2013 Annual REPORT

Suncrest Bank

A new day in banking

Helping to

BUILD & SUSTAIN

local communities

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 Agribusiness
A Division of Suncrest Bank

2013

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Investing in Our Communities

This year, Suncrest Bank launched the "Bank Local" campaign because the Board of Directors recognizes that banking locally, as well as buying and dining locally, are the keys to reshaping the local economy.

By supporting local businesses and organizations, Suncrest Bank enhances job creation and healthier communities. In response, when local businesses bank locally, they ensure that the money is re-invested locally. Nationally, small banks are responsible for 56 percent of commercial loans – compared with just 18 percent of loans from the nation's largest 20 banks.

Shareholders and customers of Suncrest Bank make our "Bank Local" mission possible. To invest in a community bank is to invest in communities, and it is an investment with profound promise.

Suncrestbank.com

Dear Shareholders and Customers,

On behalf of the Board of Directors and Management of Suncrest Bank, we are privileged and honored to provide you with our Annual Report for the year 2013.

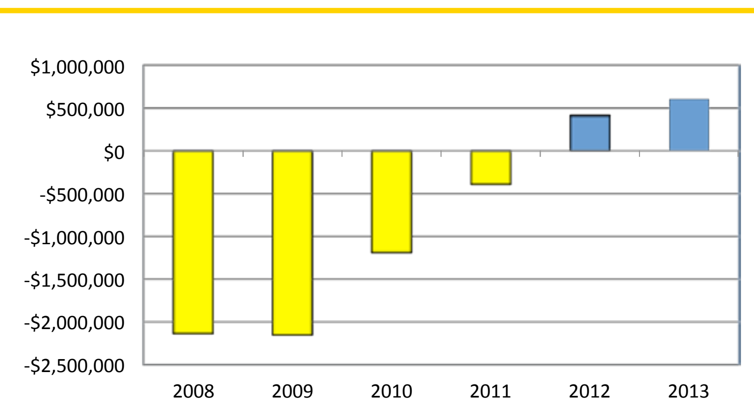
The year has been an outstanding success for our Company. We have achieved record-breaking financial results, attracted world-class leadership to join our Bank, launched an exciting new strategy, and put in place a more streamlined and effective business model, all aimed at ensuring successful and sustainable future growth.

Let us start by informing you we ended 2013 with total assets of **$126,278,202,** which is an impressive **27% increase** over our year-end 2012 position. Our pre-tax earnings for the year are **$640,536**, which represents a record **55% increase** over 2012, and marks our second full year of profitability. This result of sustained profitability allowed us to record, as income, the financial benefit attributable to the reduction of future income taxes resulting from prior years' operating losses. This asset is valued at **$2,553,000** and therefore our earnings for the year are actually recorded as **$3,193,536.**

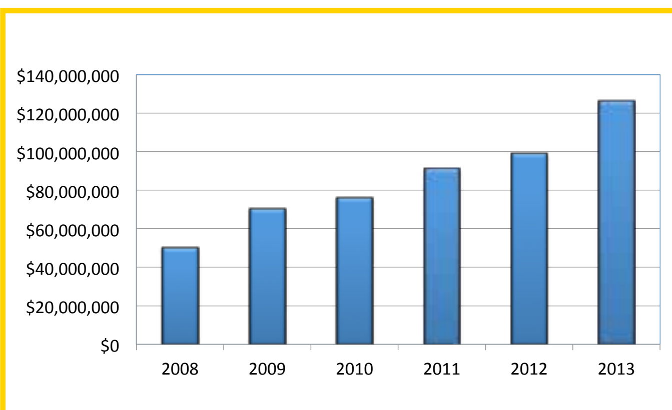
Through 2013 our total deposits grew by **$24,747,335** or **29%** over year-end 2012, while our loan portfolio increased to a record total of **$94,427,486**, an increase of **17%** for the year. In summary, our financial performance for 2013 has been truly outstanding.

In April of this year we announced Mr. Ciaran McMullan as our new CEO, bringing with him a wealth of local and international banking expertise, and an agenda firmly fixed on growing our Bank. Since then he has hired Mr. Doug Tribble to the new position of Chief Operating Officer of the Bank. Doug is an outstanding community banking executive, and worked with Ciaran during his time in the Midwest with Great Western Bank (GWB). Doug's banking career spans more than 30 years, in which time he achieved some major accomplishments, not least of which was managing all aspects of operations for GWB as it grew from 6 branches and $125 million in assets in 1995 to 185 branches and $8.5 billion in assets in 2012, leading 15 acquisitions and mergers in the process. Together with our Chief Credit Officer, Dan McGregor, and our Chief Financial Officer, Bob Moore, our Company now has a strong and stable Management Team in place.

