Avidbank Holdings, Inc.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 AND 2013
AND FOR THE YEARS ENDED
DECEMBER 31, 2014, 2013 AND 2012
AND
INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors
Avidbank Holdings, Inc. and Subsidiary
Palo Alto, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Avidbank Holdings, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2014, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Avidbank Holdings, Inc. and Subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
March 27, 2015

AVIDBANK HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

	2014	2013
ASSETS		
Cash and due from banks	$ 17,986,715	$ 16,905,371
Federal funds sold	8,150,000	151,940,000
Total cash and cash equivalents	26,136,715	168,845,371
Available-for-sale investment securities (Notes 2 and 16)	79,501,000	58,983,000
Loans, less allowance for loan losses of $4,874,138 in 2014 and $4,788,443 in 2013 (Notes 3,4,10 and 16)	337,091,796	252,645,904
Federal Home Loan Bank stock	4,653,000	3,290,000
Property and equipment, net (Note 5)	1,024,439	1,175,414
Cash surrender value of Bank-owned life insurance policies (Note 6)	11,944,257	11,606,640
Accrued interest receivable and other assets	8,689,930	4,129,200
Total assets	$ 469,041,137	$ 500,675,529
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 140,429,340	$ 158,363,606
Interest bearing (Note 7)	245,492,169	291,940,526
Total deposits	385,921,509	450,304,132
Other borrowings	25,000,000	-
Accrued interest payable and other liabilities	6,572,584	2,339,069
Total liabilities	417,494,093	452,643,201
Commitments and contingencies (Note 10)		
Shareholders' equity (Notes 11 and 12):		
Preferred stock - no par value; $1,000 liquidation preference; 5,000,000 shares authorized, 0 shares issued and outstanding at December 31, 2014 and 2013	-	-
Common stock - no par value; 10,000,000 shares authorized; 4,352,319 and 4,283,494 shares issued and outstanding at December 31, 2014 and 2013, respectively	42,249,735	42,249,735
Additional paid-in capital	2,956,520	2,280,997
Retained earnings	6,161,999	3,468,924
Accumulated other comprehensive income, net of taxes (Note 2)	178,790	32,672
Total shareholders' equity	51,547,044	48,032,328
Total liabilities and shareholders' equity	$ 469,041,137	$ 500,675,529

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

AVIDBANK HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Interest income:			
Interest and fees on loans	$ 15,203,774	$ 14,498,431	$ 14,786,643
Interest on Federal funds sold	231,402	268,177	142,420
Interest on taxable investment securities	1,654,473	1,553,234	2,080,576
Interest on tax-exempt investment securities	84,444	51,388	-
Total interest income	17,174,093	16,371,230	17,009,639
Interest expense:			
Interest on borrowings	7,189	-	-
Interest on deposits (Note 7)	790,340	1,167,382	1,840,233
Total interest expense	797,529	1,167,382	1,840,233
Net interest income	16,376,564	15,203,848	15,169,406
Provision for loan losses (Note 4)	39,264	245,286	480,000
Net interest income after provision for loan losses	16,337,300	14,958,562	14,689,406
Non-interest income:			
Service charges, fees and other income	970,146	529,010	359,422
Appreciation in cash surrender value of insurance contracts (Note 6)	337,217	186,995	107,595
Gain on sale of investment securities (Note 2)	260,767	748,047	336,565
Total non-interest income	1,568,130	1,464,052	803,582
Non-interest expenses:			
Salaries and employee benefits (Notes 3 and 13)	8,294,970	7,338,868	6,289,430
Occupancy and equipment (Notes 5 and 10)	2,324,661	2,240,671	1,881,693
Other (Note 15)	2,745,768	2,794,200	2,519,151
Total other expenses	13,365,399	12,373,739	10,690,274
Income before provision for income taxes	4,540,031	4,048,875	4,802,714
Provision for income taxes (Note 8)	1,796,323	1,540,432	2,058,000
Net income	$ 2,743,708	$ 2,508,443	$ 2,744,714
Preferred stock dividends and discount accretion	$ -	$ 210,652	$ 345,242
Net income available to common shareholders	$ 2,743,708	$ 2,297,791	$ 2,399,472
Basic income per common share (Note 11)	$ 0.63	$ 0.66	$ 0.92
Diluted income per common share (Note 11)	$ 0.62	$ 0.64	$ 0.91

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

AVIDBANK HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Net Income	$ 2,743,708	$ 2,508,443	$ 2,744,714
Other Comprehensive Income:			
Unrealized gains (losses) on securities:			
Unrealized holdings gains (losses)	504,299	(1,171,390)	2,692,080
Less: reclassification for net gains included in net income	(260,767)	(748,047)	(336,565)
Other comprehensive income (loss), before tax	243,532	(1,919,437)	2,355,515
Tax effect	(97,414)	767,776	(942,207)
Other comprehensive income (loss)	146,118	(1,151,661)	1,413,308
Total Comprehensive Income	$ 2,889,826	$ 1,356,782	$ 4,158,022

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

AVIDBANK HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2014, 2013 and 2012

	Preferred Stock		Common Stock				Accumulated Other Comprehensive	Total
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Income (Loss), Net of Tax	Shareholders' Equity
Balance, December 31, 2011	6,000	$ 5,906,336	2,602,276	$ 27,618,879	$ 1,627,042	$ (1,228,339)	$ (228,975)	$ 33,694,943
Net income						2,744,714		2,744,714
Other comprehensive income							1,413,308	1,413,308
Preferred stock dividends and accretion		45,242				(345,242)		(300,000)
Stock options exercised			12,379		78,266			78,266
Stock based compensation (Notes 1, 11)					231,668			231,668
Balance, December 31, 2012	6,000	$ 5,951,578	2,614,655	$ 27,618,879	$ 1,936,976	$ 1,171,133	$ 1,184,333	$ 37,862,899
Net income						2,508,443		2,508,443
Other comprehensive loss							(1,151,661)	(1,151,661)
Preferred stock dividends and accretion		48,422				(210,652)		(162,230)
Redemption of preferred stock Series A	(6,000)	(6,000,000)						(6,000,000)
Issuance of common stock			1,641,026	14,821,683				14,821,683
Repurchase of warrants				(190,827)				(190,827)
Stock options exercised			27,813		187,831			187,831
Stock based compensation (Notes 1, 11)					156,190			156,190
Balance, December 31, 2013	-	$ -	4,283,494	$ 42,249,735	$ 2,280,997	$ 3,468,924	$ 32,672	$ 48,032,328
Net income						2,743,708		2,743,708
Other comprehensive income							146,118	146,118
Shares issued			41,734		302,829	(50,633)		252,196
Restricted stock issued			27,091		190,082			190,082
Stock based compensation (Notes 1, 11)					182,609			182,609
Balance, December 31, 2014	-	$ -	4,352,319	$ 42,249,735	$ 2,956,518	$ 6,161,999	$ 178,790	$ 51,547,042

