COMMUNITY VALLEY BANK

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2008 AND 2007

CONTENTS

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

VALUE THE DIFFERENCE

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, 2008 and 2007 and the related statements of operations, changes in shareholders' equity, and cash flows for the year ended December 31, 2008 and for the period October 1, 2007 (inception of business) through December 31, 2007. 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, 2008 and 2007 and the results of its operations and its cash flows for the year ended December 31, 2008 and for the period October 1, 2007 (inception of business) through December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day + Co., LLP

Laguna Hills, California
February 26, 2009

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COMMUNITY VALLEY BANK

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

ASSETS	2008	2007
Cash and Due from Banks	$ 1,220,049	$ 136,163
Federal Funds Sold	2,885,000	6,080,000
TOTAL CASH AND CASH EQUIVALENTS	4,105,049	6,216,163
Interest-Bearing Deposits in Other Financial Institutions	2,000,000	-
Loans:		
Real Estate - Construction	3,408,410	-
Real Estate - Other	15,990,399	5,530,755
Commercial	6,773,782	2,677,067
Consumer	280,502	9,000
TOTAL LOANS	26,453,093	8,216,822
Deferred Loan Fees, Net of Costs	(112,877)	-
Allowance for Loan Losses	(497,915)	(82,168)
NET LOANS	25,842,301	8,134,654
Federal Home Loan Bank Stock, at Cost	41,000	100
Premises and Equipment	1,013,746	1,079,367
Accrued Interest and Other Assets	234,883	77,345
	$ 33,236,979	$ 15,507,629

LIABILITIES AND SHAREHOLDERS' EQUITY	2008	2007
Deposits:		
Noninterest-Bearing Demand	$ 8,192,252	$ 1,671,238
Savings, NOW and Money Market Accounts	7,989,998	1,487,652
Time Deposits Under $100,000	2,029,365	-
Time Deposits $100,000 and Over	5,257,045	401,064
TOTAL DEPOSITS	23,468,660	3,559,954
Accrued Interest and Other Liabilities	247,828	370,591
TOTAL LIABILITIES	23,716,488	3,930,545
Commitments and Contingencies - Notes C and H	-	-
Shareholders' Equity:		
Common Stock - 10,000,000 Shares Authorized, No Par Value; Shares Issued and Outstanding - 1,343,198 in 2008 and 2007	13,431,980	13,431,980
Additional Paid-in Capital	447,613	297,839
Accumulated Deficit	(4,359,102)	(2,152,735)
TOTAL SHAREHOLDERS' EQUITY	9,520,491	11,577,084
	$ 33,236,979	$ 15,507,629

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

COMMUNITY VALLEY BANK

STATEMENTS OF OPERATIONS
For the Year Ended December 31, 2008 and the Period
October 1, 2007 (inception of business) through December 31, 2007

	2008	2007
INTEREST INCOME		
Interest and Fees on Loans	$ 1,230,167	$ 89,384
Interest on Federal Funds Sold and Other	85,948	132,366
TOTAL INTEREST INCOME	1,316,115	221,750
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	79,884	2,878
Interest on Time Deposits	113,040	2,185
TOTAL INTEREST EXPENSE	192,924	5,063
NET INTEREST INCOME	1,123,191	216,687
Provision for Loan Losses	473,004	82,168
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	650,187	134,519
NONINTEREST INCOME		
Service Charges, Fees and Other	117,706	1,466
NONINTEREST EXPENSE		
Salaries and Employee Benefits	1,521,164	301,791
Occupancy and Equipment Expenses	497,691	91,656
Other Expenses	954,605	193,652
	2,973,460	587,099
LOSS BEFORE INCOME TAXES	(2,205,567)	(451,114)
Income Taxes	800	800
NET LOSS	$(2,206,367)	$(451,914)
NET LOSS PER SHARE - BASIC	$(1.64)	$(0.34)

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

COMMUNITY VALLEY BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Year Ended December 31, 2008 and the Period
October 1, 2007 (inception of business) through December 31, 2007

	Common Stock				
	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at October 1, 2007	-	$ -	$ -	$ -	$ -
Organizational Expenses				(1,700,821)	(1,700,821)
Initial Capitalization	1,343,198	13,431,980			13,431,980
Stock-based Compensation			297,839		297,839
Net Loss				(451,914)	(451,914)
Balance at December 31, 2007	1,343,198	13,431,980	297,839	(2,152,735)	11,577,084
Stock-based Compensation			149,774		149,774
Net Loss				(2,206,367)	(2,206,367)
Balance at December 31, 2008	1,343,198	$ 13,431,980	$ 447,613	$(4,359,102)	$ 9,520,491

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

COMMUNITY VALLEY BANK

STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2008 and the Period
October 1, 2007 (inception of business) through December 31, 2007

