COMMUNITY VALLEY BANK

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2009 AND 2008

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, 2009 and 2008 and the related statements of operations, changes in shareholders' equity, and cash flows for the year ended December 31, 2009 and 2008. 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, 2009 and 2008 and the results of its operations and its cash flows for the year ended December 31, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day + Co., LLP

Laguna Hills, California
March 11, 2010

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COMMUNITY VALLEY BANK

STATEMENTS OF FINANCIAL CONDITION
December 31, 2009 and 2008

ASSETS	2009	2008
Cash and Due from Banks	$ 2,001,622	$ 1,220,049
Federal Funds Sold	1,000,000	2,885,000
TOTAL CASH AND CASH EQUIVALENTS	3,001,622	4,105,049
Interest-Bearing Deposits in Other Financial Institutions	3,000,000	2,000,000
Investment Securities Available for Sale	495,115	-
Loans:		
Real Estate - Construction	441,382	3,408,410
Real Estate - Other	22,030,228	15,990,399
Commercial	13,055,259	6,773,782
Consumer	383,955	280,502
TOTAL LOANS	35,910,824	26,453,093
Deferred Loan Fees, Net of Costs	(121,751)	(112,877)
Allowance for Loan Losses	(572,626)	(497,915)
NET LOANS	35,216,447	25,842,301
Federal Home Loan Bank Stock, at Cost	162,200	41,000
Premises and Equipment	1,161,341	1,013,746
Accrued Interest and Other Assets	446,920	234,883
	$ 43,483,645	$ 33,236,979
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-Bearing Demand	$ 9,153,267	$ 8,192,252
Savings, NOW and Money Market Accounts	19,232,152	7,989,998
Time Deposits Under $100,000	1,838,304	2,029,365
Time Deposits $100,000 and Over	5,401,756	5,257,045
TOTAL DEPOSITS	35,625,479	23,468,660
Accrued Interest and Other Liabilities	146,941	247,828
TOTAL LIABILITIES	35,772,420	23,716,488
Commitments and Contingencies - Notes D and I	-	-
Shareholders' Equity:		
Common Stock - 10,000,000 Shares Authorized, No Par Value; Shares Issued and Outstanding - 1,343,198 in 2009 and 2008	13,431,980	13,431,980
Additional Paid-in Capital	465,205	447,613
Accumulated Deficit	(6,185,960)	(4,359,102)
TOTAL SHAREHOLDERS' EQUITY	7,711,225	9,520,491
	$ 43,483,645	$ 33,236,979

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

COMMUNITY VALLEY BANK

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2009 and 2008

	2009	2008
INTEREST INCOME		
Interest and Fees on Loans	$ 2,248,662	$ 1,230,167
Interest Income on Deposits	43,151	$ -
Interest on Federal Funds Sold and Other	4,805	85,948
TOTAL INTEREST INCOME	2,296,618	1,316,115
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	182,269	79,884
Interest on Time Deposits	173,795	113,040
Interest on Borrowed Funds	5,752	-
TOTAL INTEREST EXPENSE	361,816	192,924
NET INTEREST INCOME	1,934,802	1,123,191
Provision for Loan Losses	714,098	473,004
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,220,704	650,187
NONINTEREST INCOME		
Service Charges, Fees and Other	158,189	117,706
NONINTEREST EXPENSE		
Salaries and Employee Benefits	1,617,605	1,521,164
Occupancy and Equipment Expenses	555,023	497,691
Other Expenses	1,032,323	954,605
	3,204,951	2,973,460
LOSS BEFORE INCOME TAXES	(1,826,058)	(2,205,567)
Income Taxes	800	800
NET LOSS	$(1,826,858)	$(2,206,367)
NET LOSS PER SHARE - BASIC	$(1.36)	$(1.64)

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

COMMUNITY VALLEY BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2009 and 2008

	Common Stock				
	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at January 1, 2008	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
Stock-based Compensation			17,592		17,592
Net Loss				(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

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

COMMUNITY VALLEY BANK

STATEMENTS OF CASH FLOWS
December 31, 2009 and 2008

	2009	2008
OPERATING ACTIVITIES		
Net Loss	$(1,826,858)	$(2,206,367)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:		
Depreciation and Amortization	318,698	275,686
Provision for Loan Losses	714,098	473,004
Stock-based Compensation	17,592	149,774
Other Items	(312,924)	(281,101)
NET CASH USED BY OPERATING ACTIVITIES	(1,089,394)	(1,589,004)
INVESTING ACTIVITIES		
Increase in Deposits in Other Financial Institutions	(1,000,000)	(2,000,000)
Purchase of Investment Securities Available for Sale	(495,115)	-
Net Increase in Loans	(10,088,244)	(18,180,651)
Purchase of Federal Home Loan Bank Stock	(121,200)	(40,100)
Purchases of Premises and Equipment	(466,293)	(210,065)
NET CASH USED BY INVESTING ACTIVITIES	(12,170,852)	(20,430,816)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	12,203,169	13,023,360
Net Change in Time Deposits	(46,350)	6,885,346
NET CASH PROVIDED BY FINANCING ACTIVITIES	12,156,819	19,908,706
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,103,427)	(2,111,114)
Cash and Cash Equivalents at Beginning of Period	4,105,049	6,216,163
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,001,622	$ 4,105,049

