

BUILDING FOR SUCCESS



2010 ANNUAL REPORT



THIS IS YOUR VALLEY.
THIS IS YOUR BANK.



THIS IS YOUR VALLEY. THIS IS YOUR BANK.

Established in October 2007, Community Valley Bank is an independent, community bank dedicated to meeting the specialized needs of businesses and individuals in the Imperial Valley. The bank has two branch locations, El Centro and Brawley, and an administrative office in El Centro. It is the only bank that is locally owned and headquartered in the Imperial Valley.

Community Valley Bank provides a full line of deposit and loan services to businesses, nonprofit organizations and individuals. Community Valley Bank is dedicated to serving customers with a home-town feel, improving the quality of life in our communities, and helping Imperial Valley businesses to succeed.

Community Valley Bank is a publicly traded company under the symbol CMUV.

LETTER TO SHAREHOLDERS

In 2010, Community Valley Bank (CVB) continued to achieve substantial growth despite the weak economy. The bank grew its assets at a rate of 52 percent from December 31, 2009 to December 31, 2010 totaling \$66.2 million. CVB has grown in asset size every quarter since the bank was chartered on October 1, 2007. This supports the belief that there was a void in the Imperial Valley for a true community bank that *lends Valley deposits to Valley businesses*.

From year end 2009, deposits have increased by \$17.6 million to \$53.2 million. CVB's gross loans have increased by \$15.6 million to \$51.4 million. Each and every loan decision is made in the Imperial Valley, giving the bank a firsthand look at the impact it is making in the community. Through its lending, CVB has generated new opportunities for Valley jobs and in some cases it has helped retain jobs.

Community Valley Bank is proudly supporting over 1300 accounts from our Brawley and El Centro branch offices.

Lending to Help Grow the Imperial Valley

Community Valley Bank is a leader within the U.S. Small Business Administration (SBA) San Diego and Imperial County lenders. The bank ranked 10th largest lender by the U.S. SBA for loans made from

October 1, 2009 to September 30, 2010. CVB has acquired the coveted SBA Preferred Lender status, which will expedite the bank's ability to approve loans up to \$5 million to locally owned businesses. The bank is proud to have matured into a resource and partner for the local business community seeking to understand and use the federal guarantees available.

Further, the bank has grown its loan portfolio for three consecutive years. In 2008, the bank originated 80 loans worth \$22.7 million, there were 108 loans worth \$17.5 million in 2009, and 138 loans worth \$23.1 million in 2010. In addition, the bank funded 21 4-H and Future Farmers of America (FFA) loans throughout the Valley. Although these loans are small, they have a big impact in the lives of our youth – the Valley's future.

In the Community

Community Valley Bank believes that social responsibility is an important part of building a great community. CVB demonstrates it is genuinely interested in the Imperial Valley through community financial reinvestment, supporting organizations, and many community events. Together, we can positively impact lives in our community. In 2010, CVB contributed to over 64 organizations, and

our staff volunteered well over 200 hours.

Building Success Together

There are over \$2 billion dollars on deposit within the Valley's financial institutions. CVB wants more of those deposits to be lent to local businesses, which will ultimately grow the Imperial Valley. Therefore, CVB puts forth the extra effort and listens to its customers and communities' needs. The bank offers products and services that others shy away from and we do it with personalized face-to-face service. This is what "Building for Success Together" means at CVB!

We are proudly serving our customers at a newly constructed permanent branch office in Brawley. The bank anticipates opening its doors at a permanent location in El Centro by the end of 2011 and continues its plan for a branch office in Calexico.

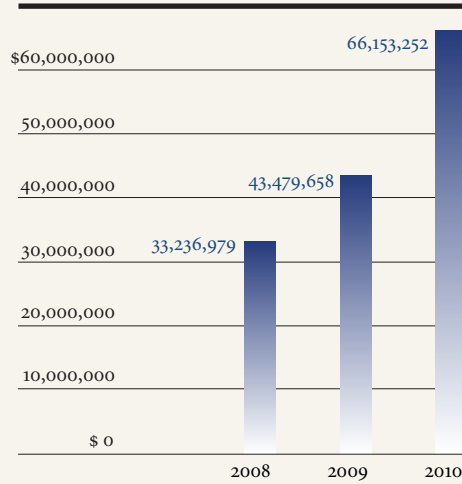
I join our Board of Directors and staff in thanking the Imperial Valley for the support that we have received. We recognize that we work for you, we appreciate your business, and we work hard to be your Community Valley Bank!