	2008	2007
OPERATING ACTIVITIES		
Net Loss	$(2,206,367)	$(451,914)
Adjustments to Reconcile Net Loss to Net Cash Used by		
Operating Activities:		
Depreciation and Amortization	275,686	55,059
Provision for Loan Losses	473,004	82,168
Stock-based Compensation	149,774	-
Other Items	(281,101)	293,246
NET CASH USED BY OPERATING ACTIVITIES	(1,589,004)	(21,441)
INVESTING ACTIVITIES		
Increase in Deposits in Other Financial Institutions	(2,000,000)	-
Net Increase in Loans	(18,180,651)	(8,216,822)
Purchase of Federal Home Loan Bank Stock	(40,100)	(100)
Purchases of Premises and Equipment	(210,065)	(1,134,426)
NET CASH USED BY INVESTING ACTIVITIES	(20,430,816)	(9,351,348)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	13,023,360	3,158,890
Net Increase in Time Deposits	6,885,346	401,064
Proceeds from Initial Capitalization	-	13,431,980
Organizational Expenses, net of Stock-based Compensation	-	(1,402,982)
NET CASH PROVIDED BY FINANCING ACTIVITIES	19,908,706	15,588,952
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,111,114)	6,216,163
Cash and Cash Equivalents at Beginning of Period	6,216,163	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,105,049	$ 6,216,163
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 184,300	$ 4,164
Taxes Paid	$ 800	$ 800

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Bank has been incorporated in the State of California and organized as a single operating segment that operates two full-service 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.

Organizational Costs

As discussed in Note J, costs incurred from the period of the Bank's organization through the inception of business have been charged directly to shareholders' equity.

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 one-day periods.

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 complied with the reserve requirements as of December 31, 2008 and 2007.

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

Interest-Bearing Deposits in Other Financial Institutions:

Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment Securities - Continued

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.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers; the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. 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 collectibility. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans - Continued

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 adjusted by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Bank's known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which ranges from three to seven years for furniture, equipment and computer 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.

Advertising Costs

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

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes - Continued

The Bank has adopted Financial Accounting Standards Interpretation No. 48 ("FIN 48"), "*Accounting for Uncertainty in Income Taxes*." FIN 48 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. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Comprehensive Income

Statement of Financial Accounting Standard ("SFAS") No. 130, *"Reporting Comprehensive Income,"* requires the disclosure of comprehensive income and its components. During 2008 and 2007, the only component of Comprehensive Income was the Bank's net operating loss.

Stock-Based Compensation

The Bank has adopted SFAS No. 123(R) "*Shared-Based Payment"*. This Statement generally requires entities to recognize 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.

The Bank accounts for stock options issued to non-employees in accordance with Emerging Issues Task Force ("EITF") Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods and Services." Accordingly, the Bank has recorded compensation costs for stock-based compensation issued to its organizers in 2007. These compensation costs were included in its organizational expenses, which are summarized in Note J.

Earnings per Share (EPS)

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The Bank had no dilutive securities as of December 31, 2008 and 2007 as well as an operating loss and therefore only reports basic EPS.

Weighted average shares outstanding used in the computation of basic earnings per share were 1,343,198 in 2008 and 2007, respectively.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurement

Effective January 1, 2008, the Bank adopted SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The impact of adoption of SFAS No. 157 is not material as all of the Bank's assets and liabilities are carried at historical cost not fair value.

SFAS No. 157 defines fair value as 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. Statement 157 also 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 standard describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices (unadjusted) or 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

No active market exists for the Bank's financial instruments. Management believes the fair market value of its financial instruments, primarily interest bearing deposits in other financial institutions, loans and deposits, approximates the amounts reported in the financial statements and notes.

NOTE B - 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:

	2008	2007
Beginning Balance	$ 82,168	$ -
Additions to the Allowance Charged to Expense	473,004	82,168
Recoveries on Loans Charged Off	-	-
	555,172	82,168
Less Loans Charged Off	(57,257)	-
Ending Balance	$ 497,915	$ 82,168

The following is a summary of the investment in impaired loans, the related allowance for loan losses, and income recognized thereon and information pertaining to nonaccrual and past due loans as of December 31:

	2008	2007
Recorded Investment in Impaired Loans	$ 989,975	$ -
Related Allowance for Loan Losses	$ 247,494	$ -
Average Recorded Investment in Impaired Loans	$ 35,286	$ -
Interest Income Recognized for Cash Payments	$ -	$ -
Loans Past Due 90 Days and Still Accruing Interest	$ -	$ -
Loans on Nonaccrual	$ 989,975	$ -

NOTE C - PREMISES AND EQUIPMENT

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

	2008	2007
Leasehold Improvements	$ 613,518	$ 448,885
Furniture, Fixtures, and Equipment	730,973	685,541
	1,344,491	1,134,426
Less Accumulated Depreciation and Amortization	(330,745)	(55,059)
	$ 1,013,746	$ 1,079,367

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 2011. At December 31, 2008, the future lease rental payable under the above operating leases is as follows:

2009	$ 137,000
2010	65,000
2011	48,000
	$ 250,000

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 $160,000 and $31,000 for the periods ended December 31, 2008 and 2007, respectively.

