Frank" Paredez

A native of Tulare County, Frank graduated from College of the Sequoias and farms in the Exeter area. He owns a packinghouse and the Hungry Hollow Borrow Pit in Porterville and is active in local and San Francisco-based farmers' markets. Frank has been active on many boards of directors for organizations throughout Tulare County.



Marc R. Schuil

Marc is a native of Reedley and a graduate of California State University, Fresno. He also earned an MBA from the University of Southern California. Marc is an owner of Schuil and Associates, a real estate brokerage firm specializing in agricultural real estate and the dairies. Marc has been active in a variety of civic organizations.

Eric M. Shannon

Eric's family has been farming in the area for more than 100 years and Eric continues that tradition. A graduate of UC Davis, Eric farms and is active in real estate development projects in the Visalia area. He served as president of his Rotary Club and is active in many other organizations.

Michael E. Thurlow

Mike is a native of the Reedley/Kingsburg area, and is a graduate of Reedley High, Reedley College and California Poly, San Luis Obispo. Mike is an owner/manager of a produce company that stores, packs and ships fruit raised in the South Valley. Mike is active in the community personally and through his business.

Darrell E. Tunnell

Darrell was born in Terra Bella and raised in Porterville. As a student of College of the Sequoias, he moved to Visalia, where he began working in the aircraft repair and maintenance business. Today, he owns Aircraft Mechanical Services, Inc., the fixed-base operator for the Visalia Airport. He is active in sports and in school and community organizations.

J. Steven Worthley

Steve is a native and resident of Dinuba. He is a graduate of Occidental College and earned his JD degree from the University of the Pacific-McGeorge School of Law. He is a practicing attorney and current member, and former chairman, of the Tulare County Board of Supervisors. He has been a very active member of many school, civic and professional organizations.

Dale B. Margosian (not pictured)

Born in Dinuba, Dale is a longtime resident of Porterville and is a graduate of California State University, Fresno. He has managed a thriving CPA practice in Porterville for over 27 years and participates in many civic organizations.

Staff & Officers

Client Service Representative Kathleen Bernardo

VP/Operations Manager Lisa Riso

Interim CEO William Benneyan

Business Banking Specialist Jennifer Noel

Client Service Representative Vicki Evans

SVP/Operations Administrator Debra Bombard

VP/Loan Officer Loren Brooks

AVP/Human Resource Officer Cynthia Paulus

AVP/Note Department Manager Eileen Shine

Left

EVP/Chief Credit Officer Dan McGregor

VP/Business Manager Charlie Glenn

EVP/CFO Robert Moore III

VP/Operations Manager Michelle Gletne

Right

Client Services Representatives Allison Moorhead, Lori Buecheler and Christine Catalina, with Business Development Officer Gary Gostanian

Not pictured: Operations Specialist Susan Blanchard; Credit Analyst Tracy Cizek; Client Service Representative Heather Fiori; Administration Operations Specialist Elia Havner; SBA Commercial Processor/Closer Rosemary Leon; Note Department Assistant Karen Snow; Business Service Support Specialist Adriana Vidales; Note Department Assistant Gloria Wilson