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

AVIDBANK HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Cash flows from operating activities:			
Net income	$ 2,743,708	$ 2,508,443	$ 2,744,714
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of investment securities	(260,767)	(748,047)	(336,565)
Provision for loan losses	39,264	245,286	480,000
Depreciation, amortization and accretion	1,300,600	1,079,867	952,799
(Decrease) increase in deferred loan origination fees, net	390,217	(229,324)	12,337
Earnings on bank-owned life insurance policies	(337,217)	(186,995)	(107,994)
Share based compensation expense	182,609	156,190	231,670
Change in deferred income taxes	75,000	(250,000)	425,000
(Increase) decrease in accrued interest receivable and other assets	(4,733,144)	1,266,260	(638,550)
Increase (decrease) in accrued interest payable and other liabilities	4,233,515	(473,644)	1,044,522
Net cash provided by operating activities	3,633,785	3,368,036	4,807,933
Cash flows used in investing activities:			
Purchase of available-for-sale investment securities	(42,442,755)	(27,696,313)	(28,218,176)
Proceeds from sales or calls of available-for-sale investment securities	18,647,956	20,504,302	57,067,040
Proceeds from principal payments on available-for-sale investment securities	2,947,805	1,724,085	40,235
Purchase of Federal Home Loan Bank stock	(1,363,000)	(1,792,700)	(212,000)
Purchase of bank-owned life insurance policies	-	(8,000,000)	-
Net increase in loans	(84,875,373)	(9,873,000)	(39,692,462)
Purchase of premises and equipment	(316,224)	(307,438)	(908,882)
Net cash used in investing activities	(107,401,591)	(25,441,064)	(11,924,245)
Cash flows from financing activities:			
Net increase in demand, interest bearing and savings deposits	(52,302,668)	91,205,582	65,055,057
Net decrease (increase) in time deposits	(12,079,955)	(15,895,361)	3,249,009
Net proceeds from exercise of stock options	252,196	187,831	78,266
Proceeds from other borrowings	25,000,000	-	-
Proceeds from issuance of common stock	-	14,821,683	-
Redemption of preferred stock	-	(6,000,000)	-
Repurchase of warrants	-	(190,827)	-
Cash dividends paid	-	(213,287)	(300,000)
Net cash used in financing activities	(39,130,427)	83,915,621	68,082,332
(Decrease) increase in cash and cash equivalents	(142,898,232)	61,842,593	60,966,020
Cash and cash equivalents at beginning of period	168,845,371	107,002,778	46,036,758
Cash and cash equivalents at end of year	$ 25,947,139	$ 168,845,371	$ 107,002,778
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	$ 809,554	$ 1,205,697	$ 1,840,233
Income taxes	$ 1,185,000	$ 2,185,000	$ 1,685,000

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Avidbank Holdings, Inc. (the "Company) was incorporated on December 17, 2007 and subsequently obtained approval from the Board of Governors of the Federal Reserve System to operate as a bank holding company. On April 2, 2008, Avidbank (the "Bank") consummated a merger with the Company effected through the exchange of one share of the Company's stock for each share of the Bank's stock. The reorganization represented an exchange of shares between entities under common control, and, as a result, assets and liabilities of the Bank were recognized at their carrying amounts in the accounts of the Company. Subsequent to the reorganization, the Bank continued its operations as previously conducted, but as a wholly-owned subsidiary of the Company.

The Bank is a California state-chartered institution and provides financial products and services to customers who are predominately small and middle-market businesses, professionals and individuals residing in San Mateo and Santa Clara Counties.

We have considered all events occurring from December 31, 2014 through March 31, 2015, the date the consolidated financial statements were available for issuance, and no subsequent events occurred requiring recognition or disclosure.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated. The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the reported amounts of 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 these estimates.

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders’ equity.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and due from banks and Federal funds sold. Generally, Federal funds are sold for one day periods. On the statement of cash flows, net cash flows are reported for customer loan and deposit transactions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities

Investment securities are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income within shareholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums, which are recognized as adjustments to interest income.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. At December 31, 2014 and 2013, all of the Company's securities were classified as available-for-sale and there were no transfers between categories during those years.

Gains and losses on the sale of securities are computed using the specific identification method on the trade date. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums which are accounted for on the level-yield method without anticipation of prepayment. In addition, unrealized losses, if any, that are determined by management to be other than temporary are recognized in earnings in accordance with the methodology described below.

An investment security is impaired when its carrying value is greater than its fair value. Impaired investment securities are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate the decline is permanent, but indicates the prospects for a near-term recovery of value are not necessarily favorable, or there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security or it is more likely than not the Company will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not the Company will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank System, the Company is required to maintain an investment in the capital stock of the Federal Home Loan Bank (FHLB). The investment is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. At December 31, 2014 and 2013, FHLB stock totaled $4,653,000 and $3,290,000, respectively. Both cash and stock dividends are reported as income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

Loans are stated at principal balances outstanding net of deferred loan fees and costs, and an allowance for loan losses. Interest is accrued daily based upon outstanding loan balances. However, when a loan is past due 90 days or in the opinion of management, loans are considered to be impaired and the future collectability of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received on loans on nonaccrual status are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (including both principal and interest) in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, the structure and nature of collateral, if any, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and the payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The amount of impairment, if any, on an impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective rate, except that as a practical expedient, impairment may be measured based upon the loan's observable market price or the fair value of collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses that have been incurred as of the balance sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

The overall allowance consists of two primary components: specific reserves related to impaired loans which are individually evaluated for impairment and general reserves for losses related to loans that are collectively evaluated for impairment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans reported as TDRs are considered impaired and measured for impairment as described above. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The determination of the general reserve for loans that are collectively evaluated for impairment is based on estimates made by management, to include, but not limited to, consideration of all historical losses based on a five-year lookback period by portfolio segment, internal asset classifications, and qualitative factors to include economic trends in the Company's service areas, industry trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses in the portfolio taken as a whole. During 2014, the Company modified its method of calculating allowance for loan losses for non-impaired loans. The Company modified the caculation for determining historical loss rates to include a five year look back period. Previously, historical loss rates were determined based on losses incurred since the inception of the Company. This modification resulted in a $994,000 decrease to the calculated allowance. The Company believes use of the revised methodology reflects the probable credit losses in the portfolio.

The Company determines a separate allowance for each portfolio segment (loan type). These portfolio segments include commercial, construction (including land and development loans), residential real estate (including home equity lines of credit), commercial real estate, asset based loans and consumer loans. The allowance for loan losses attributable to each portfolio segment, which includes both loans individually evaluated for impairment and loans that are collectively evaluated for impairment, are combined to determine the Company's overall allowance, which is included on the consolidated balance sheet.

The Company assigns a risk rating to all loans except pools of homogeneous loans, and periodically performs detailed reviews of all such loans exhibiting variances in expected payment and/or financial performance to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company's regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into six major categories, defined as follows:

Pass – A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention – A special mention loan has potential weaknesses deserving management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

Substandard-Non-Impaired – A substandard non-impaired loan is not adequately protected by the current net worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses jeopardizing the liquidation of the loan. Well-defined weaknesses include the potential for: lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Substandard-Impaired – A substandard loan is impaired when, based on current information and known or anticipated events, it is probable that the lender will be unable to collect all amounts due according to the terms of the original loan agreement. These loans are typically on nonaccrual and have many of the same weaknesses as substandard non-impaired loans.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss – Loans classified as loss are considered uncollectible and charged off immediately.

The general reserve component of the allowance for loan losses also consists of reserve factors based on management's assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other qualitative factors. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below:

Commercial – Commercial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators which are closely correlated to the credit quality of these loans.

Construction – Construction loans, including land and development loans, generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified cost and timelines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Residential real estate (including home equity lines of credit) – Residential real estate loans are loans made with a residence serving as collateral. These are not typical mortgage loans and may have a variety of reasons for the borrowing including providing funding to a business or paying for large personal expenditures. These loans generally possess a lower inherent risk of loss than commercial real estate and construction loans and are often situations where the borrower is the occupant of the residence. The degree of risk in home equity loans depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

Commercial real estate – Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

Asset based – Asset based loans are advances generally made against receivables to companies generating consistent sales without yet having reached consistent profitability. These companies are subjected to an audit of their receivables and ineligible accounts are excluded from the borrowing base. The Company controls the entire receivables cash flow of the company and advances are made on a portion of eligible receivable balances. Receivables are monitored daily and borrowing capacity is calculated based upon contractual formulas. As a result of these controls, asset based lending loans typically possess less risk than unsecured commercial loans.

Consumer – Consumer loans are primarily loans to individuals that may be unsecured or secured by collateral other than real estate. The unsecured loans are generally revolving personal lines of credit to established clients. The Company also offers demand deposit lines of credit to certain checking account clients. The high quality of the clients who are offered these products has historically caused this loan product to have less risk of loss than commercial loan products.

Although management believes the allowance to be appropriate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulators, the Federal Reserve Bank, the FDIC and the California Department of Business Oversight, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations. The allowance for loan losses at December 31, 2014 and 2013 reflects management's estimate of probable credit losses in the Company's loan portfolio.