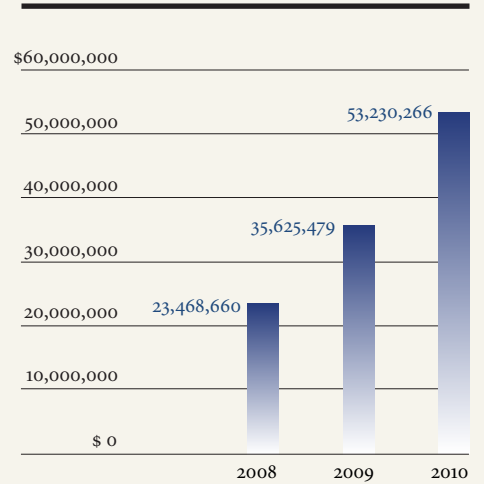
ROBERT E. HAHN

President & Chief Executive Officer, Director

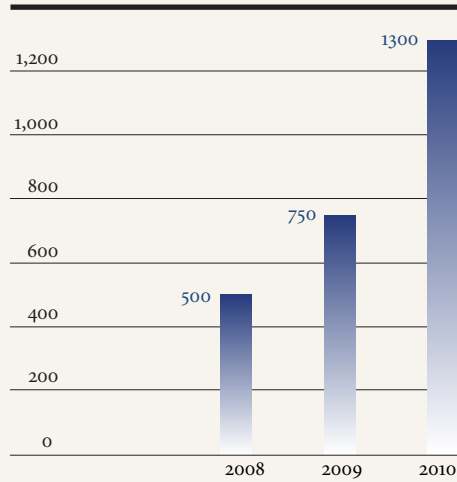
ASSETS



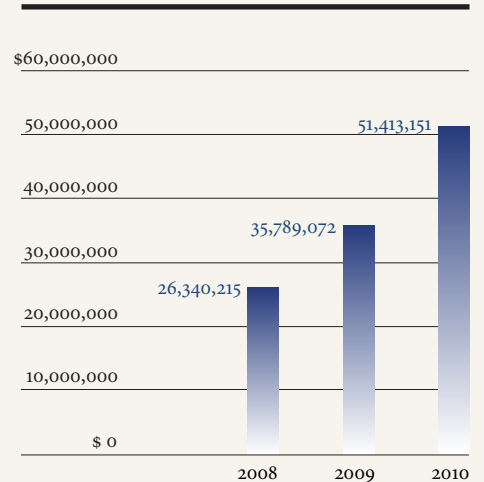
DEPOSITS



ACCOUNTS



LOANS AND LEASES



ROBERT E. HAHN

President & Chief Executive Officer, Director

Mr. Hahn came to Community Valley Bank with over forty years of banking experience. For the last twenty three years, he has served as President and Chief Executive Officer of two other community banks. He held this position at First National Bank of North County in San Marcos, California from 1991 to 2007. Prior to that, he held the same position at a multi-bank holding company, CBC Bancorp Ltd. in Chicago, Illinois.

Mr. Hahn held senior vice president and vice president roles at various Chicago area banks from 1977 to 1987. He has both an undergraduate and Masters Degree from DePaul University in Chicago.

CHARLES J. TARQUINI

Chief Credit Officer

Mr. Tarquini has more than forty years experience in the banking industry. He spent ten years as Senior Vice President and Commercial Loan Officer at First National Bank of North County, San Marcos, California from 1996 to 2007. During that time he started the bank's Small Business Administration (SBA) Loan Department, which achieved the designation of SBA Preferred Lender.

Mr. Tarquini held the position of Vice President and Senior Commercial Loan Officer at Cuyamaca Bank from 1989 to 1996. At First Interstate Bank, he oversaw branch management and commercial lending as Vice President from 1978 to 1988.

TONI UMPHREYVILLE

Chief Financial Officer

Ms. Umphreyville's operational and financial management resume spans over thirty years. Her experience includes serving as both a Chief Financial Officer and a Chief Operating Officer at other financial institutions.

Most recently, she was the Executive Vice President, Chief Financial Officer at First Vietnamese American Bank in Westminster, California. Prior to this, she was employed at Seacoast Commerce Bank in Chula Vista, California. There, she also served as the Bank Secrecy Act and Compliance Officer, Human Resource Officer and Security Officer.