Supplemental Disclosures of Cash Flow Information:

	2009	2008
Interest Paid	$ 364,316	$ 184,300
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.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through March 11, 2010, 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, 2009.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

<u>Investment Securities - Continued</u>

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") at least on a quarterly basis and more frequently when economic or market conditions warrant.

<u>Loans</u>

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses

The Bank maintains an allowance for loan losses at an amount that, in management's judgment, should be adequate to absorb inherent losses on existing loans. The allowance for loan losses is increased by charging a provision to operations and decreased by charge-offs, net of recoveries. Management's evaluation of the adequacy of the allowance is based on a review of known and inherent risks in the loan portfolio, including adverse circumstances that may affect the ability of the borrower to repay interest and or principal, the estimated value of collateral, the levels and trends of delinquencies, charge-offs and the risk ratings of the various loan categories. Such factors as the level and trend of interest rates and the condition of the national and local economies are also considered.

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.

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 and 2008, 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 2009 and 2008 because they were antidilutive.

Weighted-average shares used in the computation of basic EPS were 1,343,198 in 2009 and 2008.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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) 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.

See Note M for assets recorded at fair value as of December 31, 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 2008 financial statements to conform to the presentation used in 2009. These reclassifications had no impact of the Bank's previously reported financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Adoption of New Accounting Standards

Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - In June 2009, accounting standards were revised to establish the Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the Financial Accounting Standards Board (FASB) to be applied by nongovernmental entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for annual periods ended after September 15, 2009, and as of the effective date, all existing accounting standard documents were superseded. Adoption of the Codification in 2009 did not have a material impact on the Bank's financial statements.

Subsequent Events - In May 2009, the FASB issued guidance which requires the effects of events that occur subsequent to the balance-sheet date be evaluated through the date the financial statements are either issued or available to be issued. Entities are to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Entities are required to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance-sheet date (recognized subsequent events). Entities are also prohibited from reflecting in their financial statements the effects of subsequent events that provide evidence about conditions that arose after the balance-sheet date (nonrecognized subsequent events), but requires information about those events to be disclosed if the financial statements would otherwise be misleading. The Bank adopted the guidance for the year ended December 31, 2009 by including the required disclosures in Note A to the financial statements.

Fair Value Measurements - In April 2009, accounting standards were amended to provide additional guidance for determining the fair value of a financial asset or financial liability when the volume and level of activity for such asset or liability decreased significantly and also to provide guidance for determining whether a transaction is orderly. The amendments were effective for annual reporting periods ended after June 15, 2009. Adoption of the amendments in 2009 did not have a material impact on the Bank's financial statements.

In February 2008, the FASB issued instructions that delayed the effective date of fair value measurement for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) for fiscal years beginning after November 15, 2008. Adoption of the fair value measurement rules in 2009 for non-financial assets and non-financial liabilities subject to the delay did not have a material impact on the Bank's financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Newly Issued Not Yet Effective Accounting Standards

In June 2009, accounting standards were amended to clarify when a transferor has surrendered control over transferred financial assets and thus 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. The amendments could impact when a loan participation or SBA loan sale may be accounted for as a sale and the related transferred asset derecognized by the Bank. This guidance is effective for transfers occurring on or after January 1, 2010. The Bank has not yet completed its full evaluation of these amendments, but does expect that they will not have a material impact on its balance sheet but will create a short-term delay for income recognition on any SBA loans sales in 2010.

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 approximate fair values at December 31, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal Securities	$ 495,115	$ -	$ -	$ 495,115

The Bank has not pledged any investment securities as of December 31, 2009.

As of December 31, 2009, investment securities available for sale consisted of one municipal bond that matures on October 10, 2019.