Reserve for Undisbursed Loan Commitments

The Company maintains a separate reserve for losses related to undisbursed loan commitments. Management estimates the amount of probable losses by applying the loss factors used in the allowance for loan loss methodology to an estimate of the expected usage of undisbursed lines of credit. This reserve was approximately $370,000 at December 31, 2014 and $304,000 at December 31, 2013, and is included in accrued interest payable and other liabilities on the consolidated balance sheet.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures and equipment are estimated to be five to ten years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

Bank-Owned Life Insurance

The Company has purchased life insurance policies on certain current employees and former key executives. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Income Taxes

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The determination of the amount of deferred income tax assets, which are more likely than not to be realized, is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The recognition of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax assets will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed.

The Company considers all tax positions recognized in its financial statements for the likelihood of realization. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than fifty percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above, if any, is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest expense and penalties associated with unrecognized tax benefits, if any, are included in the provision for income taxes in the statement of operations. The Company did not have any uncertain income tax positions and has not accrued for any interest or penalties as of December 31, 2014 and 2013.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Company uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company’s common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

The Company reports the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for options (excess tax benefits) as a cash flow from financing in the statement of cash flows. There were no excess tax benefits for the years ended December 31, 2014, 2013 and 2012.

Earnings Per Common Share

Basic earnings per share (EPS) is computed by dividing income available to common shareholders 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, such as stock options, result in the issuance of common stock which share in the earnings of the Company. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS. Earnings and dividends per share are restricted for all stock splits and stock dividends through date of issuance of the financial statements.

Comprehensive Income

Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income that historically has not been recognized in the calculation of net income. Unrealized gains and losses on the Company's available-for-sale investment securities are included in other comprehensive income. The components of accumulated other comprehensive income are presented in the statement of changes in shareholders' equity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the financial statements.

2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2014 and 2013 consisted of the following:

2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Agencies	$ 5,332,288	$ -	$ (119,288)	$ 5,213,000
U.S. Govt. Sponsored Agencies	5,610,399	61,601	-	5,672,000
Residential Mortgage-Backed Securities	42,164,897	188,048	(233,945)	42,119,000
Corporate Debt Securities	26,095,432	411,184	(9,616)	26,497,000
Total debt securities	$ 79,203,016	$ 660,833	$ (362,849)	$ 79,501,000

2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Agencies	$ 5,855,042	$ -	$ (362,042)	$ 5,493,000
U.S. Govt. Sponsored Agencies	5,664,753	114,247	-	5,779,000
Residential Mortgage-Backed Securities	16,061,030	-	(622,030)	15,439,000
Municipal Tax-Exempt Securities	1,212,423	-	(38,423)	1,174,000
Corporate Debt Securities	30,135,300	962,700	-	31,098,000
Total debt securities	$ 58,928,548	$ 1,076,947	$ (1,022,495)	$ 58,983,000

Net unrealized gains on available-for-sale investment securities totaling $297,984 were recorded as accumulated other comprehensive income, net of taxes of $119,194, within shareholders' equity at December 31, 2014. Net unrealized gains on available-for-sale investment securities totaling $54,452 were recorded as accumulated other comprehensive income, net of taxes of $21,780, within shareholders' equity at December 31, 2013.

Proceeds from the sale or call of available-for-sale investment securities totaled $18,647,946, $20,504,302, and $57,067,040, for the years ended 2014, 2013 and 2012, respectively, with gross recognized gains of $260,767 in 2014, $748,047 in 2013, and $336,565 in 2012.

2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

Investment securities with unrealized losses at December 31, 2014 and December 31, 2013 are summarized and classified according to the duration of the loss period as follows:

	2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Agencies	$ -	$ -	$ 5,213,000	$(119,288)	$ 5,213,000	$ (119,288)
Residential Mortgage-Backed Securities	12,656,000	(90,027)	5,446,000	(143,918)	18,102,000	(233,945)
Corporate Debt Securities	6,726,000	(9,616)	-	-	6,726,000	(9,616)
	$ 19,382,000	$ (99,643)	$ 10,659,000	$(263,206)	$ 30,041,000	$ (362,849)

	2013					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Agencies	$ 5,493,000	$ (362,042)	$ -	$ -	$ 5,493,000	$ (362,042)
Residential Mortgage-Backed Securities	15,439,000	(622,030)	-	-	15,439,000	(622,030)
Municipal Tax-Exempt Securities	1,174,000	(38,423)	-	-	1,174,000	(38,423)
	$ 22,106,000	$ (1,022,495)	$ -	$ -	$ 22,106,000	$ (1,022,495)

U.S. Agencies - At December 31, 2014, the Company held one U.S. Agency security, which was in a loss position for greater than 12 months. Management believes the unrealized losses on the Company's investment in U.S. Agencies were caused by interest rate changes. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell the investment until a recovery of fair value, which may be maturity, the Company does not consider the investment to be other-than-temporarily impaired at December 31, 2014.

Residential Mortgage-Backed Securities - At December 31, 2014, the Company held five residential mortgage-backed securities, of which two were in a loss position for less than 12 months and one was in a loss position for greater than 12 months. Management believes the unrealized losses on the Company's investments in residential mortgage-backed securities were caused by interest rate changes. The contractual cash flows of those investments are guaranteed or supported by an agency or sponsored entity of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

Corporate Debt Securities - At December 31, 2014, the Company held six corporate debt securities, of which one was in a loss position for less than 12 months. Management believes the unrealized losses on the Company's investment in corporate debt securities were caused by interest rate changes. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell the investment until a recovery of fair value, which may be maturity, the Company does not consider the investment to be other-than-temporarily impaired at December 31, 2014.

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2014 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	2014	
	Amortized Cost	Fair Value
Within one year	$ 4,004,209	$ 4,027,000
One to five years	12,405,902	12,790,000
Five to ten years	15,294,059	15,350,000
Beyond ten years	5,333,949	5,215,000
	37,038,119	37,382,000
Investment securities not due at a single maturity date: residential mortgage-backed securities	42,164,897	42,119,000
	$ 79,203,016	$ 79,501,000

Investment securities with amortized costs totaling $1,604,873 and fair values of $1,643,000 were pledged to secure public deposits at December 31, 2014. Securities with amortized costs totaling $4,094,354 and fair values of $4,293,000 were pledged to the Federal Reserve for discount window borrowing at December 31, 2014. Investment securities with amortized costs totaling $1,650,141 and fair values of $1,697,000 were pledged to secure public deposits at December 31, 2013. Securities with amortized costs totaling $6,220,282 and fair values of $6,686,000 were pledged to the Federal Reserve for discount window borrowing at December 31, 2013.

3. LOANS

Outstanding loans are summarized below:

	December 31	
	2014	2013
Commercial	$ 61,879,126	$ 62,699,957
Construction	66,083,049	39,433,627
Residential real estate	20,722,375	12,436,131
Commercial real estate	127,015,410	96,846,398
Asset based	65,330,943	45,106,114
Consumer	1,875,981	1,462,853
Total outstanding loans	342,906,884	257,985,080
Deferred loan origination fees, net	(940,950)	(550,733)
Allowance for loan losses	(4,874,138)	(4,788,443)
Total loans net of allowance for loan losses	$ 337,091,796	$ 252,645,904

Salaries and employee benefits totaling $673,917, $548,099 and $502,533 have been deferred as loan origination costs for the years ended December 31, 2014, 2013 and 2012, respectively.

From time to time, the Bank pledges loans as collateral under a short-term borrowing arrangement through the Discount Window of the Federal Reserve Bank. At December 31, 2014, there were no loans pledged. The Bank has entered into a blanket lien agreement providing for the pledging of Call Report loan categories for borrowing capacity with the Federal Home Loan Bank. The bank has pledged a total of $220.1 million of loans for borrowing capacity of $99.4 mllion at December 31, 2014. The bank had used $25 million of that capacity as of December 31, 2014 (Note 9).

4. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses during the years ended December 31, 2014, 2013 and 2012 were as follows:

	2014	2013	2012
Balance, beginning of year	$ 4,788,443	$ 4,479,813	$ 4,375,754
Provision charged to operations	39,264	245,286	480,000
Losses charged to allowance	-	(327,819)	(622,724)
Recoveries	46,431	391,163	246,783
Balance, end of year	$ 4,874,138	$ 4,788,443	$ 4,479,813

4. ALLOWANCE FOR LOAN LOSSES (Continued)

Allocation of the Allowance for Loan Losses by Portfolio Segment and Impairment Methodology as of and for the years ended December 31, 2014 and 2013:

	Commercial	Construction	Residential Real Estate	Commercial Real Estate	Asset Based	Consumer	Unallocated	Total
Balance, at January 1, 2013	$ 658,213	$ 1,018,757	$ 239,388	$ 1,509,204	$ 628,777	$ 41,874	$ 383,600	$ 4,479,813
Provision for loan losses	753,964	(536,054)	(55,385)	(165,851)	563,812	(79,370)	(235,830)	245,286
Loans charged-off	(312,611)	-	-	(15,208)	-	-	-	(327,819)
Recoveries	289,164	-	-	25,138	-	76,861	-	391,163
Balance, at December 31, 2013	$ 1,388,730	$ 482,703	$ 184,003	$ 1,353,283	$ 1,192,589	$ 39,365	$ 147,770	$ 4,788,443
Provision for loan losses	(137,414)	(24,259)	(56,660)	(423,005)	697,906	13,829	(31,132)	39,264
Loans charged-off	-	-	-	-	-	-	-	-
Recoveries	46,381	18	-	-	-	32	-	46,431
Balance, at December 31, 2014	$ 1,297,696	$ 458,462	$ 127,343	$ 930,278	$ 1,890,495	$ 53,226	$ 116,638	$ 4,874,138

4. ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2014	Commercial	Construction	Residential Real Estate	Commercial Real Estate	Asset Based	Consumer	Unallocated	Total
Allowance for loan losses:								
Ending balance	$ 1,297,696	$ 458,462	$ 127,343	$ 930,278	$ 1,890,495	$ 53,226	$ 116,638	$ 4,874,138
Ending balance: individually evaluated for impairment	$ 408,454	$ -	$ -	$ -	$ 282,673	$ -	$ -	$ 691,127
Ending balance: collectively evaluated for impairment	$ 889,242	$ 458,462	$ 127,343	$ 930,278	$ 1,607,822	$ 53,226	$ 116,638	$ 4,183,011
Loans:								
Ending balance	$ 61,879,126	$ 66,083,049	$ 20,722,375	$ 127,015,410	$ 65,330,943	$ 1,875,981		$ 342,906,884
Ending balance: individually evaluated for impairment	$ 3,499,897	$ -	$ -	$ 485,270	$ 1,743,596	$ -		$ 5,728,763
Ending balance: collectively evaluated for impairment	$ 58,379,229	$ 66,083,049	$ 20,722,375	$ 126,530,140	$ 63,587,347	$ 1,875,981		$ 337,178,121

4. ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2013	Commercial	Construction	Residential Real Estate	Commercial Real Estate	Asset Based	Consumer	Unallocated	Total
Allowance for loan losses:								
Ending balance	$ 1,388,730	$ 482,703	$ 184,003	$ 1,353,283	$ 1,192,589	$ 39,365	$ 147,770	$ 4,788,443
Ending balance: individually evaluated for impairment	$ 196,000	$ -	$ -	$ 73,628	$ -	$ -	$ -	$ 269,628
Ending balance: collectively evaluated for impairment	$ 1,192,730	$ 482,703	$ 184,003	$ 1,279,655	$ 1,192,589	$ 39,365	$ 147,770	$ 4,518,815
Loans:								
Ending balance	$ 62,699,957	$ 39,433,627	$ 12,436,131	$ 96,846,398	$ 45,106,114	$ 1,462,853		$ 257,985,080
Ending balance: individually evaluated for impairment	$ 1,491,667	$ -	$ -	$ 522,944	$ -	$ -		$ 2,014,611
Ending balance: collectively evaluated for impairment	$ 61,208,290	$ 39,433,627	$ 12,436,131	$ 96,323,454	$ 45,106,114	$ 1,462,853		$ 255,970,469

4. ALLOWANCE FOR LOAN LOSSES (Continued)

Commercial Credit Exposure
Credit Risk Profile by Internally Assigned Grade as of December 31, 2014

	Commercial	Construction	Residential Real Estate	Commercial Real Estate	Asset Based	Consumer	Total
Grade:							
Pass	$ 54,277,705	$ 65,011,403	$ 20,130,838	$ 121,195,874	$ 58,113,363	$ 1,501,441	$320,230,624
Special Mention	3,366,072	1,071,646	-	4,551,899	1,904,173	-	10,893,790
Substandard-Non-Impaired	735,452	-	591,537	782,367	3,569,811	374,540	6,053,707
Substandard-Impaired	3,499,897	-	-	485,270	1,743,596	-	5,728,763
Total	$ 61,879,126	$ 66,083,049	$ 20,722,375	$ 127,015,410	$ 65,330,943	$ 1,875,981	$342,906,884

Commercial Credit Exposure
Credit Risk Profile by Internally Assigned Grade as of December 31, 2013

	Commercial	Construction	Residential Real Estate	Commercial Real Estate	Asset Based	Consumer	Total
Grade:							
Pass	$ 56,506,912	$ 36,794,423	$ 11,828,680	$ 93,250,482	$ 37,911,383	$ 1,052,751	$237,344,632
Special Mention	3,679,999	2,381,234	-	2,769,867	6,369,398	142,000	15,342,498
Substandard-Non-Impaired	1,021,379	257,970	607,451	303,105	825,333	268,102	3,283,339
Substandard-Impaired	1,491,667	-	-	522,944	-	-	2,014,611
Total	$ 62,699,957	$ 39,433,627	$ 12,436,131	$ 96,846,398	$ 45,106,114	$ 1,462,853	$257,985,080

4. ALLOWANCE FOR LOAN LOSSES (Continued)

Past Due and Nonaccrual Loan Detail as of December 31, 2014

	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total
Commercial	$ -	$ -	$ 3,499,897	$ 3,499,897	$ 58,379,229	$ 61,879,126
Construction	-	-	-	-	66,083,049	66,083,049
Residential Real Estate	-	-	-	-	20,722,375	20,722,375
Commercial Real Estate	-	-	-	-	127,015,410	127,015,410
Asset Based	-	-	1,743,596	1,743,596	63,587,347	65,330,943
Consumer	-	-	-	-	1,875,981	1,875,981
Total	$ -	$ -	$ 5,243,493	$ 5,243,493	$ 337,663,391	$ 342,906,884

Past Due and Nonaccrual Loan Detail as of December 31, 2013

	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total
Commercial	$ -	$ -	$ 1,491,667	$ 1,491,667	$ 61,208,290	$ 62,699,957
Construction	-	-	-	-	39,433,627	39,433,627
Residential Real Estate	-	-	-	-	12,436,131	12,436,131
Commercial Real Estate	-	-	522,944	522,944	96,323,454	96,846,398
Asset Based	-	-	-	-	45,106,114	45,106,114
Consumer	-	-	-	-	1,462,853	1,462,853
Total	$ -	$ -	$ 2,014,611	$ 2,014,611	$ 255,970,469	$ 257,985,080

4. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loan Detail with No Related Allowance recorded as of December 31, 2014

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
Commercial Real Estate	$ 485,270	$ 485,270	$ -	$ 556,530	$ -	$ -
Total	$ 485,270	$ 485,270	$ -	$ 556,530	$ -	$ -

Impaired Loan Detail with a Related Allowance as of December 31, 2014

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
Commercial	$ 3,499,897	$ 3,499,897	$ 408,454	$ 3,992,500	$ -	$ -
Asset Based	1,743,596	$ 1,743,596	282,673	2,441,294	-	-
Total	$ 5,243,493	$ 5,243,493	$ 691,127	$ 6,433,794	$ -	$ -

Impaired Loan Detail with a Related Allowance as of December 31, 2013

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
Commercial	$ 1,491,667	$ 1,491,667	$ 196,000	$ 3,231,923	$ -	$ -
Commercial Real Estate	522,944	522,944	73,628	721,561	-	-
Total	$ 2,014,611	$ 2,014,611	$ 269,628	$ 3,953,484	$ -	$ -

The recorded investment in loans includes accrued interest receivable and loan origination fees, net. For purposes of this disclosure, the unpaid principal balance is not reduced for any related loan loss allowance.