*Jon Edney, Chairman of the Board
Imperial Valley Real Estate Services*

*Thomas Topuzes, Vice Chairman of the Board
Thomas Topuzes & Associates, LLC*

*Ron Rubin, Board Secretary
Rubin Seeds, LLC*

*Michael Bracken, Director
Development Management Group, Inc.*

*Alejandro Calderon, Director
Canizalez Associates, Inc.*

*Rhoda Casto, Director
Banking Veteran*

*Andrew Erickson, Director
Erickson and Associates*

*Donald Gibson, Director
Gibson & Schaefer, Inc*

*Jordana Selwick, Director
Selwicks*

*Clyde Shields, Director
Entomological Consulting*

LEFT TO RIGHT: CHARLES J. TARQUINI, TONI UMPHREYVILLE, ROBERT E. HAHN





PRODUCTS AND SERVICES

CVB is proud to offer a full line of banking products:

BUSINESS DEPOSIT ACCOUNTS

Business Checking Accounts

BUSINESS LOANS

Business Lines of Credit

Business Equipment and

Tenant Improvement Loans

Commercial Real Estate Loans

Small Business Administration

504 and 7(A) Loans

PERSONAL DEPOSIT ACCOUNTS AND LOAN PRODUCTS

Personal Checking Accounts

Personal Savings Accounts

Personal Loans

ELECTRONIC SERVICES AND PRODUCTS

ADDITIONAL BUSINESS OFFERINGS

ACH Origination

Bill Payment

Funds Transfers

Wire Transfers

User Maintenance

Remote Deposit Capture

www.yourcvb.com

Authors

BONNIE OLESH

Fifth Avenue Books

Fifth Avenue Books started out as a very small, general bookstore. In 2006, owner Bonnie Olesh expanded the store to offer the education community a vast selection of teaching materials at competitive prices. Bonnie lives outside the box, and is never afraid of change. She has reinvented the store, as needed, to create a destination shop that people want to visit, because they know they will find unique quality items, value and service.

Bonnie has been involved with schools since the shop's beginning. She is known for sharing her love for Theater, often visiting nearby schools dressed as Cat in the Hat, Winnie the Pooh, An Ancient Chinese Story Teller, and even original characters.

Bonnie also offers her services as a Notary Public. By doing so, she has attracted new customers and has provided an added bonus to her regular customers.

Fifth Avenue Books will soon be starting Books & Box Lunch Wednesday. Bonnie has partnered with a local caterer, who recently graduated from culinary school, to offer fresh homemade lunches once a week. Downtown customers will be invited to stop in to pick up their take-out lunch.





N.M. GRIGGS

N.M. Griggs Company

The N.M. Griggs Company is an LTL (less-than-truckload) and truckload carrier for fresh fruits and vegetables from most of southern California and southwest Arizona to the Los Angeles area. Established in 1969, they also operate a dry freight division that services the Imperial Valley to and from the entire continental United States, with overnight service to many parts of southern California and southwest Arizona.

Involved in the Brawley Elks Club as well as the Brawley Rotary Club, they also sponsor and support high school and community activities. And, for many years, they have made their trucks available for hauling donated fruits and vegetables to food banks throughout southern California.

N.M. Griggs Company also has an equestrian arena on its property that is made available to organizations for gymkhanas and other equestrian events, in an effort to promote horsemanship in the community. With many events involving parents and grandparents competing with their children and grandchildren, the events are fun for participants and spectators alike.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of Community Valley Bank

We have audited the accompanying statements of financial condition of Community Valley Bank as of December 31, 2010 and 2009 and the related statements of operations, changes in shareholders' equity, and cash flows for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Valley Bank as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Vavrinek, Trine, Day & Co., LLP

Certified Public Accountants

Laguna Hills, California

March 11, 2011

25231 Paseo De Alicia, Suite 100, Laguna Hills, CA 92653

Tel: 949.768.0833, Fax: 949.768.8408, www.vtdcpa.com

STATEMENTS OF FINANCIAL CONDITION

For the Years Ended December 31, 2010 and 2009

ASSETS	2010	2009
Cash and Due from Banks	\$ 9,488,879	\$ 2,001,622
Federal Funds Sold	965,000	1,000,000
TOTAL CASH AND CASH EQUIVALENTS	10,453,879	3,001,622
Interest-Bearing Deposits in Other Financial Institutions	2,146,000	3,000,000
Investment Securities Available for Sale	494,475	495,115
Loans:		
Real Estate - Construction and Land Development	1,472,363	441,382
Real Estate - Other	32,303,907	22,030,228
Commercial and Industrial	17,382,856	13,055,259
Consumer	356,431	383,955
TOTAL LOANS	51,515,557	35,910,824
Deferred Loan Fees, Net of Costs	(102,405)	(121,751)
Allowance for Loan Losses	(753,153)	(572,626)
NET LOANS	50,659,999	35,216,447
Federal Home Loan Bank Stock, at Cost	180,600	162,200
Premises and Equipment	1,527,212	1,038,574
Accrued Interest and Other Assets	691,087	569,687
	\$ 66,153,252	\$ 43,483,645