This year also saw the launch of our **"Go Local / Bank Local"** strategy aimed at raising awareness of the critical role banks such as Suncrest play in keeping our local economy robust and vibrant, and the benefits to depositors and borrowers alike of working with Suncrest rather than a big



Income Before Taxes



Asset Growth

national bank. We have simplified our mission statement to read, ***"Helping to build and sustain local communities"*** and this is the brand platform upon which we will build our business into the future.

In keeping with this new strategy, we have also streamlined our business model and given greater authority to our Branches to make more decisions locally. We have created the new role of Local Branch President, and appointed talented local Bankers to these positions in both Visalia and Porterville. We also launched a new division in 2013, operating under the brand of **Suncrest Agribusiness**, dedicated entirely to serving the needs of the Valley's Farmers, Ranchers, and Agricultural Businesses.

We firmly believe that these appointments and initiatives are creating the foundation upon which we will ensure successful and sustainable future growth.

In closing, special thanks are due to your Board of Directors, who devote many hours to ensure that your bank is being properly and effectively managed and they, together with Management, deserve a great deal of credit for the success of the Bank in 2013. We also want to congratulate Mr. Thomas O'Sullivan on his appointment to the position of Vice-Chairman of the Board of Directors, and we are delighted that Tom has agreed to serve in that position.

We remain committed to the creation of shareholder value and sincerely appreciate and thank each of you. You are the reason we are in business and we appreciate all that you do for us. Please keep those referrals and new business opportunities coming and together we will create one of the best community banks in the nation.

Sincerely,

Bill Benneyan
Chairman
bbenneyan@suncrestbank.com

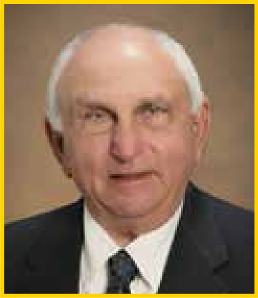
Ciaran McMullan
President & CEO
cmcmullan@suncrestbank.com

Board of Directors

Ciaran McMullan, President & CEO

Ciaran is a native of an agricultural area of Northern Ireland. He held senior roles in banking in Europe and Australia before moving to the U.S., where he served as Chairman of the Great Western Bancorporation and as CEO of National Australia Bank Americas in the Midwest, and he served as a Managing Director with Cappello Capital Corporation in California. His expertise is in agriculture and supporting the growth of small business. He is a graduate of Stirling University and Sheffield Hallam University in the UK, and attended Harvard Business School's Executive Education Program in Agribusiness.

William A. Benneyan, Chairman



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.

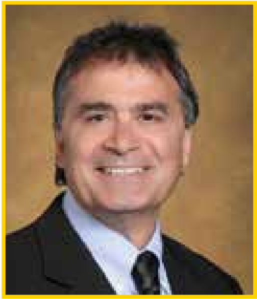
David C. Crinklaw

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

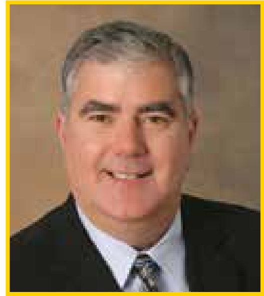
Gary has lived in the Lemoore area most of his life. He farms in Kings, Fresno and Tulare counties and manages real estate development interests here and in San Luis Obispo County. Gary serves on the Board of the Westlands Water District and the San Joaquin Valley Cotton Board, and is active in local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

Dale B. Margosian



Born in Dinuba, Dale is a longtime resident of Porterville and a graduate of California State University, Fresno. He has managed a thriving CPA practice in Porterville for over 28 years and participates in many civic organizations.

Thomas J. O'Sullivan, Vice Chairman



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.

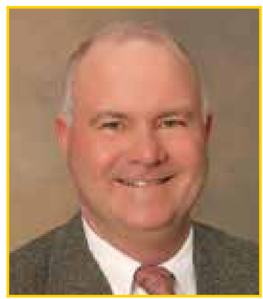
Florencio "Frank" Paredez

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 Polytechnic University, 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.

Suncrest Bank Launches 'Go Local'

2013

At Suncrest Bank we are proud of our local roots, proud of our local community, and proud of the role our Bank plays in helping to support and grow the local economy. The success of our business is based entirely on keeping our customers' money circulating in this economy, and lending locally to help grow businesses locally. In short, we only succeed when our community succeeds, and therefore we launched our "Go Local" campaign this year to encourage and promote shopping, dining, doing business and, of course, banking local. The campaign features local people and businesses in print ads in newspapers, trade journals, and other local publications, and included an overview of who they are, what their business does, as well as their relationship with Suncrest. We have included some of these ads within this year's Annual Report.