During the year ending December 31, 2014, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; or, an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk.

4. ALLOWANCE FOR LOAN LOSSES (Continued)

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial	2	$ 2,049,741	$ 2,049,741
Asset Based	1	$ 1,743,596	$ 1,743,596

The troubled debt restructurings described above increased the allowance for loan losses by $239,617 and resulted in no charge-offs during the year ending December 31, 2014.

There were no troubled debt restructurings that occurred during the year ended December 31, 2013.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31, 2014	December 31, 2013
Leasehold improvements	$ 1,063,035	$ 1,002,415
Furniture and equipment	785,033	698,931
Computer equipment	1,950,048	1,780,546
Gross property and equipment	3,798,116	3,481,892
Less accumulated depreciation and amortization	2,773,677	2,306,478
Property and equipment, net	$ 1,024,439	$ 1,175,414

Depreciation included in occupancy and equipment expense totaled $467,199, $423,330 and $313,846 for the years ended December 31, 2014, 2013 and 2012, respectively.

6. CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES

The Bank owns single-premium life insurance policies on the lives of current and former executives. Income earned on these policies, net of expenses, totaled $337,217, $186,995 and $107,595 for the years ended December 31, 2014, 2013 and 2012, respectively.

7. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31, 2014	December 31, 2013
NOW accounts	$ 21,169,767	$ 18,990,862
Savings	13,483,247	11,736,215
Money market	172,294,533	210,588,872
Time, $250,000 or more	22,977,444	31,476,402
Other time	15,567,178	19,148,175
Total interest-bearing deposits	$ 245,492,169	$ 291,940,526

7. INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2015	$ 28,093,803
2016	4,088,041
2017	2,794,150
2018	2,992,440
2019	576,188
Total time deposits	$ 38,544,622

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2014, 2013 and 2012 consisted of the following:

	2014	2013	2012
NOW accounts	$ 29,572	$ 39,605	$ 38,934
Savings	22,605	40,561	75,456
Money market	395,874	540,541	1,001,157
Time, $250,000 or more	321,600	511,266	669,082
Other time	20,689	35,409	55,604
Total interest on deposits	$ 790,340	$ 1,167,382	$ 1,840,233

At December 31, 2014, the Company had one deposit relationship that exceeded 5% of total deposits. At $32.1 million, the deposit relationship represented 8.3% of total deposits. At December 31, 2013, the Company had one deposit relationship that exceeded 5% of total deposits. At $41.8 million, the deposit relationship represented 9.3% of total deposits.

8. INCOME TAXES

The provision for (benefit from) income taxes for the years ended December 31, 2014, 2013 and 2012 consisted of the following:

2014	Federal	State	Total
Current	$ 1,214,174	$ 507,149	$ 1,721,323
Deferred	109,000	(34,000)	75,000
Provision for income taxes	$ 1,323,174	$ 473,149	$ 1,796,323

2013	Federal	State	Total
Current	$ 1,309,070	$ 481,362	$ 1,790,432
Deferred	(213,000)	(37,000)	(250,000)
Provision for income taxes	$ 1,096,070	$ 444,362	$ 1,540,432

2012	Federal	State	Total
Current	$ 1,449,000	$ 184,000	$ 1,633,000
Deferred	64,000	361,000	425,000
Benefit from income taxes	$ 1,513,000	$ 545,000	$ 2,058,000

8. INCOME TAXES (Continued)

Deferred tax assets (liabilities) at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 1,371,000	$ 1,360,000
State tax	145,000	158,000
Accrued expenses	225,000	237,000
Other	160,000	148,000
Share-base compensation	486,000	459,000
Total deferred tax assets	$ 2,387,000	$ 2,362,000
Deferred tax liabilities:		
Other	$ (139,000)	$ (54,000)
Property and equipment	(5,000)	(66,000)
Loan origination costs	(378,000)	(302,000)
Unrealized gain on available for sale investment securities	(119,000)	(22,000)
Total deferred tax liabilities	(641,000)	(444,000)
Net deferred tax asset	$ 1,746,000	$ 1,918,000

8. INCOME TAXES (Continued)

The provision for (benefit from) income taxes differs from amounts computed by applying the statutory Federal income tax rate to income before income taxes. The effects of these differences are as follows:

	Years Ended December 31,					
	2014		2013		2012	
	Amount	Rate %	Amount	Rate %	Amount	Rate %
Federal income tax expense, at statutory rate	$ 1,548,200	34.0	$ 1,376,600	34.0	$1,633,000	34.0
State franchise tax expense, net of Federal tax expense	312,300	6.9	317,700	7.8	121,000	2.5
Share-based compensation	17,500	0.4	28,100	0.7	40,000	0.8
Tax-exempt income from life insurance policies	(114,800)	(2.5)	(63,600)	(1.6)	(37,000)	(0.8)
Meals and Entertainment	15,700	0.3	23,200	0.6	31,000	1
Other	17,423	0.3	(141,568)	(3.5)	270,000	5.8
Total income tax (benefit) expense	$ 1,796,323	39.4	$ 1,540,432	38.0	$2,058,000	42.9

The total amount of unrecognized tax benefits, related to potentially uncertain tax positions, including interest and penalties, at December 31, 2014, is not considered material for disclosure purposes. The amount of tax benefits that would impact the effective rate, if recognized, is not expected to be material. The Company does not anticipate any significant changes with respect to unrecognized tax benefits within the next twelve months.

Status of Open Tax Years

The Company is subject to U.S. Federal income tax as well as California state income tax. Federal income tax returns for 2011 through 2014 and California income tax returns for 2010 through 2014 are currently open for Federal or state income tax examinations.

9. SHORT-TERM BORROWING ARRANGEMENTS

The Company had unsecured Federal Funds lines of credit totaling $8,000,000 and $10,000,000 with its correspondent banks at December 31, 2014 and December 31, 2013, respectively. There were no borrowings outstanding under these agreements at December 31, 2014 and 2013.

The Company has a short-term borrowing arrangement with the Federal Reserve Bank through the Discount Window. The Company has pledged certain securities to secure borrowings. The borrowing capacity under the agreement varies depending on the amount and type of securities pledged. There were no borrowings outstanding under the agreement at December 31, 2014 or 2013, and the Company had $3,951,784 of readily available borrowing capacity at December 31, 2014 based on currently pledged investments.

As a member of the Federal Home Loan Bank (FHLB) of San Francisco, the Bank is eligible to use the FHLB's facilities for short and long term borrowing. Borrowing capacity is based on the amount of stock ownership in the FHLB and all borrowings are based on pledged assets or a blanket lien against Call Report loan categories. There were two borrowings outstanding from the FHLB in the amounts of $15,000,000 and $10,000,000 maturing on January 5, 2015 and January 6, 2015, respectively at December 31, 2014. These two borrowings had a weighted average rate of 0.26%. There were no borrowings outstanding from the FHLB at December 31, 2013. The borrowing capacity at December 31, 2014 was $74.4 million based on a blanket lien based on Call Report loan categories.

10. COMMITMENTS

Operating Leases

The Company leases its branch and its administrative offices under a noncancellable operating lease. The lease expires in 2018 and has two five-year renewal options. The Company also leases office space for loan production offices in Redwood City and San Jose, California. The Redwood City loan production office lease expires in 2019 and has one three-year renewal option. The San Jose loan production office lease expires in 2016 and has one three-year renewal option. In the first quarter of 2015, the Company entered into a three-year lease for a loan production office in San Francisco.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2014:

Year Ending December 31,	Leases
2015	$ 1,359,596
2016	1,405,033
2017	1,451,830
2018	1,250,512
2019	187,200
	$ 5,654,171

10. COMMITMENTS (Continued)

Operating Leases (continued)

Net rent expense included in occupancy and equipment expense totaled $1,242,529, $1,097,670, and $837,578 for the years ended December 31, 2014, 2013 and 2012, respectively. Sublease income totaled $58,610, $127,125 and $408,022 for the years ended December 31, 2014, 2013 and 2012, respectively.