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:

	2009	2008
Beginning Balance	$ 497,915	$ 82,168
Additions to the Allowance Charged to Expense	714,098	473,004
Recoveries on Loans Charged Off	1,400	-
	1,213,413	555,172
Less Loans Charged Off	(640,787)	(57,257)
Ending Balance	$ 572,626	$ 497,915

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:

	2009	2008
Recorded Investment in Impaired Loans	$ 992,076	$ 989,975
Related Allowance for Loan Losses	$ 49,603	$ 247,494
Average Recorded Investment in Impaired Loans	$ 589,809	$ 35,286
Interest Income Recognized for Cash Payments	$ -	$ -
Loans Past Due 90 Days and Still Accruing Interest	$ -	$ -
Loans on Nonaccrual	$ 992,076	$ 989,975

NOTE D - PREMISES AND EQUIPMENT

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

	2009	2008
Land	$ 427,364	$ -
Leasehold Improvements	614,594	613,518
Furniture, Fixtures, and Equipment	768,320	730,973
	1,810,278	1,344,491
Less Accumulated Depreciation and Amortization	(648,937)	(330,745)
	$ 1,161,341	$ 1,013,746

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, 2009, the future lease rental payable under the above operating leases is as follows:

2010	$ 134,000
2011	101,000
2012	50,000
	$ 285,000

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 $171,000 and $160,000 for the years ended December 31, 2009 and 2008, respectively.

NOTE E - DEPOSITS

At December 31, 2009, the scheduled maturities of time deposits are as follows:

Due in One Year or Less	$ 5,893,849
Due in Over One Year and Less than Three Years	1,335,355
Due in Over Three Years	10,856
	$ 7,240,060

NOTE F - BORROWING ARRANGEMENTS

The Bank may borrow up to $4.0 million overnight on an unsecured basis from its primary correspondent bank. In addition, the Bank may borrow up to $6.4 million from the Federal Home Loan Bank of San Francisco subject to the pledging of acceptable collateral in the form of loans and investment securities.

As of December 31, 2009 and 2008, no amounts were outstanding under these arrangements.

NOTE G - INCOME TAXES

The tax expense for the years ended December 31, 2009 and 2008 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:

	2009	2008
Deferred Tax Assets:		
Pre-Opening Expenses	$ 514,000	$ 555,000
Allowance for Loan Losses Due to Tax Limitations	133,000	170,000
Stock-Based Compensation	116,000	115,000
Operating Loss Carryforwards	1,747,000	931,000
Other Items	73,000	6,000
	2,583,000	1,777,000
Valuation Allowance	(2,513,000)	(1,722,000)
Deferred Tax Liabilities:		
Other Items	(70,000)	(55,000)
	(70,000)	(55,000)
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 $4.2 million for federal income and California franchise tax purposes. Federal net operating loss carryforwards, to the extent not used will expire in 2029. California net operating loss carryforwards, to the extent not used will also expire in 2029.

NOTE G - INCOME TAXES - Continued

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, 2009 and 2008. 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, 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:

	2009	2008
Data Processing	$ 297,698	$ 198,795
Legal and Professional	95,543	214,684
Advertising	82,687	171,316
Office Expenses	117,258	101,501
Other	439,137	268,309
	$ 1,032,323	$ 954,605

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.

NOTE I - COMMITMENTS - Continued

As of December 31, 2009 and 2008, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2009	2008
Commitments to Extend Credit	$ 2,837,000	$ 3,349,000

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, 2009 and 2008 was approximately $2,965,000 and $2,030,000, respectively.

Deposits from certain officers and directors and the companies with which they are associated held by the Bank at December 31, 2009 and 2008 amounted to $4,965,000 and $8,860,000, respectively.

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 $17,592 in 2009 and $149,774 in 2008.

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:

	2009	2008
Expected Volatility	20.0%	20.0%
Expected Term	6.5 Years	6.5 Years
Expected Dividends	None	None
Risk Free Rate	3.11%	4.75%
Weighted-Average Grant Date Fair Value	$ 1.85	$ 3.33

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, 2009 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	168,457	$ 10.00		
Granted	1,200	$ 7.33		
Exercised	-			
Forfeited or Expired	(4,200)	$ 10.00		
Outstanding at End of Year	165,457	$ 9.98	8.2 Years	None
Options Exercisable	124,580	$ 10.00	8.2 Years	None

As of December 31, 2009 there was $42,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 1.8years.

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.

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, 2009, that the Bank meets all capital adequacy requirements to which it is subject.

NOTE L - REGULATORY MATTERS - Continued

As of December 31, 2009, 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, 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%
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%

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.

NOTE M - 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).

NOTE M - FAIR VALUE MEASUREMENTS

Collateral-Dependent Impaired Loans: The Company 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 write-downs, 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 collateral-dependent impaired loans are obtained from real estate brokers or other third-party consultants (Level 3).

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2009 (no assets or liabilities were measured at fair value in 2008):

	Fair Value Measurements 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