Economic studies show that shopping at local, independent businesses is one of the best ways to strengthen and sustainably grow a community's economy. A 2012 study[1] found that local retailers return an average of 52 percent of revenue to the local economy, compared to just 16 percent for chain retailers. Local restaurants recirculate an average of 79 percent of their revenue locally, compared to 30 percent for chain eateries.

Another study[2] showed that if people make a choice to shop just 10 percent more often at local businesses, the result would be an extra $53 million in wages staying in the community, and 1,600 new jobs. At Suncrest, we think that's a pretty smart choice!

"Go Local" is more than a slogan. It's at the heart of Suncrest Bank's new mission.

Local Drive

Porterville Collision

Before opening Porterville Collision, Jan and Charlie Crissman worked together for many years at a local body shop. They talked about striking out on their own, and when an opportunity arose to buy the shop, they needed a bank that understood their needs and the local market. Suncrest worked with them to secure the SBA loan they needed, and now the Crissmans feel they have a partner they can trust. "I love going into Suncrest Bank," says Jan. "Everyone knows me by name!"

Jan and Charlie Crissman, Owners
Porterville Collision

1. Civic Economics Survey of Independent Businesses; 2. Civic Economics, IMPLAN

DAYCO Construction

DAYCO Construction is a general contracting firm with a truly local perspective. Born and raised in a small town, President and Founder, Gary Day, knows the importance of building confidence and trust in a business relationship. That's why he chose a local bank, namely Suncrest. "We feel they share our philosophy," says Gary. "It's all about paying attention to customers' needs. Suncrest Bank is a 'yes bank.'"

Garrett Day, Gary Day and Belinda Day
DAYCO Construction, Inc.

4Creeks

4Creeks, a full-service engineering company, is today 19-people strong, taking a team approach to local projects with smart, innovative, sustainable solutions. When their big bank lacked the local knowledge to meet their needs, 4Creeks moved to Suncrest. "They know the community," says principal David DeGroot. "Responsive, friendly, you just can't beat local."

Randy Wasnick, David DeGroot, Matthew Ainley and Craig Hartman
4Creeks

2013

The Top 5 Reasons to Bank Local

1. We offer the same products and services as your big bank but at a lower cost
2. Your deposit dollars are put to work right here, helping grow our local economy
3. Lending decisions are made locally, by people who live locally and understand local business
4. Like you, we are 100% committed to ensuring a sustainable and prosperous future for our community
5. We will never (ever) gamble your money away on risky Wall Street investments

Suncrestbank.com

Meet Our Staff

Photographs from our all-employee planning meeting held in The Hall of Fame Club at the Visalia Rawhide – one of our newest banking customers.

2013

Our Executive Officers

(From left to right)

Robert Moore *(Chief Financial Officer)*

Cyndy Paulus *(Human Resources Officer)*

Ciaran McMullan *(President/Chief Executive Officer)*

Doug Tribble *(Chief Operating Officer)*

Daniel McGregor *(Chief Credit Officer)*

(From left to right)

Daniel McGregor *(Chief Credit Officer)*

Charlie Glenn *(Senior Credit Officer)*

Loren Brooks *(Manager, Agribusiness Division)*

Craig Howells *(Manager, Government Guaranteed Lending Division)*

(From left to right)

Robert Moore *(Chief Financial Officer)*

William Benneyan *(Chairman of the Board)*

Ciaran McMullan *(President/Chief Executive Officer)*

Jennifer Pendergraft *(General Manager, Visalia Rawhide Baseball Club)*

Our Porterville Market Staff

(From left to right)

Allison Moorhead *(Customer Service Supervisor)*

Lori Buecheler *(Customer Service Representative)*

Dustin Della *(Porterville Market President)*

Heather Fiori *(Customer Service Representative)*

Christine Catalina *(Customer Service Representative)*

Michelle Gletne *(Customer Service Manager)*

Gary Gostanian *(Business Development Officer)*

2013

Our Visalia Market Staff

(From left to right)

Kathleen Bernardo *(Customer Service Representative)*

Barbra Hood *(Senior Relationship Manager)*

Jennifer Noel *(Operations Support Specialist)*

Nathan Halls *(Visalia Market President)*

Susan Blanchard *(Customer Service Manager)*

Vicki Evans *(Customer Service Representative)*

Our Customer Administrative Staff

(From left to right)

Karen Snow *(Note Department Support Specialist)*

Kimberly Zack *(Portfolio Manager)*

Eileen Shine *(Note Department Manager)*

Gloria Wilson *(Note Department Support Specialist)*

Tracy Cizek *(Portfolio Manager)*

Rosemary Leon *(Note Department Operations Supervisor)*

Lori Carabay *(Note Department Supervisor)*

Our Operations Staff

(From left to right)