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The amount of such reserve balances required at December 31, 2014 was $9.7 million.

Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the balance sheet.

The following financial instruments represent off-balance-sheet credit risk:

	December 31,	
	2014	2013
Commitments to extend credit	$ 157,295,507	$ 111,263,884
Standby letters of credit	$ 4,174,896	$ 2,570,547

Commitments to extend credit consist primarily of unfunded single-family residential and commercial real estate construction loans and commercial revolving lines of credit. Construction loans are established under standard underwriting guidelines and policies and are secured by deeds of trust, with disbursements made over the course of construction. Commercial revolving lines of credit have a high degree of industry diversification. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

10. COMMITMENTS (Continued)

Financial Instruments With Off-Balance-Sheet Risk (continued)

Standby letters of credit are generally secured and are issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2014 and 2013. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

Significant Concentrations of Credit Risk

The Company grants real estate mortgage, real estate construction, commercial and consumer loans primarily to customers in the California counties of San Mateo and Santa Clara. Although the Company has a diversified loan portfolio, a substantial portion of its portfolio is secured by commercial and residential real estate. Management believes the loans within this concentration have no more than the normal risk of collectability. However, a substantial decline in real estate values in the Company's primary market area could have an adverse impact on the collectability of these loans. Personal and business income represent the primary sources of repayment for a majority of these loans and management believes the risks presented by the concentration are further mitigated by diversification of property types within the Company's real estate portfolio and by conservative underwriting.

At December 31, 2014, in management's judgment, a concentration of loans existed in construction and real estate related loans. At that date, approximately 62.4% of the Company's loans were construction and real estate related, representing 19.3% and 43.1% of total outstanding loans, respectively.

At December 31, 2013, in management's judgment, a concentration of loans existed in construction and real estate related loans. At that date, approximately 57.7% of the Company's loans were construction and real estate related, representing 15.3% and 42.4% of total outstanding loans, respectively.

Contingencies

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or results of operations of the Company.

11. SHAREHOLDERS' EQUITY

Dividends

The Company's ability to pay cash dividends is dependent on dividends paid to it by the Bank and limited by California law. Under California law, the holders of common stock of the Company are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available, subject to certain restrictions. California General Corporation Law prohibits the Company from paying dividends on its common stock unless: (i) its retained earnings, immediately prior to the dividend payment, equals or exceeds the amount of the dividend or (ii) immediately after giving effect to the dividend, the sum of the Company's assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the Company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities.

Dividends paid from the Bank to the Company are restricted under certain Federal laws and regulations governing banks. In addition, the California Financial Code restricts the total dividend payment of any bank in any one year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period, without the prior approval of the California Department of Business Oversight. At December 31, 2014, $6,163,000 million was free of such restrictions.

11. SHAREHOLDERS' EQUITY (Continued)

Earnings Per Common Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share computations for the years ended December 31, 2014, 2013 and 2012 is shown below:

	Net Income	Less Preferred Stock Dividends and Accretion	Net Income Available to Common Shareholders	Weighted Average Number of Shares Outstanding	Per Share Amount
December 31, 2014					
Basic income per common share	$ 2,743,708	$ -	$ 2,743,708	4,323,826	$ 0.63
Effect of dilutive options				76,833	-
Diluted income per common share	$ 2,743,708	$ -	$ 2,743,708	4,400,659	$ 0.62
December 31, 2013					
Basic income per common share	$ 2,508,443	$ (210,652)	$ 2,297,791	3,474,788	$ 0.66
Effect of dilutive options				90,702	-
Diluted income per common share	$ 2,508,443	$ (210,652)	$ 2,297,791	3,565,490	$ 0.64
December 31, 2012					
Basic income per common share	$ 2,744,714	$ (345,242)	$ 2,399,472	2,610,998	$ 0.92
Effect of dilutive options				19,086	-
Diluted income per common share	$ 2,744,714	$ (345,242)	$ 2,399,472	2,630,084	$ 0.91

There were 0, 477,060 and 580,566 options excluded from the calculation of diluted earnings per share in 2014, 2013 and 2012 respectively, because they were anti-dilutive.

11. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Company and the Bank met all their capital adequacy requirements as of December 31, 2014 and 2013.

11. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (Continued)

As of December 31, 2014, 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, under the regulatory framework for prompt corrective actions, the Company and the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below:

	2014		2013	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Avidbank Holdings, Inc.	$ 51,368,253	10.82%	$ 48,022,785	9.89%
Minimum regulatory requirement	$ 18,982,792	4.00%	$ 19,418,356	4.00%
Avidbank	$ 49,995,096	10.53%	$ 46,902,225	9.66%
Minimum requirement for "Well-Capitalized" institution	$ 23,728,489	5.00%	$ 24,272,945	5.00%
Minimum regulatory requirement	$ 18,982,792	4.00%	$ 19,418,356	4.00%
Tier 1 Risk-Based Capital Ratio				
Avidbank Holdings, Inc.	$ 51,368,253	11.34%	$ 48,022,785	12.78%
Minimum regulatory requirement	$ 18,123,152	4.00%	$ 15,032,700	4.00%
Avidbank	$ 49,995,096	11.03%	$ 46,902,225	12.45%
Minimum requirement for "Well-Capitalized" institution	$ 27,184,729	6.00%	$ 22,549,049	6.00%
Minimum regulatory requirement	$ 18,123,152	4.00%	$ 15,032,700	4.00%
Total Risk-Based Capital Ratio				
Avidbank Holdings, Inc.	$ 56,612,338	12.50%	$ 52,720,503	14.03%
Minimum regulatory requirement	$ 36,246,305	8.00%	$ 30,065,399	8.00%
Avidbank	$ 55,239,181	12.19%	$ 51,599,943	13.70%
Minimum requirement for "Well-Capitalized" institution	$ 45,307,881	10.00%	$ 37,581,749	10.00%
Minimum regulatory requirement	$ 36,246,305	8.00%	$ 30,065,399	8.00%

12. SHARE-BASED PAYMENT

Equity Incentive Awards

Under the 2013 Equity Incentive Plan, the Company is able to provide stock-based awards to employees, directors, and contractors. Awards under the 2013 Equity Incentive Plan may be in the form of, but not limited to, the following: stock options, restricted stock or units, performance based shares or units, and other stock-based awards as determined by the Board of Directors. The 2013 Equity Incentive Plan specifies that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid for in full at the time the option is exercised. All options expire on a date determined by the Board of Directors, but not later than five years from the date of grant. Upon grant, options vest ratably over a four year period.

There were 20,000 new options granted in 2014, and 81,650 new options granted in 2013. As of December 31, 2014, there were 315,086 remaining shares available to be granted as options or restricted stock among other forms of equity compensation under the 2013 Equity Incentive Plan.

12. SHARE-BASED PAYMENT (Continued)

Stock Options (Continued)

A summary of option activity under the Plan for the years ended December 31, 2014 and 2013 follows:

	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Options outstanding at December 31, 2012	665,752	$ 7.38	3.49 years	$ 1,628,432
Options granted	81,650	$ 8.57		
Options exercised	(27,813)	6.75		
Options forfeited	(85,177)	8.37		
Options outstanding at December 31, 2013	634,412	$ 7.65	2.84 years	$ 1,807,983
Options granted	20,000	$ 11.25		
Options exercised	(41,734)	7.26		
Options forfeited	(17,761)	6.91		
Options outstanding at December 31, 2014	594,917	$ 7.82	2.02 years	$ 2,605,265
Options vested or expected to vest at December 31, 2014	513,690	$ 7.69	1.94 years	$ 2,315,116
Options exercisable at December 31, 2014	353,180	$ 7.27	1.65 years	$ 1,741,756

The Company determines the fair value of options on the date of grant using a Black-Scholes option pricing model that uses assumptions based on expected option life, the level of estimated forfeitures, expected stock volatility and the risk-free interest rate. Stock volatility is based on the historical volatility of the Company's stock. The risk-free rate is based on the U.S. Treasury yield curve and the expected term of the options. For options granted, historical data was used based on the actual term the Company's options were held to estimate the expected term of the stock option grants.