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

STATEMENTS OF FINANCIAL CONDITION

For the Years Ended December 31, 2010 and 2009

LIABILITIES AND SHAREHOLDERS' EQUITY	2010	2009
Deposits:		
Noninterest-Bearing Demand	\$ 11,239,479	\$ 9,153,267
Savings, NOW and Money Market Accounts	29,029,155	19,232,152
Time Deposits Under \$100,000	2,775,664	1,838,304
Time Deposits \$100,000 and Over	10,185,968	5,401,756
TOTAL DEPOSITS	53,230,266	35,625,479
Other Borrowings	4,610,422	-
Accrued Interest and Other Liabilities	641,705	146,941
TOTAL LIABILITIES	58,482,393	35,772,420
Commitments and Contingencies - Notes D and I	-	-
Shareholders' Equity:		
Common Stock - 10,000,000 Shares Authorized, No Par Value;		
Shares Issued and Outstanding - 1,621,568 and 1,343,198 in 2010		
and 2009, respectively	14,255,669	13,431,980
Additional Paid-in Capital	482,313	465,205
Accumulated Deficit	(7,065,976)	(6,185,960)
Accumulated Other Comprehensive Income -		
Unrealized Loss on Available-for-Sale Securities	(1,147)	-
TOTAL SHAREHOLDERS' EQUITY	7,670,859	7,711,225
	 \$ 66,153,252	 \$ 43,483,645

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

STATEMENTS OF OPERATIONS*For the Years Ended December 31, 2010 and 2009*

INTEREST INCOME	2010	2009
Interest and Fees on Loans	\$ 2,845,955	\$ 2,248,662
Interest Income on Investments	22,961	-
Interest Income on Deposits at Other Institutions	29,189	43,151
Interest on Federal Funds Sold and Other	5,894	4,805
TOTAL INTEREST INCOME	2,903,999	2,296,618
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	297,540	182,269
Interest on Time Deposits	191,637	173,795
Interest on Borrowed Funds	34	5,752
TOTAL INTEREST EXPENSE	489,211	361,816
NET INTEREST INCOME	2,414,788	1,934,802
Provision for Loan Losses	342,189	714,098
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,072,599	1,220,704
NONINTEREST INCOME		
Service Charges, Fees and Other	246,401	158,189
Gain on Sale of Loans	293,252	-
NONINTEREST EXPENSE		
Salaries and Employee Benefits	1,694,597	1,617,605
Occupancy and Equipment Expenses	550,077	555,023
Other Expenses	1,246,794	1,032,323
	3,491,468	3,204,951
LOSS BEFORE INCOME TAXES	(879,216)	(1,826,058)
Income Taxes	800	800
NET LOSS	\$(880,016)	\$(1,826,858)
NET LOSS PER SHARE - BASIC	\$(0.65)	\$(1.36)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2010 and 2009

	COMMON STOCK			ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
	COMPREHENSIVE INCOME	NUMBER OF SHARES	AMOUNT				
Balance at January 1, 2009		1,343,198	\$ 13,431,980	\$ 447,613	\$(4,359,102)	\$ -	\$ 9,520,491
Stock-based Compensation				17,592			17,592
Net Loss	\$(1,826,858)				(1,826,858)		(1,826,858)
Balance at December 31, 2009		1,343,198	13,431,980	465,205	(6,185,960)	-	7,711,225
Stock-based Compensation				17,108			17,108
Proceeds from Issuance of Stock, net of costs of \$11,421		278,370	823,689				823,689
Comprehensive Income:							
Net Loss	\$(880,016)				(880,016)		(880,016)
Unrealized Loss on Available for- Sale Securities	(1,147)					(1,147)	(1,147)
Total Comprehensive Income	\$(881,163)						
Balance at December 31, 2010		1,621,568	\$ 14,255,669	\$ 482,313	\$(7,065,976)	\$(1,147)	\$ 7,670,859

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2010 and 2009

	2010	2009
OPERATING ACTIVITIES		
Net Loss	\$(880,016)	\$(1,826,858)
Adjustments to Reconcile Net Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	303,506	318,698
Provision for Loan Losses	342,189	714,098
Gain on the Sale of Loans	292,252	140,854
Stock-based Compensation	17,108	17,592
Other Items	373,364	(312,924)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	448,403	(948,540)
INVESTING ACTIVITIES		
Increase (Decrease) in Deposits in Other Financial Institutions	854,000	(1,000,000)
Purchase of Investment Securities Available for Sale	-	(495,115)
Net Increase in Loans	(16,078,993)	(10,229,098)
Purchase of Federal Home Loan Bank Stock	(18,400)	(121,200)
Additions to Premises and Equipment	(792,144)	(466,293)
NET CASH USED BY INVESTING ACTIVITIES	(16,035,537)	(12,311,706)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	11,883,215	12,203,169
Net Change in Time Deposits	5,721,572	(46,350)
Issuance of Common Stock	823,689	-
Net Increase in Other Borrowings	4,610,422	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	23,038,898	12,156,819
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,451,764	(1,103,427)
Cash and Cash Equivalents at Beginning of Period	3,001,622	4,105,049
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 10,453,386	\$ 3,001,622
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	\$ 484,708	\$ 364,316
Taxes Paid	\$ 800	\$ 800

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Bank has been incorporated in the State of California and organized as a single operating segment that operates two full-service offices in El Centro and Brawley, California. The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through March 11, 2011, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

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

Cash and Due from Banks

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Bank was in compliance with its reserve requirements as of December 31, 2010.