Lisa Riso *(Operations Compliance Officer)*

Elia Havner *(BSA Specialist)*

Cyndy Paulus *(Human Resources Officer)*

Debbie Bombard *(Operations Administrator)*

Adriana Vidales *(Customer Support)*

A new day in banking

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2013

vtd
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, 2013 and 2012, 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, 2013 and 2012, 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 5, 2014

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

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2013 AND 2012

ASSETS

	2013	2012
Cash and Due from Banks	2,637,057	3,246,558
Federal Funds Sold	11,744,000	-
TOTAL CASH AND CASH EQUIVALENTS	14,381,057	3,246,558
Investment Securities Available for Sale	14,620,321	14,722,347
Loans:		
Real Estate - Other	69,831,369	61,213,599
Construction and Land Development	2,247,079	5,036,703
Commercial and Industrial	21,167,596	13,146,476
Consumer	1,181,442	1,021,792
TOTAL LOANS	94,427,486	80,418,570
Deferred Loan Fees, Net of Costs	(241,342)	(156,806)
Allowance for Loan Losses	(1,417,381)	(1,371,881)
NET LOANS	92,768,763	78,889,883
Premises and Equipment	698,604	870,798
Federal Home Loan Bank and Other Bank Stock, at Cost	591,489	560,802
Net Deferred Tax Assets	2,601,000	-
Other Real Estate Owned	-	251,544
Accrued Interest and Other Assets	616,968	580,084
	$ 126,278,202	$ 99,122,016

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

STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2013 AND 2012

LIABILITIES AND SHAREHOLDERS' EQUITY

	2013	2012
Deposits:		
Noninterest-bearing Demand	$ 34,162,947	$ 23,830,513
Savings, NOW and Money Market Accounts	47,783,592	41,499,630
Time Deposits Under $100,000	3,642,339	3,977,553
Time Deposits $100,000 and Over	23,940,870	15,474,717
TOTAL DEPOSITS	109,529,748	84,782,413
Federal Funds Purchased	-	700,000
Accrued Interest and Other Liabilities	397,481	460,249
TOTAL LIABILITIES	109,927,229	85,942,662
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, 1,915,902 in 2013 and 1,911,777 in 2012	19,146,645	19,117,770
Additional Paid-in Capital	1,519,254	1,479,306
Accumulated Deficit	(4,247,207)	(7,440,743)
Accumulated Other Comprehensive Income (Loss) - Net Unrealized Gain (Loss) on Securities Available for Sale, Net of Taxes of $(47,059) in 2013 and $15,998 in 2012	(67,719)	23,021
TOTAL SHAREHOLDERS' EQUITY	16,350,973	13,179,354
	$ 126,278,202	$ 99,122,016

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

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
INTEREST INCOME		
Interest and Fees on Loans	$ 4,965,566	$ 4,390,648
Interest on Investment Securities	128,804	163,654
Interest on Federal Funds Sold and Other	42,500	23,711
TOTAL INTEREST INCOME	5,136,870	4,578,013
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	193,365	217,459
Interest on Time Deposits	203,029	195,724
Interest on Other Borrowings	3,929	38
TOTAL INTEREST EXPENSE	400,323	413,221
NET INTEREST INCOME	4,736,547	4,164,792
Provision for Loan Losses	36,000	99,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,700,547	4,065,792
NONINTEREST INCOME		
Service Charges, Fees, and Other Income	179,354	43,438
Gain on Sale of Loans	36,730	286,858
	216,084	330,296
NONINTEREST EXPENSE		
Salaries and Employee Benefits	2,351,011	2,153,622
Occupancy Expenses	577,022	563,196
Equipment Expenses	171,168	197,578
Other Expenses	1,176,894	1,068,912
	4,276,095	3,983,308
INCOME BEFORE INCOME TAXES	640,536	412,780
Income Taxes (Benefit)	(2,553,000)	800
NET INCOME	$ 3,193,536	$ 411,980
NET INCOME PER SHARE - BASIC	$ 1.67	$ 0.22
NET INCOME PER SHARE - DILUTED	$ 1.66	$ 0.22

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

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Net Income	$ 3,193,536	$ 411,980
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized Losses on Securities Available for Sale	(153,797)	(8,052)
	(153,797)	(8,052)
Income Tax Expense (Benefit)	(63,057)	(3,301)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(90,740)	(4,751)
TOTAL COMPREHENSIVE INCOME	$ 3,102,796	$ 407,229

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Common Stock		Additional		Accumulated Other	
	Number of Shares	Amount	Paid-in Capital	Accumulated Deficit	Comprehensive Income (Loss)	Total
Balance 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
Net Income				3,193,536		3,193,536
Stock-based Compensation			68,823			68,823
Issuance of Stock to Employees in Exchange for Services Rendered	4,125	28,875	(28,875)			
Change in Other Comprehensive Income, Net of Taxes					(90,740)	(90,740)
Balance at December 31, 2013	1,915,902	$ 19,146,645	$ 1,519,254	$(4,247,207)	$(67,719)	$ 16,350,973