SUNCREST BANK

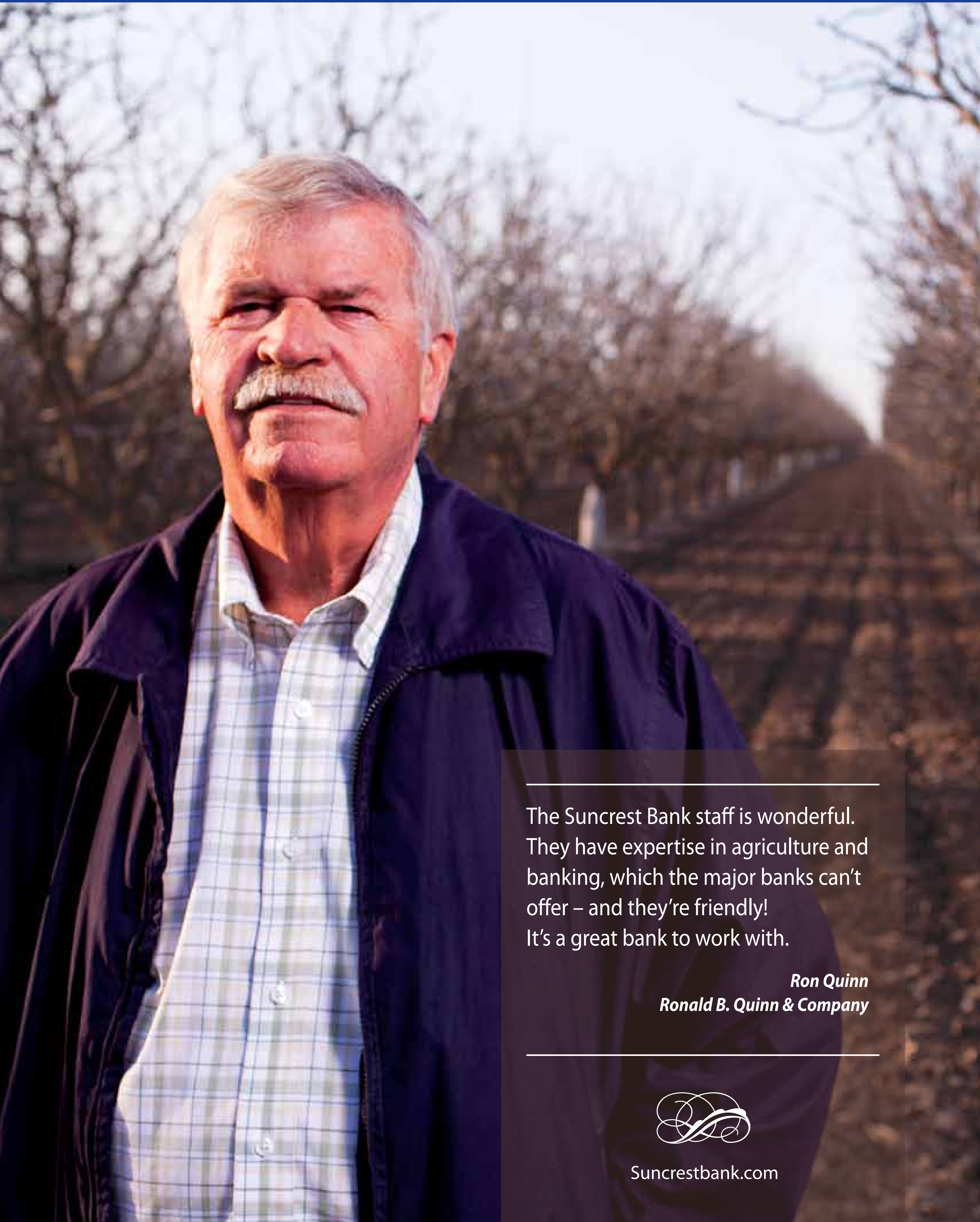


Table of Financial Statements

A new day in banking

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders of
Suncrest Bank

We have audited the accompanying financial statements of Suncrest Bank, which are comprised of the statements of financial condition as of December 31, 2012 and 2011, and the related statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Suncrest Bank as of December 31, 2012 and 2011, 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

Laguna Hills, California
February 13, 2013

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com

STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
Cash and Due from Banks	$ 3,246,558	$ 3,247,278
Federal Funds Sold	-	1,975,000
TOTAL CASH AND CASH EQUIVALENTS	3,246,558	5,222,278
Investment Securities Available for Sale	14,722,347	15,130,342
Loans:		
Real Estate - Other	61,213,599	53,616,983
Construction and Land Development	5,036,703	3,969,149
Commercial and Industrial	13,146,476	11,683,214
Consumer	1,021,792	775,308
TOTAL LOANS	80,418,570	70,044,654
Deferred Loan Fees, Net of Costs	(156,806)	(189,490)
Allowance for Loan Losses	(1,371,881)	(1,312,066)
NET LOANS	78,889,883	68,543,098
Premises and Equipment	870,798	1,023,789
Federal Home Loan Bank and Other Bank Stock, at Cost	560,802	464,047
Other Real Estate Owned	251,544	251,544
Accrued Interest and Other Assets	580,084	555,024
	$ 99,122,016	$ 91,190,122