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

Investment Securities

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

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

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows; OTTI related to credit loss, which must be recognized in the income statement and; OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or

specific valuation accounts and net of deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

The Bank considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan,

which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral. The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is

probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are generally considered troubled debt restructurings and classified as impaired.

Commercial and real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

General reserves cover non-impaired loans and are based on a combination of historical and peer group loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience.

Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

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

Premises and Equipment

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

Federal Home Loan Bank (FHLB) Stock

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

Advertising Costs

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the

Bank, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loan Sales and Servicing of Financial Assets

The Bank originates SBA loans for sale in the secondary market. Servicing rights are recognized separately when they are acquired through sale of loans. Servicing rights are initially recorded at fair value with the income effect recorded in gain on sale of loans. Fair value is based on a valuation model that calculates the present value of estimated future cash flows from the servicing assets. The valuation model uses assumptions that market participants would use in estimating cash flows from servicing assets, such as the cost to service, discount rates and prepayment speeds. The Bank compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights compared to the carrying amount.

Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. For purposes of measuring impairment, the Bank has identified each servicing asset with the underlying loan being serviced. A valuation allowance is recorded where the fair value is below the carrying amount of the asset. If the Bank later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase in income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and changes in the discount rates.

Servicing fee income which is reported on the income statement in service charges, fees and other is recorded for fees earned servicing loans. The fees are based on a contractual percentage of the outstanding principal and recorded as income when earned. The amortization of servicing rights and changes in the valuation allowance are netted against loan servicing income.

Income Taxes

Deferred income taxes are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the

financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is “more likely than not” that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods.

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

Comprehensive Income

Changes in unrealized gains and losses on available-for-sale securities is the only component of accumulated other comprehensive income for the Bank. During 2009 there were no unrealized gains or losses on available-for-sale securities.

Financial Instruments

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

Earnings Per Shares (“EPS”)

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. All of the outstanding stock options were not considered in computing diluted earnings per share for 2010 and 2009 because they were antidilutive.

Weighted-average shares used in the computation of basic EPS were 1,349,299 and 1,343,198 in 2010 and 2009, respectively.

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a Bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

See Note L for assets recorded at fair value as of December 31, 2010 and 2009. Management believes the fair market value of its other financial instruments, primarily loans and deposits, approximates the amounts reported in the financial statements and notes.

Stock-Based Compensation

The Bank recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period. See Note K for additional information on the Bank's stock option plan.

Reclassifications

Certain reclassifications have been made in the 2009 financial statements to conform to the presentation used in 2010. These reclassifications had no impact of the Bank's previously reported financial statements.

Adoption of New Accounting Standards

In July 2010, accounting standards were amended to require significantly more information about the credit quality of the Bank's loan portfolio. Although this statement addresses only disclosure and does not seek to change recognition or measurement, the disclosure represents a meaningful change in practice. New period-end related disclosures are reflected in these financial statements while new activity related disclosures will be effective in 2011.

In June 2009, accounting standards were amended to clarify when a transferor has surrendered control over transferred financial assets and this is entitled to account for the transfer as a sale. The amendments establish specific conditions for accounting for the transfer of a financial asset, or a portion of a financial asset, as a sale. This guidance was effective for transfers occurring on or after January 1, 2010 and impacted when a loan participation of SBA loan sale could be accounted for as a sale and the related transferred asset derecognized by the Bank. Adoption of the standard by the Bank in 2010 did not have a material impact on its statement of financial condition or statement of operations other than a three month delay in the recognition of the sale and related gain on SBA loan sales due to the existence of recourse provisions commonly found in SBA loan sale agreements. See Note F for additional details about the impact of this new accounting standard in 2010. Beginning February 15, 2011, the recourse provision language commonly found in SBA loan agreements was removed, allowing for immediate recognition of these types of sales and related gains on any SBA loans sold on or after that date.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE B - INVESTMENT SECURITIES

Debt and equity securities have been classified in the statements of condition according to management's intent. The carrying amount of available-for-sale securities and their approximated fair values at December 31 were as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2010				
Municipal Securities	\$ 495,622	\$ -	\$ (1,147)	\$ 494,475
December 31, 2009				
Municipal Securities	\$ 495,115	\$ -	\$ -	\$ 495,115

The Bank has not pledged any investment securities as of December 31, 2010.