12. SHARE-BASED PAYMENT (Continued)

Stock Options (Continued)

The fair value of each option is estimated on the date of grant using the following assumptions:

	2014	2013	2012
Dividend Yield	N/A	N/A	N/A
Expected volatility	18.97%	21.06%	31.83%
Risk-free interest rate	0.72%	0.61%	0.42%
Expected option life	3.3 years	3.0 years	3.2 years

The weighted-average grant-date fair value of options granted during 2014, 2013 and 2012 was $1.61, $1.59 and $1.93, respectively.

Options in the amount of 41,734 were exercised in 2014 with cash proceeds received of $252,197. In addition, 9,999 options were exercised as part of net exercises of options. Options in the amount of 27,813 were exercised in 2013 with cash proceeds received of $187,831. Options in the amount of 12,379 were exercised in 2012 with cash proceeds received of $78,266. The intrinsic value of options exercised in 2014 was $174,947. The intrinsic value of options exercised in 2013 was $93,345. The intrinsic value of options exercised in 2012 was $29,972. The tax benefit recognized from stock option exercises in 2014 and 2013 was not significant.

A summary of the status of the Company's non-vested options as of December 31, 2014 and changes during the year ended December 31, 2014, is presented below:

Non-vested options	Options	Weighted Average Exercise Price
Non-vested at January 1, 2014	378,025	$ 7.13
New options granted	20,000	11.25
Vested	(150,038)	7.70
Forfeited	62,500	6.80
Non-vested at December 31, 2014	241,738	$ 5.72

As of December 31, 2014, the unrecognized compensation cost related to non-vested stock option awards totaled $199,342. That cost is expected to be amortized on a straight-line basis over a weighted average period of twelve months. The total fair value of vested options was $651,696 at December 31, 2014. The expensed cost of vested options was $182,609, $155,790 and $216,353 in 2014, 2013 and 2012, respectively.

12. SHARE-BASED PAYMENT (Continued)

Restricted Common Stock Awards

The 2013 Equity Incentive Plan provides for the issuance of restricted stock to directors and officers. Restricted common stock grants typically vest over a three-year period. Restricted common stock (all of which are shares of our common stock) is subject to forfeiture if employment terminates prior to vesting. The cost of these awards is recognized over the vesting period of the awards based on the fair value of our common stock on the date of the grant.

The following table summarizes restricted stock activity for the year ended December 13, 2014:

	Shares	Weighted Average Grant Date Fair Value
Non-vested shares at January 1, 2014	-	$ -
Granted	27,091	11.38
Vested	(5,039)	11.25
Forfeited	-	-
Non-vested shares at December 31, 2014	22,052	$ 11.42

During the year ended December 31, 2014, 27,089 shares of restricted common stock were granted from the 2013 Equity Incentive Plan. The restricted common stock had a weighted average fair value of $11.38 per share on the date of grant. Of the restricted shares granted in 2014, 15,111 have a two-year vesting period, with one third of the shares vesting immediately on grant date, one third vesting on the one-year anniversary of the grant date, and the remaining third vesting on the two-year anniversary. The other 11,978 restricted shares have a three-year vesting period, with one third vesting on each of the following three anniversary dates.

As of December 31, 2014, there were 18,281 shares of restricted stock that were nonvested and expected to vest. Share-based compensation cost charged against income for restricted stock awards was $190,096 for the year ended December 31, 2014.

As of December 31, 2014, there was $118,299 of total unrecognized compensation cost related to nonvested restricted common stock. Restricted stock compensation expense is recognized on a straight-line basis over the vesting period. This cost is expected to be recognized over a weighted average remaining period of 10.2 months and will be adjusted for subsequent changes in estimated forfeitures.

13. EMPLOYEE 401(k) PROFIT SHARING PLAN

The Company has a 401(K) profit sharing plan. All employees 21 years of age or older become eligible to participate in the plan on the first day of the month following employment with the Bank. Eligible employees may elect to make tax deferred contributions of their salary up to the maximum amount allowed by law. The Bank may make additional contributions to the plan at the discretion of the Board of Directors. Bank contributions vest at a rate of 25% annually for all employees. Bank contributions for the years ended December 31, 2014, 2013 and 2012 totaled $161,239, $132,312 and $120,844, respectively.

14. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including directors and officers. The following is a summary of the aggregate activity involving related party borrowers during 2014:

Balance, January 1, 2014	$ 4,463,852
Additions	-
Amounts repaid	(957,225)
Balance, December 31, 2014	$ 3,506,627
Undisbursed commitments to related parties, December 31, 2014	$ 5,000

15. OTHER EXPENSES

Other expenses for the years ended December 31, 2014, 2013 and 2012 consisted of the following:

	2014	2013	2012
Data processing	$ 427,722	$ 427,159	$ 358,451
Advertising and marketing	164,360	239,675	220,717
Supplies and printing	54,050	57,378	37,605
Professional fees	401,659	452,050	271,697
Legal fees	142,104	186,765	94,484
Director's fees	214,750	205,000	117,750
Insurance and bonding	72,145	59,395	70,604
FDIC and DBO assessments	382,843	430,079	408,292
Credit reports and appraisals	22,720	28,106	11,218
Correspondent bank charges	351,787	276,077	262,314
Off-balance sheet loss provision	65,742	-	65,450
Other	445,886	432,516	600,569
Total other expenses	$ 2,745,768	$ 2,794,200	$ 2,519,151

16. FAIR VALUE

The Company discloses the fair value of financial instruments for which it is practicable to estimate that value. Although management uses its best judgment in estimating fair value, there are inherent weaknesses in any estimates that are made at a discrete point in time based on relevant market data, information about the financial instruments, and other factors. Estimates of fair value of instruments without quoted market prices are subjective in nature and involve various assumptions and estimates that are matters of judgment. Changes in the assumptions used could significantly affect these estimates.

Fair Value Hierarchy

The Bank groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 - Quoted market prices for identical instruments traded in active exchange markets.

Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 - Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

Methods and assumptions used to estimate the fair value of each major classification of financial instruments were:

Cash and cash equivalents and Federal Funds sold: The current carrying amount approximates estimated fair value resulting in a Level 1 classification.

FHLB stock: It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Available-for-sale investment securities and interest-bearing deposits in other banks: For available-for-sale investment securities and interest-bearing deposits in other banks, fair values are based on quoted market prices, where available (Level 1 classification). If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and deposits and indications of value provided by brokers (Level 2 classification).

16. FAIR VALUE (Continued)

Loans: Fair values of loans are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Carrying value is calculated as the present value of expected cash flows and approximates fair value. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are initially valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

The carrying amounts of accrued interest receivable and payable are consistent with the asset/liability they are associated with.

Customer deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.The intangible value of long term relationships with depositors is not taken into account in estimating the fair values disclosed. Management believes that the Bank's non-term accounts, as a continuing source of less costly funds, provide significant additional value to the Bank that is not reflected below. The fair value of deposits with a stated maturity is based on the present value of contractual cash flows discounted by the replacement rates for securities with similar remaining maturities.

Other borrowings: The carrying amounts of other borrowings generally mature within thirty days and therefore approximate their fair values resulting in a Level 1 classification.

Commitments to extend credit: The majority of the Bank's commitments to extend credit carry current market interest rates if converted to loans. Because these commitments are generally unassignable by either the Bank or the borrower, they have value only to the Bank and the borrower. The estimated fair value of the Bank's commitments to extend credit, including letters of credit, approximates the recorded deferred fee amounts and was not material at December 31, 2014 or 2013.