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

STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2012 AND 2011

LIABILITIES AND SHAREHOLDERS' EQUITY

	2012	2011
Deposits:		
Noninterest-bearing Demand	$ 23,830,513	$ 22,431,923
Savings, NOW and Money Market Accounts	41,499,630	32,966,541
Time Deposits Under $100,000	3,977,553	4,094,915
Time Deposits $100,000 and Over	15,474,717	18,550,353
TOTAL DEPOSITS	84,782,413	78,043,732
Federal Funds Purchased	700,000	-
Accrued Interest and Other Liabilities	460,249	419,136
TOTAL LIABILITIES	85,942,662	78,462,868
Commitments and Contingencies - Notes D and J	-	-
Shareholders' Equity:		
Preferred Stock - No par value, 10,000,000 Shares Authorized, None Outstanding	-	-
Common Stock - No par value, 10,000,000 Shares Authorized, Shares Issued and Outstanding, 1,911,777 in 2012 and 2011	19,117,770	19,117,770
Additional Paid-in Capital	1,479,306	1,434,435
Accumulated Deficit	(7,440,743)	(7,852,723)
Accumulated Other Comprehensive Income - Net Unrealized Gain on Securities Available for Sale, Net of Taxes of $15,998 in 2012 and $19,299 in 2011	23,021	27,772
TOTAL SHAREHOLDERS' EQUITY	13,179,354	12,727,254
	$ 99,122,016	$ 91,190,122

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

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
INTEREST INCOME		
Interest and Fees on Loans	$ 4,390,648	$ 4,067,702
Interest on Investment Securities	163,654	136,790
Interest on Federal Funds Sold and Other	23,711	17,254
TOTAL INTEREST INCOME	4,578,013	4,221,746
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	217,459	205,299
Interest on Time Deposits	195,724	221,233
Interest on Other Borrowings	38	-
TOTAL INTEREST EXPENSE	413,221	426,532
NET INTEREST INCOME	4,164,792	3,795,214
Provision for Loan Losses	99,000	223,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,065,792	3,572,214
NONINTEREST INCOME		
Service Charges, Fees, and Other Income	43,438	77,559
Gain on Sale of Loans	286,858	33,173
	330,296	110,732
NONINTEREST EXPENSE		
Salaries and Employee Benefits	2,153,622	2,132,046
Occupancy Expenses	563,196	565,336
Equipment Expenses	197,578	233,598
Other Expenses	1,068,912	1,144,057
	3,983,308	4,075,037
INCOME (LOSS) BEFORE INCOME TAXES	412,780	(392,091)
Income Taxes	800	800
NET INCOME (LOSS)	$ 411,980	$(392,891)
NET INCOME (LOSS) PER SHARE - BASIC	$ 0.22	$(0.21)
NET INCOME (LOSS) PER SHARE - DILUTED	$ 0.22	$(0.21)

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

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Net Income (Loss)	$ 411,980	$ (392,891)
OTHER COMPREHENSIVE INCOME:		
Unrealized Gains (Losses) on Securities Available for Sale	(8,052)	98,635
	(8,052)	98,635
Income Tax Expense (Benefit)	(3,301)	19,299
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(4,751)	79,336
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 407,229	$ (313,555)

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Common Stock		Additional		Accumulated Other	
	Number of Shares	Amount	Paid-in Capital	Accumulated Deficit	Comprehensive Income	Total
Balance December 31, 2010	1,911,777	$ 19,117,770	$ 1,337,482	$(7,459,832)	$(51,564)	$ 12,943,856
Net Loss				(392,891)		(392,891)
Stock-based Compensation			96,953			96,953
Change in Other Comprehensive Income, Net of Taxes					79,336	79,336
Balance at December 31, 2011	1,911,777	19,117,770	1,434,435	(7,852,723)	27,772	12,727,254
Net Income				411,980		411,980
Stock-based Compensation			44,871			44,871
Change in Other Comprehensive Income, Net of Taxes					(4,751)	(4,751)
Balance at December 31, 2012	1,911,777	$ 19,117,770	$ 1,479,306	$(7,440,743)	$ 23,021	$ 13,179,354

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES		
Net Income (Loss)	$ 411,980	$(392,891)
Adjustments to Reconcile Net Income (Loss) to Net Cash		
From Operating Activities:		
Depreciation and Amortization	197,325	250,456
Stock-based Compensation	44,871	96,953
Provision for Loan Losses	99,000	223,000
Write down of Other Real Estate Owned	-	64,756
Gain on Sale of Loans	(286,858)	(33,173)
Loans Originated for Sale	(3,136,432)	-
Proceeds from Sale of Loans	3,459,662	-
Other Items	122,614	182,209
NET CASH FROM OPERATING ACTIVITIES	912,162	391,310
INVESTING ACTIVITIES		
Net Change in Interest-Bearing Deposits in Other Banks	-	480,543
Net Increase in Loans	(10,544,168)	(14,804,904)
Purchase of AFS Securities	(14,099,757)	(13,505,785)
Maturities of AFS Securities	14,456,496	10,917,564
Purchase of Federal Home Loan Bank Stock	(94,800)	(133,500)
Purchases of Premises and Equipment	(44,334)	(46,171)
NET CASH FROM INVESTING ACTIVITIES	(10,326,563)	(17,092,253)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	9,931,679	12,838,559
Net Change in Time Deposits	(3,192,998)	2,542,659
Net Increase in Federal Funds Purchased	700,000	-
NET CASH FROM FINANCING ACTIVITIES	7,438,681	15,381,218
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,975,720)	(1,319,725)
Cash and Cash Equivalents at Beginning of Period	5,222,278	6,542,003
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,246,558	$ 5,222,278
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 414,410	$ 427,886
Taxes Paid	$ 800	$ 800