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
OPERATING ACTIVITIES		
Net Income	$ 3,193,536	$ 411,980
Adjustments to Reconcile Net Income to Net Cash		
From Operating Activities:		
Depreciation and Amortization	193,060	197,325
Stock-based Compensation	68,823	44,871
Provision for Loan Losses	36,000	99,000
Deferred Tax Expense (Benefit)	(2,554,000)	-
Gain on Sale of Other Real Estate Owned	(19,366)	-
Gain on Sale of Loans	(36,730)	(286,858)
Loans Originated for Sale	(408,750)	(3,136,432)
Proceeds from Sale of Loans	451,645	3,459,662
Other Items	(67,802)	122,614
NET CASH FROM OPERATING ACTIVITIES	856,416	912,162
INVESTING ACTIVITIES		
Net Increase in Loans	(13,931,119)	(10,544,168)
Purchase of AFS Securities	(4,475,950)	(14,099,757)
Maturities of AFS Securities	4,416,373	14,456,496
Purchase of Federal Home Loan Bank Stock	(28,600)	(94,800)
Proceeds from Sale of Other Real Estate Owned	270,910	-
Purchase of Premises and Equipment	(20,866)	(44,334)
NET CASH FROM INVESTING ACTIVITIES	(13,769,252)	(10,326,563)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	16,616,396	9,931,679
Net Change in Time Deposits	8,130,939	(3,192,998)
Net Change in Federal Funds Purchased	(700,000)	700,000
NET CASH FROM FINANCING ACTIVITIES	24,047,335	7,438,681
NET DECREASE IN CASH AND CASH EQUIVALENTS	11,134,499	(1,975,720)
Cash and Cash Equivalents at Beginning of Year	3,246,558	5,222,278
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,381,057	$ 3,246,558
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 398,794	$ 414,410
Taxes Paid	$ 15,000	$ 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 5, 2014, 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, 2013.

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 on nonaccrual status, all interest previously accrued but not collected is

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 M 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 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reclassifications

Certain reclassifications have been made in the 2012 financial statements to conform to the presentation used in 2013. These reclassifications had no impact of the Bank's previously reported financial statements.

Adoption of New Accounting Standards

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update 2013-02, Comprehensive Income ("Topic 220") - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"). This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under Generally Accepted Accounting Principles ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. ASU 2013-02 is effective prospectively for annual and interim periods beginning after December 15, 2012 for public entities and annual periods beginning after December 15, 2013 for nonpublic entities. The adoption of this ASU did not have a material impact on the Bank's financial position, results of operations, or cash flows.

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, 2013				
Available-for-Sale Securities:				
U.S. Government and Agency Securities	$ 14,462,690	$ 8,274	$(124,790)	$ 14,346,174
Mortgaged-Backed Securities	272,409	1,738	-	274,147
	$ 14,735,099	$ 10,012	$(124,790)	$ 14,620,321
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

The amortized cost and estimated fair value of all investment securities as of December 31, 2013 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	$ 6,023,331	$ 6,007,008
Due from One Year to Five Years	8,711,768	8,613,313
	$ 14,735,099	$14,620,321

The gross unrealized loss and related estimated fair value of investment securities that have been in a continuous loss position for less than twelve months and over twelve months at December 31, 2013 and 2012, are as follows:

	Less than Twelve Months		Over Twelve Months		Total	
December 31, 2013:	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Government and Agency Securities	$(96,891)	$ 9,877,549	$(27,899)	$ 971,700	$(124,790)	$ 10,849,249
	$(96,891)	$ 9,877,549	$(27,899)	$ 971,700	$(124,790)	$ 10,849,249
December 31, 2012:						
U.S. Government and Agency Securities	$(10,691)	$ 4,697,465	$ -	$ -	$(10,691)	$ 4,697,465
Mortgaged-Backed Securities	(327)	80,264	-	-	(327)	80,264
	$(11,018)	$ 4,777,729	$ -	$ -	$(11,018)	$ 4,777,729

As of December 31, 2013 the Company has two government agency securities that have been in an unrealized loss position over 12 months. Unrealized losses on these investment securities have 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 their 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 bonds approach maturity.

Securities with a fair value of approximately $7.9 million at December 31, 2013 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.