16. FAIR VALUE (Continued)

The carrying amounts and estimated fair values of financial instruments, at December 31, 2014 and December 31, 2013 are as follows:

	Carrying Amount	Fair Value Measurements at December 31, 2014 Using:			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 17,986,715	$ 17,986,715	$ -	$ -	$ 17,986,715
Federal funds sold	8,150,000	8,150,000	-	-	8,150,000
Available-for-sale investment securities	79,501,000	-	79,501,000	-	79,501,000
Loans	337,091,796	-	-	339,447,422	339,447,422
Federal Home Loan Bank stock	4,653,000	NA	NA	NA	NA
Accrued interest receivable	1,256,343	-	433,345	822,998	1,256,343
Financial liabilities:					
Deposits	385,921,509	347,376,886	38,250,076	-	385,626,961
Other Borrowings	25,000,000	25,000,000			25,000,000
Accrued interest payable	9,403	2	9,401	-	9,403

	Carrying Amount	Fair Value Measurements at December 31, 2013 Using:			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 16,905,371	$ 16,905,371	$ -	$ -	$ 16,905,371
Federal funds sold	151,940,000	151,940,000	-	-	151,940,000
Available-for-sale investment securities	58,983,000	-	58,983,000	-	58,983,000
Loans	252,645,904	-	-	255,276,519	255,276,519
Federal Home Loan Bank stock	3,290,000	NA	NA	NA	NA
Accrued interest receivable	1,131,796	-	427,200	704,596	1,131,796
Financial liabilities:					
Deposits	450,304,132	399,679,556	51,023,339	-	450,702,895
Accrued interest payable	21,428	6	21,422	-	21,428

16. FAIR VALUE (Continued)

Assets Recorded at Fair Value

The following tables present information about the company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2014 and December 31, 2013:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis as follows:

	2014			
Description	Fair Value	Level 1	Level 2	Level 3
U.S. Agencies	$ 5,213,000	$ -	$ 5,213,000	$ -
U.S. Govt. Sponsored Agencies	5,672,000	-	5,672,000	-
Residential Mortgage-Backed Securities	42,119,000	-	42,119,000	-
Corporate Debt Securities	26,497,000	-	26,497,000	-
Available-for-sale securities	$ 79,501,000	$ -	$ 79,501,000	$ -

	2013			
Description	Fair Value	Level 1	Level 2	Level 3
U.S. Agencies	$ 5,493,000	$ -	$ 5,493,000	$ -
U.S. Govt. Sponsored Agencies	5,779,000	-	5,779,000	-
Residential Mortgage-Backed Securities	15,439,000	-	15,439,000	-
Municipal Tax-Exempt Securities	1,174,000	-	1,174,000	-
Corporate Debt Securities	31,098,000	-	31,098,000	-
Available-for-sale securities	$ 58,983,000	$ -	$ 58,983,000	$ -

Fair values for available-for-sale investment securities are based on quoted market prices for similar securities (Level 2). During the years ended December 31, 2014 and December 31, 2013, there were no significant transfers in or out of Levels 1,2 or 3.

16. FAIR VALUE (Continued)

Assets Recorded at Fair Value (cont.)

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These includes the following assets and liabilities that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at December 31, 2014.

	2014			
	Fair Value	Level 1	Level 2	Level 3
Collateral dependent impaired loans:				
Commercial:				
Commerical and industrial	$ 1,837,287	$ -		$ 1,837,287
Asset based	1,460,924	-		1,460,924
Total commercial	3,298,211	-		3,298,211
Total assets measured at fair value on a non-recurring basis	$ 3,298,211	$ -		$ 3,298,211

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow method as prescribed by topic 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the year ended December 31, 2014.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value is compared with independent data sources such as recent market data or industry-wide statistics.

16. FAIR VALUE (Continued)

Assets Recorded at Fair Value (cont.)

Non-recurring Basis (cont.)

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $3,793,336 with a valuation allowance of $495,127 at December 31, 2014, down to their fair value of $3,298,211. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

During the years ended December 31, 2014 and December 31, 2013, there was $0 provision for credit losses recorded related to loans carried at fair value and $0 net charge-offs related to loans carried at fair value.

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

PARENT ONLY BALANCE SHEETS
December 31, 2014 and 2013

ASSETS

	2014	2013
Cash and cash equivalents	$ 1,372,757	$ 1,120,560
Investment in Bank subsidiary	50,174,287	46,911,768
Total assets	$ 51,547,044	$ 48,032,328

LIABILITIES AND SHAREHOLDERS' EQUITY

	2014	2013
Common stock	42,249,735	42,249,735
Additional paid-in capital	2,956,520	2,280,997
Retained earnings	6,161,999	3,468,924
Accumulated other comprehensive income, net of taxes	178,790	32,672
Total shareholders' equity	51,547,044	48,032,328
Total liabilities and shareholders' equity	$ 51,547,044	$ 48,032,328

PARENT ONLY STATEMENTS OF INCOME
For the Years Ending December 31, 2014 and 2013

	2014	2013
INCOME		
Dividends declared by subsidiary - eliminated in consolidation	$ -	$ 162,276
Other income	-	6,680
Total income	-	168,956
EXPENSES	-	-
Income before undistributed net income of subsidiary	-	168,956
Equity in undistributed net income of subsidiary	2,743,708	2,339,487
Net income	$ 2,743,708	$ 2,508,443

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

PARENT ONLY STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Net income	$ 2,743,708	$ 2,508,443
Adjustments to reconcile net income to net cash provided by operating activities:		
Warrant income	-	6,680
Undistributed net income of subsidiary	(2,743,708)	(2,339,487)
Net cash provided by operating activities	-	175,636
Cash flows from investing activities:		
Investment in subsidiary bank	-	(8,000,000)
Net cash (used in) investing activities	-	(8,000,000)
Cash flows from financing activities:		
Proceeds from issuance of common stock	-	14,821,683
Redemption of preferred stock	-	(6,000,000)
Proceeds from exercise of employee stock options	252,197	187,831
Cash dividends paid	-	(168,956)
Net cash provided by (used in) financing activities	252,197	8,840,558
Increase in cash and cash equivalents	252,197	1,016,194
Cash and cash equivalents at beginning of period	1,120,560	104,366
Cash and cash equivalents at end of year	$ 1,372,757	$ 1,120,560

OFFICERS and DIRECTORS

OFFICERS

Mark D. Mordell
Chairman and Chief Executive Officer

Ronald E. Oliveira
President and Chief Credit Officer

Steve Leen
Executive Vice President and Chief Financial Officer

Dori Hamilton
Executive Vice President and Chief Banking Officer

Kenneth D. Brenner
Head of Strategic Relationships

Larry LaCroix
Executive Vice President - Corporate Finance

Mark V. Schoenstein
Executive Vice President, Manager - Construction Lending

Nicole L. Bader
Senior Vice President - Senior Loan Officer

Lisa O. Felleman
Senior Vice President and Controller

Chris Greene
Senior Vice President - Corporate Banking

Greg Hickel
Senior Vice President - Senior Credit Administrator

Jeffrey Javier
Senior Vice President - Relationship Manager

Jon Krogstad
Senior Vice President - Relationship Manager

Joe Maleti
Senior Vice President - Commercial Real Estate Lending

Fergal J. O'Boyle
Senior Vice President - Construction Lending

Gina Stephens
Senior Vice President - BSA Officer

Susan J. Wells
Senior Vice President - Relationship Manager

Sarah Wesner
Senior Vice President - Corporate Banking

DIRECTORS

Mark D. Mordell, Chairman

Kenneth D. Brenner

Kristofer W. Biorn

David V. Campbell

Lisa B. Hendrickson

Bryan C. Polster

Roxy H. Rapp

Michael F. Rosinus

Daniel P. Vetras

Avidbank Holdings, Inc., headquartered in Palo Alto, California offers innovative financial solutions and services. We specialize in the following markets: commercial & industrial, corporate finance, asset-based lending, real estate construction and commercial real estate lending, and real estate bridge financing.

Avidbank advances the success of our clients by providing them with financial opportunities and serving them as we wish to be served - with mutual effort, ingenuity and trust - creating long-term banking relationships.

Avidbank
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