NOTE D - DEPOSITS

At December 31, 2008, the scheduled maturities of time deposits are as follows:

Due in One Year or Less	$ 6,985,277
Due in Over One Year and Less than Three Years	301,133
	$ 7,286,410

NOTE E - BORROWING ARRANGEMENTS

The Bank may borrow up to $6.7 million overnight on an unsecured basis from two correspondent banks. As of December 31, 2008 and 2007, no amounts were outstanding under these arrangements.

NOTE F - INCOME TAXES

The tax expense for the periods ended December 31, 2008 and 2007 was the minimum franchise tax for the State of California. The tax benefits related to the operating losses incurred during the periods ended December 31, 2008 and 2007 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:

	2008	2007
Deferred Tax Assets:		
Pre-Opening Expenses	$ 555,000	$ 595,000
Allowance for Loan Losses Due to Tax Limitations	170,000	9,000
Stock-Based Compensation	115,000	120,000
Operating Loss Carryforwards	931,000	141,000
Other Items	6,000	43,000
	1,777,000	908,000
Valuation Allowance	(1,722,000)	(881,000)
Deferred Tax Liabilities:		
Depreciation Differences	(1,000)	-
Other Items	(54,000)	(27,000)
	(55,000)	(27,000)
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 $2.2 million for federal income and California franchise tax purposes. Federal net operating loss carryforwards, to the extent not used will expire in 2028. California net operating loss carryforwards, to the extent not used will also expire in 2028.

NOTE F - INCOME TAXES - Continued

In accordance with FIN 48, 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, 2008 and 2007. 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 year ended December 31, 2007 are open to audit by the federal and California state authorities.

NOTE G - OTHER EXPENSES

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

	2008	2007
Data Processing	$ 198,795	$ 25,365
Legal and Professional	214,684	40,963
Advertising	171,316	47,043
Office Expenses	101,501	21,578
Other	268,309	58,703
	$ 954,605	$ 193,652

NOTE H - 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.

NOTE H - COMMITMENTS - Continued

As of December 31, 2008 and 2007, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2008	2007
Commitments to Extend Credit	$ 3,349,000	None

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 I - 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, 2008 was approximately $2,030,000.

Deposits from certain officers and directors and the companies with which they are associated held by the Bank at December 31, 2008 amounted to $8,860,000.

NOTE J - ORGANIZATIONAL PERIOD

The Bank received conditional approval from the California Department of Financial Institutions to organize as a state chartered bank on February 15, 2007 and was incorporated on February 17, 2007. Prior to that date, and up to the inception of business on October 1, 2007, organizers of the Bank incurred costs in connection with the organizational process and raising of the initial capitalization of the Bank.

NOTE J - ORGANIZATIONAL PERIOD - Continued

These organizational expenses were comprised of the following:

Bank Consultants, Salaries and Benefits	$	567,437
Legal and Professional Expense		548,495
Stock-based Compensation		297,839
Other		360,076
		1,773,847
Interest Earned during Organizational Period	(	73,026)
	$	1,700,821

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 $149,774 and $297,839 in 2008 and 2007, respectively.

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:

	2008	2007
Expected Volatility	20.0%	20.0%
Expected Term	6.5 Years	5.0 Years
Expected Dividends	None	None
Risk Free Rate	4.75%	4.50%
Weighted-Average Grant Date Fair Value	$ 3.33	$ 2.77

NOTE K - STOCK OPTION PLAN - Continued

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.

A summary of the status of the Bank's stock option plan as of December 31, 2008 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	100,029	$ 10.00		
Granted	81,860	$ 10.00		
Exercised	-			
Forfeited or Expired	(13,432)	$ 10.00		
Outstanding at End of Year	168,457	$ 10.00	9.8 Years	None
Options Exercisable	115,261	$ 10.00	9.8 Years	None

As of December 31, 2008 there was $70,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 2.2 years.

NOTE L - 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.

NOTE L - REGULATORY MATTERS - Continued

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, 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, 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):

	Actual		Amount of Capital Required: For Capital Adequacy Purposes		Amount of Capital Required: To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008:						
Total Capital (to Risk-Weighted Assets)	$10,019	35.0%	$ 2,287	8.0%	$ 2,859	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$9,521	33.3%	$ 1,144	4.0%	$ 1,716	6.0%
Tier 1 Capital (to Average Assets)	$9,521	29.7%	$ 1,281	4.0%	$ 1,601	5.0%
As of December 31, 2007:						
Total Capital (to Risk-Weighted Assets)	$11,361	111.6%	$ 815	8.0%	$ 1,019	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$11,279	110.1%	$ 407	4.0%	$ 611	6.0%
Tier 1 Capital (to Average Assets)	$11,279	76.3%	$ 592	4.0%	$ 740	5.0%

In addition to these capital requirements, the FDIC requires the Bank to maintain its Tier 1 Capital to average assets at 8% during its first three years of operations.

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.

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