NOTE C - LOANS - Continued

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

	2013	2012
Balance at Beginning of Year	$1,371,881	$1,312,066
Additions to the Allowance Charged to Expense	36,000	99,000
Recoveries on Loans Charged-Off	9,500	750
	1,417,381	1,411,816
Less Loans Charged-Off	-	(39,935)
	$1,417,381	$1,371,881

The following table presents the activity in the allowance for loan losses for the year 2013 and 2012 and the recorded investment in loans and impairment method as of December 31, 2013 and 2012 by portfolio segment:

December 31, 2013	Real Estate - Other	Construction and Land Development	Commercial and Industrial	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	$ 1,025,687	$ 84,186	$ 248,992	$ 13,016	$ 1,371,881
Provisions	68,942	(49,527)	16,704	(119)	36,000
Charge-offs	-	-	-	-	-
Recoveries	-	-	9,500	-	9,500
End of Year	$ 1,094,629	$ 34,659	$ 275,196	$ 12,897	$ 1,417,381
Reserves:					
Specific	$ -	$ -	$ -	$ -	$ -
General	1,094,937	34,669	275,273	12,502	1,417,381
	$ 1,094,937	$ 34,669	$ 275,273	$ 12,502	$ 1,417,381
Loans Evaluated for Impairment:					
Individually	$ -	$ 441,114	$ -	$ -	$ 441,114
Collectively	69,831,369	1,805,965	21,167,596	1,181,442	93,986,372
	$ 69,831,369	$ 2,247,079	$ 21,167,596	$ 1,181,442	$ 94,427,486
December 31, 2012					
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

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, 2013:

December 31, 2013	Pass	Special Mention	Substandard	Impaired	Total
Real Estate Other:					
Commercial	$ 36,665,202	$ 1,196,402	$ 2,073,267	$ -	$ 39,934,871
Farmland	23,775,360	-	-	-	23,775,360
1-4 Family Residential	3,836,525	-		-	3,836,525
Multifamily Residential	2,284,613	-	-	-	2,284,613
Construction and Land Development	1,805,965	-	-	441,114	2,247,079
Commercial and Industrial	21,110,298	-	57,298	-	21,167,596
Consumer	1,181,442	-	-	-	1,181,442
	$ 90,659,405	$ 1,196,402	$ 2,130,565	$ 441,114	$ 94,427,486

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

NOTE C - LOANS - Continued

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2013 and 2012:

	Still Accruing			
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
December 31, 2013				
Real Estate Other:				
Commercial	$ 49,544	$ -	$ -	$ -
Farmland		-	-	-
1-4 Family Residential	-	-	-	-
Multifamily Residential	-	-	-	-
Construction and Land Development	-	-	-	441,114
Commercial and Industrial	196,196	250,000	-	-
Consumer	-	-	-	-
	$ 245,740	250,000	$ -	441,114
December 31, 2012				
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

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2013 and 2012:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2013					
With No Related Allowance Recorded					
Real Estate Other:					
Commercial	$ -	$ -	$ -	$ 155,000	$ -
Farmland	-	-	-	-	-
1-4 Family Residential	-	-	-	-	-
Multifamily Residential	-	-	-	-	-
Construction and Land Development	574,169	441,114	-	486,000	-
Commercial and Industrial	-	-	-		-
Consumer	-	-	-	-	-
	$ 574,169	$ 441,114	$ -	$ 641,000	$ -
December 31, 2012					
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	$ -

There were no new troubled debt restructurings during 2013 and 2012.

NOTE D - PREMISES AND EQUIPMENT

A summary of premises and equipment as of December 31 follows:

	2013	2012
Leasehold Improvements	1,184,565	1,182,465
Furniture, Fixtures, and Equipment	825,202	806,436
	2,009,767	1,988,901
Less Accumulated Depreciation and Amortization	(1,311,163)	(1,118,103)
	$ 698,604	$ 870,798

The Bank has entered into two leases for its main office and Porterville office, which will expire in January 2017 and July 2018, respectively. The Bank leases its 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 $292,000 and $287,000 for the years ended December 31, 2013 and 2012, respectively.

At December 31, 2013, 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
2014	$ 130,052	$ 181,912
2015	135,254	187,370
2016	140,664	192,991
2017	146,291	16,137
2018	87,295	-
	$ 639,556	$ 578,410

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, 2013, the scheduled maturities of time deposits are as follows:

2014	$ 22,575,085
2015	2,205,033
2016	1,348,146
2017	734,239
2018	720,706
	$ 27,583,209

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, 2013, the Bank has no amounts outstanding under these arrangements.

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, 2013, the Bank had pledged $7.9 million of investment securities resulting in a borrowing capacity of approximately $7,672,000, of which $6,000,000 has been set aside for a standby letter of credit to fulfill the collateral requirements for deposits placed by local governmental agencies. As of December 31, 2013, no advances were outstanding under this arrangement.