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Bank has been incorporated in the State of California and organized as a single operating segment that operates two full-service branches in Visalia and Porterville, California. The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals located primarily in the Southern Central Valley of California.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through February 13, 2013, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks and federal funds sold. Generally, federal funds are sold for periods of less than ninety days.

Cash and Due from Banks

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Bank was in compliance with its reserve requirements as of December 31, 2012.

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

Investment Securities

Bonds, notes, and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period of maturity.

Investments not classified as trading securities nor as held to maturity securities are classified as available-for-sale securities and recorded at fair value. Unrealized gains or losses on available-for-sale securities are excluded from net income and reported as an amount net of taxes as a separate component of other comprehensive income included in shareholders' equity. Premiums and discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method. Realized gains or losses of held-to-maturity or available-for-sale securities are recorded using the specific identification method.

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.

Loans Held for Sale

Government Guaranteed loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains or losses realized on the sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold, adjusted for any servicing asset or liability. Gains and losses on sales of loans are included in noninterest income.

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 deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

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

The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired with measurement of impairment as described above.

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

General reserves cover non-impaired loans and are based on peer bank historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions; changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Portfolio segments identified by the Bank include real estate – other, construction and land development, commercial and industrial, and consumer loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to income, collateral type and loan-to-value ratios for consumer loans.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which ranges from three to ten years for furniture and equipment. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

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, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Advertising Costs

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Bank, 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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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 Bank's carrying value of the property or its fair value, less estimated carrying costs and costs of disposition. Fair value is based on current appraisals less estimated selling costs. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses.

Income Taxes

Deferred income taxes are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods.

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

Comprehensive Income

Changes in unrealized gains and losses on available-for-sale securities is the only component of accumulated other comprehensive income for the Bank.

Financial Instruments

In the ordinary course of business, the Bank 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 J. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Earnings Per Share ("EPS")

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if 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. All of the outstanding stock options were not considered in computing diluted earnings per share for 2012 and 2011 because they were antidilutive. Weighted-average shares used in the computation of basic EPS were 1,911,777 in 2012 and 2011.

Fair Value Measurement

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. The 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 a Bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Stock-Based Compensation

The Bank recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Stock-Based Compensation - Continued

period which an employee is required to provide services in exchange for the award, generally the vesting period. See Note K for additional information on the Bank's stock option plan.

Reclassifications

Certain reclassifications have been made in the 2011 financial statements to conform to the presentation used in 2012. These reclassifications had no impact of the Bank's previously reported financial statements.

Adoption of New Accounting Standards

In May, 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendment in this guidance was effective for interim and annual reporting periods beginning after December 15, 2011. The amendment did not significantly impact the Bank.

In September 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholder's equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. This amendment was effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of this amendment changed the presentation of comprehensive income included in these financial statements.

NOTE B - INVESTMENT SECURITIES

Debt and equity securities have been classified in the statements of financial condition according to management's intent. The amortized cost of securities and their approximate fair values at December 31 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012				
Available-for-Sale Securities:				
U.S. Government and Agency Securities	$ 13,784,705	$ 40,511	$(10,691)	$ 13,814,525
Mortgaged-Backed Securities	898,623	9,526	(327)	907,822
	$ 14,683,328	$ 50,037	$(11,018)	$ 14,722,347
December 31, 2011				
Available-for-Sale Securities:				
U.S. Government and Agency Securities	$ 13,503,279	$ 36,187	$(2,696)	$ 13,536,770
Mortgaged-Backed Securities	1,579,992	15,539	(1,959)	1,593,572
	$ 15,083,271	$ 51,726	$(4,655)	$ 15,130,342

The amortized cost and estimated fair value of all investment securities as of December 31, 2012 by expected maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale Securities	
	Amortized Cost	Fair Value
Due within One Year	$ 4,873,149	$ 4,890,714
Due from One Year to Five Years	9,810,179	9,831,633
	$ 14,683,328	$ 14,722,347

As of December 31, 2012 and 2011 no investment security had been in a continuous loss position for a period of more than twelve consecutive months. 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 their anticipated recovery, and the decline in fair value is due to changes in interest rates. The fair value is expected to recover as the bond approaches maturity.