As of December 31, 2010, investment securities available for sale consisted of one municipal bond that matures on October 10, 2019. The unrealized loss on the security has not been recognized into income because the issuer bond is of high credit quality, management does not intend to sell and it is not more likely than not that management would be required to sell the security prior to its anticipated recovery, and the decline in fair value is due to changes in interest rates. The fair value is expected to recover as the bond approaches maturity.

The Bank had no material gross unrealized losses that have been in a continuous position for over twelve months at December 31, 2010 and 2009.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE C - LOANS

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

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

	2010	2009
Beginning Balance	\$ 572,626	\$ 497,915
Additions to the Allowance Charged to Expense	342,189	714,098
Recoveries on Loans Charged Off	354	1,400
	915,169	1,213,413
Less Loans Charged Off	(162,016)	(640,787)
Ending Balance	\$ 753,153	\$ 572,626

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by impairment method as of December 31, 2010:

ALLOWANCE FOR LOAN LOSSES	EVALUATED FOR IMPAIRMENT		TOTAL
	COLLECTIVELY	INDIVIDUALLY	
Construction and Land Development	\$ 24,877	\$ -	\$ 24,877
Commercial Real Estate and Other	527,059	-	527,059
Commercial and Industrial	174,014	19,000	193,014
Consumer	8,203	-	8,203
	\$ 734,153	\$ 19,000	\$ 753,153

LOANS	EVALUATED FOR IMPAIRMENT		TOTAL
	COLLECTIVELY	INDIVIDUALLY	
Construction and Land Development	\$ 1,472,363	\$ -	\$ 1,472,363
Commercial Real Estate and Other	31,380,579	923,328	32,303,907
Commercial and Industrial	17,357,687	25,169	17,382,856
Consumer	356,431	-	356,431
	\$ 50,567,060	\$ 948,497	\$ 51,515,557

NOTE C – LOANS - Continued

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

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

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

Impaired – A loan is considered impaired, when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement.

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

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows as of December 31:

	PASS	SPECIAL MENTION	SUBSTANDARD	IMPAIRED	TOTAL
December 31, 2010					
Construction and Land Development	\$ 1,472,363	\$ -	\$ -	\$ -	\$ 1,472,363
Commercial Real Estate and Other	30,844,579	536,000	-	923,328	32,303,907
Commercial and Industrial	16,878,768	478,919	-	25,169	17,382,856
Consumer	356,431	-	-	-	356,431
	\$ 49,552,141	\$ 1,014,919	\$ -	\$ 948,497	\$ 51,515,557
December 31, 2009					
Construction and Land Development	\$ 441,382	\$ -	\$ -	\$ -	\$ 441,382
Commercial Real Estate and Other	20,254,738	783,414	-	992,076	22,030,228
Commercial and Industrial	13,055,259	-	-	-	13,055,259
Consumer	383,955	-	-	-	383,955
	\$ 34,135,334	\$ 783,414	\$ -	\$ 992,076	\$ 35,910,824

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE C – LOANS - Continued

Past due and nonaccrual loans were as follows as of December 31:

	STILL ACCRUING		NONACCRUAL
	30-89 DAYS PAST DUE	OVER 90 DAYS PAST DUE	
December 31, 2010			
Construction and Land Development	\$ -	\$ -	\$ -
Commercial Real Estate and Other	-	-	923,328
Commercial and Industrial	-	-	25,169
Consumer	-	-	-
	\$ -	\$ -	\$ 948,497
December 31, 2009			
Construction and Land Development	\$ -	\$ -	\$ -
Commercial Real Estate and Other	-	-	992,076
Commercial and Industrial	42,849	-	-
Consumer	-	-	-
	\$ 42,849	\$ -	\$ 992,076

As of December 31, 2010 and 2009, the Bank has no outstanding loans that are classified as troubled debt restructurings.

Individually impaired loans were as follows as of December 31:

	UNPAID PRINCIPAL BALANCE	RECORDED INVESTMENT	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
December 31, 2010					
With no Related Allowance Recorded					
Commercial Real Estate and Other	\$ 973,200	\$ 923,328	\$ -	\$ 971,749	\$ -
With an Allowance Recorded					
Commercial and Industrial	25,169	25,169	19,000	6,292	-
	\$ 998,369	\$ 948,497	\$ 19,000	\$ 978,041	\$ -
December 31, 2009					
With an Allowance Recorded					
Commercial Real Estate and Other	\$ 992,076	\$ 992,076	\$ 49,603	\$ 589,809	\$ -