NOTE G - OTHER EXPENSES

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

	2013	2012
Professional Fees	$ 340,662	$ 403,768
Data Processing	269,848	258,654
Office Expenses	166,426	133,549
Marketing and Business Promotion	162,018	69,077
Insurance	32,838	31,413
Regulatory Assessments	101,960	99,957
OREO Expenses	72	2,882
Other Expenses	103,070	69,612
	$ 1,176,894	$ 1,068,912

NOTE H - INCOME TAXES

The provision (benefit) for income taxes for the years ended December 31, consists of the following:

	2013	2012
Current:		
Federal	$ -	$ -
State	1,000	800
	1,000	800
Deferred	(2,554,000)	-
	$ (2,553,000)	$ 800

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:

	2013	2012
Deferred Tax Assets:		
Pre-Opening Expenses	$ 411,000	$ 455,000
Allowance for Loan Losses Due to Tax Limitations	568,000	539,000
Depreciation Differences	147,000	100,000
Operating Loss Carryforwards	975,000	1,081,000
Unrealized Loss on Available-for-Sale Securities	47,000	-
Stock-Based Compensation	349,000	386,000
Other Assets and Liabilities	223,000	386,000
	2,720,000	2,947,000
Valuation Allowance	-	(2,829,000)
Deferred Tax Liabilities:		
Unrealized Gain on Available-for-Sale Securities	-	(16,000)
Other Assets and Liabilities	(119,000)	(118,000)
	(119,000)	(134,000)
Net Deferred Tax Assets (Liabilities)	$ 2,601,000	$(16,000)

The Bank has generated taxable income in 2012 and 2013. At December 31, 2013, management believed it was more likely than not that the deferred tax assets would be realized in the future based on its improving profitability, and reversed the valuation allowance. The Bank has net operating loss carryforwards of approximately $2,369,000 for federal income purposes and $2,376,000 for California franchise tax purposes. Federal and California net operating loss carryforwards, to the extent not used will expire in 2030.

The Bank is subject to federal income tax and franchise tax of the state of California. Income tax returns for the periods ending after December 31, 2009 are open to audit by the federal authorities and income tax returns for the years ending after December 31, 2008 are open to audit by state authorities. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

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

	2013		2012	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 218,000	34.0%	$ 140,000	34.0%
State Tax, Net of Federal Benefit	46,000	7.2%	31,000	7.5%
Reduction in Valuation Allowance	(2,829,000)	(441.7%)	(207,000)	(50.1%)
Stock-based Compensation	8,000	1.2%	-	0.0%
Other Items, Net	4,000	0.6%	36,800	8.9%
Actual Tax Expense (Benefit)	$(2,553,000)	(398.7%)	$ 800	0.3%

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, 2013 and 2012 was approximately $4,036,000 and $3,295,000, respectively.

NOTE I - RELATED PARTY TRANSACTIONS - Continued

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, 2013 and 2012 amounted to approximately $16,140,000 and $14,180,000, 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, 2013 and 2012, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2013	2012
Commitments to Extend Credit	$ 13,274,000	$ 6,296,000

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. This plan was replaced by the 2013 Omnibus Stock Incentive Plan.

The Bank's 2013 Omnibus Stock Incentive Plan ("2013 Plan") was approved by its shareholders in May 2013. Under the terms of the 2013 Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and other consultants, who are not also an officer or employee, may only be granted nonqualified stock options. The 2013 Plan also permits the grant of stock appreciation rights ("SARs"), restricted shares, deferred shares, performance shares and performance unit awards. The 2013 Plan provides for the total number of awards of common stock that may be issued over the term of the plan not to exceed 573,533 shares, of which a maximum of 400,000 shares may be granted as incentive stock options. The aggregated number of awards that may be granted to an individual participant may not exceed 100,000 shares per year. Stock options and performance share and unit awards are granted at a price not less than 100% of the fair market value of the stock on the date of grant. The 2013 plan provides for accelerated vesting if there is a change of control as defined in the 2013 Plan. Equity awards generally vest over three to five years. Stock options expire no later than ten years from the date of grant.

The Bank recognized stock-based compensation cost of $68,823 and $44,871 for the periods ended December 31, 2013 and 2012.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the weighted-average assumptions presented below:

	2013
Expected Volatility	36.00%
Expected Term	5.80 Years
Expected Dividends	None
Risk Free Rate	1.10%
Grant Date Fair Value	$ 2.42

No stock options were granted in 2012.

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

A summary of the status of the Bank's stock options as of December 31, 2013 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	391,504	$ 9.85		
Granted	51,050	$ 7.11		
Exercised	-	$ -		
Forfeited	(35,574)	$ 10.00		
Outstanding at End of Year	406,980	$ 9.49	5.17 Years	$ -
Options Exercisable	348,930	$ 9.87	4.49 Years	$ -

As of December 31, 2013, there was approximately $114,000 of total unrecognized compensation cost related to the outstanding stock options

NOTE K - STOCK OPTION PLAN - Continued

that will be recognized over a weighted-average period of 1.64 years.