Securities with a fair value of approximately $4.5 million at December 31, 2012 were pledged to the Federal Home Loan Bank to secure borrowings as discussed in Note F.

NOTE C - LOANS

The Bank's loan portfolio consists primarily of loans to borrowers within the Southern Central Valley of California. Although the Bank seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Bank's market area and, as a result, the Bank's loan and collateral portfolios are, to some degree, concentrated in those industries.

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

	2012	2011
Balance at Beginning of Year	$ 1,312,066	$ 1,089,066
Additions to the Allowance Charged to Expense	99,000	223,000
Recoveries on Loans Charged Off	750	-
	1,411,816	1,312,066
Less Loans Charged Off	(39,935)	-
	$ 1,371,881	$ 1,312,066

NOTE C - LOANS - Continued

The following table presents the activity in the allowance for loan losses for the year 2012 and 2011 and the recorded investment in loans and impairment method as of December 31, 2012 and 2011 by portfolio segment:

December 31, 2012	Real Estate - Other	Construction and Land Development	Commercial and Industrial	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	$ 992,674	$ 102,033	$ 203,658	$ 13,701	$ 1,312,066
Provisions	33,013	(17,847)	84,519	(685)	99,000
Charge-offs	-	-	(39,935)	-	(39,935)
Recoveries	-	-	750	-	750
End of Year	$ 1,025,687	$ 84,186	$ 248,992	$ 13,016	$ 1,371,881
Reserves:					
Specific	$ -	$ -	$ -	$ -	$ -
General	1,025,687	84,186	248,992	13,016	1,371,881
	$ 1,025,687	$ 84,186	$ 248,992	$ 13,016	$ 1,371,881
Loans Evaluated for Impairment:					
Individually	$ 650,948	$ 555,256	$ -	$ -	$ 1,206,204
Collectively	60,562,651	4,481,447	13,146,476	1,021,792	79,212,366
	$ 61,213,599	$ 5,036,703	$ 13,146,476	$ 1,021,792	$ 80,418,570
December 31, 2011					
Allowance for Loan Losses:					
Beginning of Year	$ 678,788	$ 265,256	$ 137,393	$ 7,629	$ 1,089,066
Provisions	313,886	(163,223)	66,265	6,072	223,000
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
End of Year	$ 992,674	$ 102,033	$ 203,658	$ 13,701	$ 1,312,066
Reserves:					
Specific	$ -	$ -	$ -	$ -	$ -
General	992,674	102,033	203,658	13,701	1,312,066
	$ 992,674	$ 102,033	$ 203,658	$ 13,701	$ 1,312,066
Loans Evaluated for Impairment:					
Individually	$ 812,779	$ 695,000	$ 41,436	$ -	$ 1,549,215
Collectively	52,804,204	3,274,149	11,641,778	775,308	68,495,439
	$ 53,616,983	$ 3,969,149	$ 11,683,214	$ 775,308	$ 70,044,654

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

Pass - Loans classified as pass include loans not meeting the risk ratings defined below.

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

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

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

The risk category of loans by class of loans was as follows as of December 31, 2012:

December 31, 2012	Pass	Special Mention	Substandard	Impaired	Total
Real Estate Other:					
Commercial	$32,920,050	$ -	$2,175,317	$ 650,948	$35,746,315
Farmland	18,946,334	-	-	-	18,946,334
1-4 Family Residential	4,391,584	-	-	-	4,391,584
Multifamily Residential	2,129,366	-	-	-	2,129,366
Construction and Land Development	4,481,447	-	-	555,256	5,036,703
Commercial and Industrial	13,026,888	-	119,588	-	13,146,476
Consumer	1,021,792	-	-	-	1,021,792
	$76,917,461	$ -	$2,294,905	$1,206,204	$80,418,570

The risk category of loans by class of loans was as follows as of December 31, 2011:

December 31, 2011	Pass	Special Mention	Substandard	Impaired	Total
Real Estate Other:					
Commercial	$30,838,227	$ -	$2,260,760	$ 812,779	$33,911,766
Farmland	13,070,619	-	-	-	13,070,619
1-4 Family Residential	4,460,526	-	-	-	4,460,526
Multifamily Residential	2,174,072	-	-	-	2,174,072
Construction and Land Development	3,274,149	-	-	695,000	3,969,149
Commercial and Industrial	11,468,805	-	172,973	41,436	11,683,214
Consumer	775,308	-	-	-	775,308
	$66,061,706	$ -	$2,433,733	$1,549,215	$70,044,654

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2012 and 2011:

	Still Accruing			
December 31, 2012	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Real Estate Other:				
Commercial	$ -	$ -	$ -	$ 650,948
Farmland	-	-	-	-
1-4 Family Residential	-	-	-	-
Multifamily Residential	-	-	-	-
Construction and Land Development	-	-	-	555,256
Commercial and Industrial	-	-	-	-
Consumer	-	-	-	-
	$ -	$ -	$ -	$1,206,204
December 31, 2011				
Real Estate Other:				
Commercial	$ -	$ -	$ -	$ 812,779
Farmland	-	-	-	-
1-4 Family Residential	-	-	-	-
Multifamily Residential	-	-	-	-
Construction and Land Development	-	-	-	695,000
Commercial and Industrial	-	-	-	41,436
Consumer	-	-	-	-
	$ -	$ -	$ -	$1,549,215

NOTE C - LOANS - Continued

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2012 and 2011:

December 31, 2012	Balance	Investment	Allowance	Investment	Recognized
With No Related Allowance Recorded					
Real Estate Other:					
Commercial	$ 754,370	$ 650,948	$ -	$ 710,000	$ -
Farmland	-	-	-	-	-
1-4 Family Residential	-	-	-	-	-
Multifamily Residential	-	-	-	-	-
Construction and Land Development	646,039	555,256	-	607,000	-
Commercial and Industrial	-	-	-	-	-
Consumer	-	-	-	-	-
	$ 1,400,409	$ 1,206,204	$ -	$ 1,317,000	$ -

December 31, 2011					
With No Related Allowance Recorded					
Real Estate Other:					
Commercial	$ 812,779	$ 812,779	$ -	$ 813,000	$ -
Farmland	-	-	-	-	-
1-4 Family Residential	-	-	-	-	-
Multifamily Residential	-	-	-	-	-
Construction and Land Development	695,000	695,000	-	2,303,000	-
Commercial and Industrial	41,436	41,436	-	193,000	-
Consumer	-	-	-	-	-
	$ 1,549,215	$ 1,549,215	$ -	$ 3,309,000	$ -

There were no troubled debt restructurings during 2012 and 2011.

NOTE D - PREMISES AND EQUIPMENT

A summary of premises and equipment as of December 31 follows:
The Bank has entered into two leases for its main office and Porterville

	2012	2011
Leasehold Improvements	$ 1,182,465	$ 1,172,286
Furniture, Fixtures, and Equipment	806,436	772,280
	1,988,901	1,944,566
Less Accumulated Depreciation and Amortization	(1,118,103)	(920,777)
	$ 870,798	$ 1,023,789

office, which will expire in January 2017 and July 2018, respectively. The Bank leases it Porterville Office from two Directors of the Bank. These leases include provisions for periodic rent increases as well as payment by the lessee of certain operating expenses. These leases also include provisions for options to extend the lease. The rental expense relating to these leases and other short term rentals was approximately $287,000 and $283,000 for the years ended December 31, 2012 and 2011, respectively.

At December 31, 2012, the future lease rental payable under noncancellable operating lease commitments for the Bank's main office and Porterville office was as follows:

	Related Party	Others
2013	$ 125,050	$ 176,614
2014	130,052	181,912
2015	135,254	187,370
2016	140,664	192,991
2017	146,291	16,137
Thereafter	87,295	-
	$ 764,606	$ 755,024

The minimum rental payments shown above are given for the existing lease obligation and are not a forecast of future rental expense.

NOTE E - DEPOSITS

At December 31, 2012, the scheduled maturities of time deposits are as follows:

2013	$ 14,393,385
2014	1,747,000
2015	765,393
2016	1,306,430
2017	1,240,062
	$ 19,452,270

NOTE F - OTHER BORROWINGS

The Bank may borrow up to $9,400,000 overnight on an unsecured basis from its correspondent banks. As of December 31, 2012, the Bank has $700,000 outstanding with The Independent Bankers Bank. No amounts were outstanding under these arrangements in 2011.