NOTE D - PREMISES AND EQUIPMENT

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

	2010	2009
Land	\$ 421,479	\$ 427,364
Building & Leasehold Improvements	1,403,858	614,594
Furniture, Fixtures, and Equipment	446,866	428,709
	<hr/> 2,272,203	<hr/> 1,470,667
Less Accumulated Depreciation and Amortization	(744,991)	(432,093)
	<hr/> \$ 1,527,212	<hr/> \$ 1,038,574

The Bank leases its administrative offices, the land at its branch locations and one temporary branch facility under operating leases that expire at various dates through 2012. At December 31, 2010, the future lease rental payable under the above operating leases is as follows:

	2011	\$ 126,309
	2012	53,560
		<hr/> \$ 179,869

The minimum rental payments shown above are given for the existing lease obligation and are not a forecast of future rental expense. Total rental expense was approximately \$174,000 and \$171,000 for the years ended December 31, 2010 and 2009, respectively.

NOTE E - DEPOSITS

At December 31, 2010, the scheduled maturities of time deposits are as follows:

Due in One Year or Less	\$ 10,286,272
Due in Over One Year and Less than Three Years	2,540,085
Due in Over Three Years	135,275
	<hr/> \$ 12,961,632

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE F - BORROWING ARRANGEMENTS

The Bank may borrow up to \$4.0 million overnight on an unsecured basis from its primary correspondent bank. As of December 31, 2010, no amounts were outstanding under these arrangements.

The Bank has a line with the Federal Home Loan Bank of San Francisco ("FHLBSF") secured by certain assets of the Bank. As of December 31, 2010, this line had a total borrowing capacity of approximately \$7.9 million and was collateralized by loans of approximately \$18.4 million. As of December 31, 2010, the Bank had no amounts outstanding under this agreement.

Included in other borrowings on the statements of financial condition is \$4,610,422 of SBA loans sold in the fourth quarter of 2010. Certain recourse provisions in SBA sales agreements cause a delay in the recognition of the sale transaction under current accounting standards. In addition, the premiums obtained from these SBA loan sales are recognized as a liability until the recourse provisions expire, which is typically three months after the settlement date. The deferred premiums related to these secured borrowings from SBA loan sales amounted to \$378,908 as of December 31, 2010. Upon expiration of the recourse provisions in the first quarter 2011, the Bank will recognize the deferred gain into income and will derecognize the loan receivable and the related secured borrowing and deferred premium liability.

NOTE G - INCOME TAXES

The tax expense for the years ended December 31, 2010 and 2009 was the minimum franchise tax for the State of California. The tax benefits related to the operating losses incurred during these years were not recognized, as realization of the benefits is dependent upon future income.

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

	2010	2009
Deferred Tax Assets:		
Pre-Opening Expenses	\$ 474,000	\$ 514,000
Allowance for Loan Losses Due to Tax Limitations	185,000	133,000
Stock-Based Compensation	117,000	116,000
Operating Loss Carryforwards	1,915,000	1,747,000
Other Items	283,000	73,000
	2,974,000	2,583,000
Valuation Allowance	(2,881,000)	(2,513,000)
Deferred Tax Liabilities:		
Other Items	(93,000)	(70,000)
	(93,000)	(70,000)
Net Deferred Tax Assets	\$ -	\$ -

The valuation allowance was established because the Bank has not reported earnings sufficient enough to support the recognition of the deferred tax assets. The Bank has net operating loss carryforwards of approximately \$4.6 million for federal income and \$4.9 million for California franchise tax purposes. Federal and California net operating loss carryforwards, to the extent not used will expire in 2030.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE G - INCOME TAXES - Continued

A comparison of the federal statutory income tax rates to the Bank's effective income tax rates at December 31 follows:

	2010		2009	
	AMOUNT	RATE	AMOUNT	RATE
Tax Expense at Statutory Rate	\$(299,000)	(34.0%)	\$(621,000)	(34.0%)
State Franchise Tax, Net of Federal Benefit	(69,000)	(7.9%)	(135,000)	(7.4%)
Change in Valuation Allowance	368,000	41.9%	791,000	43.3%
Other Items	800	0.1%	(34,200)	(1.8%)
Actual Tax Expense	\$ 800	0.1%	\$ 800	0.1%

The Bank records interest and penalties related to uncertain tax positions as part of income tax expense. There was no penalty or interest expense recorded as of December 31, 2010 and 2009. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

The Bank is subject to federal income tax and franchise tax of the state of California. Income tax returns for the years ended December 31, 2009, 2008 and 2007 are open to audit by the federal and California state authorities.