A summary of the status of the Bank's deferred share awards as of December 31, 2013 and changes during the year ended thereon is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2013	-	$ -
New Deferred Share Awards	39,105	$ 6.93
Shares Vested and Issued	(4,125)	$ 7.00
Shares Forfeited	-	$ -
Nonvested at December 31, 2013	34,980	$ 6.92

As of December 31, 2013 there was approximately $226,000 of unrecognized compensation cost related to the restricted stock grants that will be recognized over a weighted-average period of 1.89 years. The fair value of shares issued in 2013 was $28,875.

NOTE L – EARNINGS PER SHARE ("EPS")

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

	2013		2012	
	Income	Shares	Income	Shares
Net Income as Reported	$ 3,193,536		$ 411,980	
Shares Outstanding at Year-End		1,915,902		1,911,777
Impact of Weighting Shares Issued During the Year		(2,045)		-
Used in Basic EPS	3,193,536	1,913,857	411,980	1,911,777
Dilutive Effect of Outstanding Deferred Shares		7,359		-
Used in Dilutive EPS	$ 3,193,536	1,921,216	$ 411,980	1,911,777

All stock options were excluded from the computation of diluted earnings per share as their inclusion would have been anti-dilutive.

NOTE M - 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, 2013:

	Fair Value Measurements Using:			
	Level 1	Level 2	Level 3	Total
December 31, 2013				
Assets measured at fair value on a recurring basis				
Securities Available for Sale	$ -	$ 14,620,321	$ -	$14,620,321
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

NOTE N - 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 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 not previously presented:

Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash and cash

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

equivalents approximate the fair values of those assets due to the short-term nature of the assets.

Loans

For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for all other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

Federal Home Loan Bank Stock and Other Bank Stock

The fair value of Federal Home Loan Bank Stock and other Bank stock is not readily determinable due to the lack of its transferability.

Noninterest-Bearing and Interest Bearing Demand Deposits

The fair values for noninterest-bearing deposits and interest-bearing demand deposits are equal to the amount payable on demand at the reporting date, which is the carrying amount.

Interest-Bearing Time Deposits

The fair values for fixed rate certificates of deposits are estimated using a cash flow analysis, discounted at interest rates being offered at each reporting date by the Bank for certificates with similar 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, 2013 and 2012 are summarized as follows (dollar amounts in thousands):

		2013		2012	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Cash and Cash Equivalents	Level 1	$ 14,381	$ 14,381	$ 3,247	$ 3,247
Investment Securities	Level 2	14,620	14,620	14,722	14,722
Loans, net	Level 2	92,769	92,772	78,890	78,892
FHLB and Other Bank Stock		591	N/A	561	N/A
Financial Liabilities:					
Noninterest-Bearing and Interest-Bearing Demand Deposits	Level 1	81,947	81,947	65,330	65,330
Interest-Bearing Time Deposits	Level 2	27,583	27,603	19,452	19,452
Federal Funds Purchased	Level 2	-	-	700	700

NOTE O - 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 2013 or 2012.

NOTE P - 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, 2013 and 2012, that the Bank meets all capital adequacy requirements.

As of December 31, 2013, 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	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2013:						
Total Capital (to Risk-Weighted Assets)	$15,335	14.1%	$8,828	8.0%	$11,035	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$14,158	13.0%	$4,414	4.0%	$6,621	6.0%
Tier 1 Capital (to Average Assets)	$14,158	11.7%	$4,952	4.0%	$6,190	5.0%
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%

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.

2013

Armstrong Olives

There's an independent streak about Cindy and Mike Armstrong. Rather than just growing their olives, they decided to process them, too, and now Armstrong Olives supplies gourmet stuffed olives to national retailers across the country. Where do independent minded folks bank? "Suncrest Bank in Porterville," says Cindy. "We saw the bank was owned and managed by local business people. We figured, good people, good bank."

Cindy and Mike Armstrong, Owners
Armstrong Olives

Mendes Calf Ranch

Victor Mendes considers himself a lucky guy. After emigrating from Brazil, he started a business doing what he is truly passionate about: raising and nurturing dairy calves for their first 100 days of life. Victor also feels fortunate to have a relationship with a local bank that is truly passionate about what they do. "I know some of the Suncrest Board Members personally," says Victor. "I regard them as more than just bankers, they are 'true people.'" Kind of like Victor himself.

Victor Mendes, Owner
Mendes Calf Ranch

Suncrest
A new day in banking Bank

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
Agribusiness
A Division of Suncrest Bank

2013

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