In addition, the Bank is also a member of the Federal Home Loan Bank and has arranged secured borrowing lines with that institution. As of December 31, 2012, the Bank had pledged $4.5 million of investment securities resulting in a borrowing capacity of approximately $4.4 million. As of December 31, 2012, no advances were outstanding under this arrangement.

NOTE G - OTHER EXPENSES

Other expenses as of December 31 are comprised of the following:

	2012	2011
Professional Fees	$ 403,768	$ 406,633
Data Processing	258,654	237,498
Office Expenses	133,549	127,594
Marketing and Business Promotion	69,077	77,096
Insurance	31,413	23,673
Regulatory Assessments	99,957	118,761
OREO Expenses	2,882	69,487
Other Expenses	69,612	83,315
	$ 1,068,912	$1,144,057

NOTE H - INCOME TAXES

During 2012, the Bank recognized income tax expense of $800 comprised of $207,800 of taxes accrued on current operating earnings reduced by a $207,000 reduction in the valuation allowance against net deferred tax assets established in prior years. The tax expense for the year ended December 31, 2011 was the minimum franchise tax for the State of California. The tax benefits related to the operating losses incurred during the period ended December 31, 2011 were not recognized, as realization of the benefits is dependent upon future income.

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying statement of financial condition at December 31:

	2012	2011
Deferred Tax Assets:		
Pre-Opening Expenses	$ 455,000	$ 498,000
Allowance for Loan Losses Due to Tax Limitations	539,000	498,000
Depreciation Differences	100,000	43,000
Operating Loss Carryforwards	1,081,000	1,505,000
Stock-Based Compensation	386,000	402,000
Other Assets and Liabilities	386,000	258,000
	2,947,000	3,204,000
Valuation Allowance	(2,829,000)	(3,036,000)
Deferred Tax Liabilities:		
Unrealized Gain on Available-for-Sale Securities	(16,000)	(19,000)
Other Assets and Liabilities	(118,000)	(168,000)
	(134,000)	(187,000)
Net Deferred Tax Liabilities	$(16,000)	$(19,000)

The valuation allowance was established because the Bank has not reported earnings sufficient enough to support the recognition of the deferred tax assets. The Bank has net operating loss carryforwards of approximately $2,638,000 for federal income purposes and $2,576,000 for California franchise tax purposes. Federal and California net operating loss carryforwards, to the extent not used will expire in 2030. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

The Bank is subject to federal income tax and franchise tax of the state of California. Income tax returns for the periods ended December 31, 2011, 2010 and 2009 are open to audit by the federal authorities and income tax returns for the years ended December 31, 2011, 2010, 2009 and 2008 are open to audit by state authorities.

NOTE I - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to certain directors and the companies with which they are associated. The total outstanding principal and commitment of these loans at December 31, 2012 and 2011 was approximately $3,295,000 and $5,624,000, respectively.

Also, in the ordinary course of business, certain executive officers, directors and companies with which they are associated have deposits with the Bank. The balances of these deposits at December 31, 2012 and 2011 amounted to approximately $14,180,000 and $13,129,000, respectively.

NOTE J - COMMITMENTS

In the ordinary course of business, the Bank enters into financial commitments to meet the financing needs of its customers. Those instruments involve to varying degrees, elements of credit and interest rate risk not recognized in the Bank's financial statements.

The Bank's exposure to loan loss in the event of nonperformance on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for loans reflected in the financial statements.

As of December 31, 2012 and 2011, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2012	2011
Commitments to Extend Credit	$ 6,296,000	$ 7,379,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Bank evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank is based on management's credit evaluation of the customer. The majority of the Bank's commitments to extend credit and standby letters of credit are secured by real estate or cash, respectively.

NOTE K - STOCK OPTION PLAN

The Bank's 2007 Stock Option Plan was approved by its shareholders in July 2008. Under the terms of the 2007 Stock Option Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and organizers, who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase 573,473 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of the grant. Stock options expire no later than ten years from the date of the grant and generally vest over three to five years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. The Bank recognized stock-based compensation cost of $44,871 and $96,953 for the periods ended December 31, 2012 and 2011.

No stock options were granted in 2012 and 2011.