NOTE H - OTHER EXPENSES

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

	2010	2009
Data Processing	\$ 281,262	\$ 297,698
Legal and Professional	194,537	95,543
Advertising	93,980	82,687
Office Expenses	124,766	117,258
Other	552,249	439,137
	\$ 1,246,794	\$ 1,032,323

NOTE I - COMMITMENTS

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

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

As of December 31, 2010 and 2009, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2010	2009
Commitments to Extend Credit	\$ 5,914,000	\$ 2,837,000
Letters of Credit	60,000	-
	\$ 5,974,000	\$ 2,837,000

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

NOTE J - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to certain executive officers and directors and the companies with which they are associated. In the Bank's opinion, all loans and loan commitments to such parties are made on substantially the same terms including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons. The total outstanding balance of these loans at December 31, 2010 and 2009 was approximately \$2,775,000 and \$2,965,000, respectively.

Deposits from certain officers and directors and the companies with which they are associated held by the Bank at December 31, 2010 and 2009 amounted to \$5,053,000 and \$4,965,000, respectively.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE K - STOCK OPTION PLAN

The Bank's 2007 Stock Option Plan was approved by its shareholders in January 2008. Under the terms of the 2007 Stock Option Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and organizers, who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase 400,000 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of the grant. Stock options expire no later than ten years from the date of the grant and generally vest over three to five years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. The Bank recognized stock-based compensation cost of \$17,108 in 2010 and \$17,592 in 2009.

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

	2010	2009
Expected Volatility	25.0%	20.0%
Expected Term	6.5 Years	6.5 Years
Expected Dividends	None	None
Risk Free Rate	2.12%	3.11%
Weighted-Average Grant Date Fair Value	\$ 0.65	\$ 1.85

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

NOTE K - STOCK OPTION PLAN - Continued

A summary of the status of the Bank's stock option plan as of December 31, 2010 and changes during the year ending thereon is presented below:

	SHARES	WEIGHTED - AVERAGE EXERCISE PRICE	WEIGHTED - AVERAGE REMAINING CONTRACTUAL TERM	AGGREGATE INTRINSIC VALUE
Outstanding at Beginning of Year	165,457	\$ 9.98		
Granted	7,200	\$ 3.57		
Exercised	-			
Forfeited or Expired	(200)	\$ 10.00		
Outstanding at End of Year	172,457	\$ 9.71	8.0 Years	None
Options Exercisable	125,880	\$ 9.99	7.9 Years	None

As of December 31, 2010 there was \$17,165 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 1.6 years.

NOTE L - FAIR VALUE MEASUREMENTS

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

Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

Collateral-Dependent Impaired Loans: The Bank does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial writedowns, through charge-offs or specific reserve allowances, that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateraldependent impaired loans are obtained from real estate brokers or other third-party consultants (Level 3).

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE L - FAIR VALUE MEASUREMENTS - Continued

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

Fair Value Measurements as of December 31, 2010 Using				
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets Measured at Fair Value on a Recurring Basis:				
Investment Securities Available for Sale	\$ 494,475	\$ -	\$ -	\$ 494,475
Assets Measured at Fair Value on a Non-recurring Basis:				
Collateral-Dependent Impaired Loan, net of Specific Allowances of \$0	\$ -	\$ -	\$ 923,328	\$ 923,328
Fair Value Measurements as of December 31, 2009 Using				
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets Measured at Fair Value on a Recurring Basis:				
Investment Securities Available for Sale	\$ 495,115	\$ -	\$ -	\$ 495,115
Assets Measured at Fair Value on a Non-recurring Basis:				
Collateral-Dependent Impaired Loan, net of Specific Allowances of \$49,603	\$ -	\$ -	\$ 942,473	\$ 942,473

NOTE M - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. 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 Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2010, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well capitalized, the Bank must maintain minimum ratios as set forth in the table below. The following table also sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

	AMOUNT OF CAPITAL REQUIRED					
	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL - CAPITALIZED UNDER PROMPT CORRECTIVE PROVISIONS	
					AMOUNT	RATIO
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31, 2010:						
Total Capital (to Risk-Weighted Assets)	\$8,304	16.3%	\$ 4,073	8.0%	\$ 5,091	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$7,666	15.1%	\$ 2,037	4.0%	\$ 3,055	6.0%
Tier 1 Capital (to Average Assets)	\$7,666	12.4%	\$ 2,472	4.0%	\$ 3,090	5.0%
As of December 31, 2009:						
Total Capital (to Risk-Weighted Assets)	\$8,158	21.4%	\$ 3,066	8.0%	\$ 2,859	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$7,711	20.2%	\$ 1,533	4.0%	\$ 1,716	6.0%
Tier 1 Capital (to Average Assets)	\$7,711	18.1%	\$ 1,702	4.0%	\$ 1,601	5.0%

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



760.352.1889
www.yourcvb.com

PO Box 1808
El Centro, CA 92244

BRAWLEY BRANCH
310 Main St.
Brawley, CA 92227

EL CENTRO BRANCH
203 South Imperial Ave.
El Centro, CA 92243