A summary of the status of the Bank's stock option plan as of December 31, 2012 and changes during the year ended thereon is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value in Thousands
Outstanding at Beginning of Year	465,804	$ 9.87		
Granted	-	$ -		
Exercised	-	$ -		
Forfeited	(74,300)	$ 10.00		
Outstanding at End of Year	391,504	$ 9.85	5.18 Years	$ -
Options Exercisable	377,504	$ 9.91	5.09 Years	$ -

As of December 31, 2012, there was $21,795 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 1.35 years.

NOTE L - FAIR VALUE MEASUREMENT

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

Securities

The fair values of securities available for sale are determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

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).

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2012:

	Fair Value Measurements Using: Level 1	Level 2	Level 3	Total
December 31, 2012				
Assets measured at fair value on a recurring basis				
Securities Available for Sale	$ -	$14,722,347	$ -	$14,722,347
Assets measured at fair value on a non-recurring basis				
Other Real Estate Owned	$ -	$ -	$ 251,544	$ 251,544
December 31, 2011				
Assets measured at fair value on a recurring basis				
Securities Available for Sale	$ -	$15,130,342	$ -	$15,130,342
Assets measured at fair value on a non-recurring basis				
Other Real Estate Owned	$ -	$ -	$ 251,544	$ 251,544

At December 31, 2012 and 2011, other real estate owned, which is measured at fair value less costs to sell, had a net carrying amount of $251,544, after write-downs of $64,756 during 2011. There were no write-downs in 2012.

Quantitative information about the Bank's nonrecurring Level 3 fair value measurements as of December 31, 2012 is as follows:

	Fair Value Amount	Valuation Technique	Unobservable Input	Range
Other Real Estate Owned	$ 251,544	Third Party Appraisals	Selling Costs	10%

NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related

NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

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.

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

Financial Assets

The carrying amounts of cash, short term investments, due from customers on acceptances, and bank acceptances outstanding are considered to approximate fair value. Short term investments include federal funds sold, securities purchased under agreements to resell, and interest bearing deposits with banks. The fair values of investment securities, including available for sale, are generally based on matrix pricing. The fair value of loans are estimated using a combination of techniques, including discounting estimated future cash flows and quoted market prices of similar instruments where available.

Financial Liabilities

The carrying amounts of deposit liabilities payable on demand, commercial paper, and other borrowed funds are considered to approximate fair value. For fixed maturity deposits, fair value is estimated by discounting estimated future cash flows using currently offered rates for deposits of similar remaining maturities. The fair value of long term debt is based on rates currently available to the Bank for debt with similar terms and remaining maturities.

Off-Balance Sheet Financial Instruments

The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. The fair value of these financial instruments is not material.

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2012 and 2011 are summarized as follows (dollar amounts in thousands):

		2012		2011	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Cash and Cash Equivalents	Level 1	$ 3,247	$ 3,247	$ 5,222	$ 5,222
Investment Securities	Level 1	14,722	14,722	15,130	15,130
Loans, net	Level 2	78,890	78,892	68,543	68,543
Other Bank Stock	Level 2	561	561	464	464
Financial Liabilities:					
Deposits	Level 2	84,782	84,782	78,044	78,044
Federal Funds Purchased	Level 2	700	700	-	-

NOTE N - EMPLOYEE BENEFIT PLAN

The Bank adopted a 401(k) Plan for its employees in 2008. Under the plan, eligible employees may defer a portion of their salaries. The plan also provides for a non-elective discretionary contribution by the Bank. The Bank made no contributions for 2012 or 2011.

NOTE O - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2012 and 2011, that the Bank meets all capital adequacy requirements.

As of December 31, 2012, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well capitalized, the Bank must maintain minimum ratios as set forth in the table below.

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

			Amount of Capital Required			
	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
		Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2012:						
Total Capital (to Risk-Weighted Assets)	$14,159	16.3%	$6,977	8.0%	$8,721	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$13,156	15.1%	$3,489	4.0%	$5,233	6.0%
Tier 1 Capital (to Average Assets)	$13,156	12.5%	$4,227	4.0%	$5,284	5.0%
As of December 31, 2011:						
Total Capital (to Risk-Weighted Assets)	$13,572	17.6%	$6,186	8.0%	$7,733	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$12,699	16.5%	$3,093	4.0%	$4,640	6.0%
Tier 1 Capital (to Average Assets)	$12,699	13.9%	$3,665	4.0%	$4,582	5.0%

The California Financial Code provides that a Bank may not make a cash distribution to its shareholders in excess of the lesser of the Bank's undivided profits or the Bank's net income for its last three fiscal years less the amount of any distribution made to the Bank's shareholders during the same period.