



...defined by the company we keep.

2008 Annual Report

Fellow Shareholders:

2008. Our first full year in business. It would be facile to rail at you about margin compression, the faltering economy, sorry regulators, Wall Street greed, the national debt, the imploding Dow, collapsing home prices, high unemployment, the mortgage crisis, the liquidity crisis, phantom banks, nationalized banks, bailout banks, investment banks, politicians, and rating agencies. The great ship of the State of California turned turtle. An entire overheated globe – inflated, but now with air rushing out through many holes.

Bad things happened. But, with an experienced management team and staff, the engaged support of our shareholders and board, we met the challenge and made significant progress throughout our first full year in business.

Loans: In the three months ending December 31, Total Loans grew by 25%, to \$97 million from \$78 million at the end of September, 2008. During the course of 2008, the Bank grew its loan portfolio more than five-fold, extending \$79 million of new loans. At year end, 45% of our loan portfolio consisted of loans made for operating purposes to Bay Area businesses. Commercial real estate (CRE) loans comprised 40% of our loan portfolio and construction loans, consisting of commercial and residential projects comprised 8%. The remainder of loans outstanding at year-end consisted of personal loans made to individuals, often the owners or senior executives of our business clients.

We are differentiated from our competitors by our primary focus on owner operated businesses and their management teams. We are not a residential mortgage lender. At year-end, less than 1% of our loans were for speculative residential construction projects. At December 31, the Bank had no delinquent or non-performing loans. In our 17 months in business, our loan portfolio has been examined twice by Federal regulators, twice by our independent auditors, and twice by an independent loan review team retained by the Audit Committee of the Board. We are confident that our loan portfolio is sound.

Deposits and Treasury Management Consulting: For the three months ending December 31, the Bank's Total Deposits grew by 16% to \$111 million, from \$95 million at the end of September, 2008. During the course of 2008, the Bank grew its deposit base three-fold, accepting net new deposits of \$82 million. At December 31, 16% of our Total Deposits were non-interest-bearing operating accounts, primarily from business clients.

Our approach to business clients involves equal measures of consultation and technology. Our expert treasury management staff examines every opportunity to make customers safer and save them money. We are proponents of digital check deposit because it serves our clients well: it is secure; it is ecologically sound; it is convenient and inexpensive; it is almost real time - processing and deposit floats are reduced to overnight. The digital system also suits us because it allows clients with diverse geographic operations to maintain all their operating accounts with us. It also eliminates the need for a branch system and costly courier services. At year-end, we had deployed 68 Digital Check Deposit scanners to 54 Bay Area business clients who have operations in 7 states including: California, Kentucky, Maryland, two locations in North Dakota, three locations in Nebraska, two in Iowa, and Washington State.



Our digital deposit system improves business client cash flow, reduces employee costs and speeds notification of returned items. The system is now handling an average of 2,000 checks totaling \$7.5 million per week. We are proud of these relationships because it is here that our brand of service and technology come most effectively to bear and where the bond of loyalty, in both directions, is strongest.

Investments and Liquidity: We focus every day on being prepared to fund the next loan or deposit withdrawal. At year-end, the Bank had more than \$23 million of cash and equivalents on the balance sheet, equaling a little over 17% of Total Assets. Although our investment portfolio was negatively impacted by our holding of Fannie Mae preferred shares after Fannie Mae was taken over by the U.S. Treasury Department, our remaining investment portfolio is of high quality and it is carried on our books net of an unrealized gain as of the date of this writing. To further protect liquidity, the Bank has arranged numerous short and long term credit facilities with correspondent banks, the Federal Reserve Bank and the Federal Home Loan Bank.

Capital Adequacy: In consultation with both State and Federal regulators, we pay close attention to Capital adequacy, both as to the Bank's current configuration and as to its projected growth and mix of assets and liabilities. It has been, and will continue to be, our practice to give wide berth to regulatory requirements for a well capitalized bank. Our capital tables are noted elsewhere in this report and they reveal a healthy, well capitalized institution – one that is in the upper quartile of all banks in this state and throughout the nation. Our recent decision to participate in Treasury Department's Capital Purchase Plan was taken in the spirit of promoting economic recovery and to reinforce our ability to continue taking deposits and making new loans.

Our prospects going forward: It would be foolish to suggest that we will be unaffected by an adverse economy in 2009. We have adjusted our goals appropriately and we will remain focused on building shareholder value. We intend to continue growing in a responsible and prudent manner. We see promising opportunities to partner with strong businesses and entrepreneurs to ensure that they get the loans and services they deserve.



John Rossell
President and Chief Executive Officer

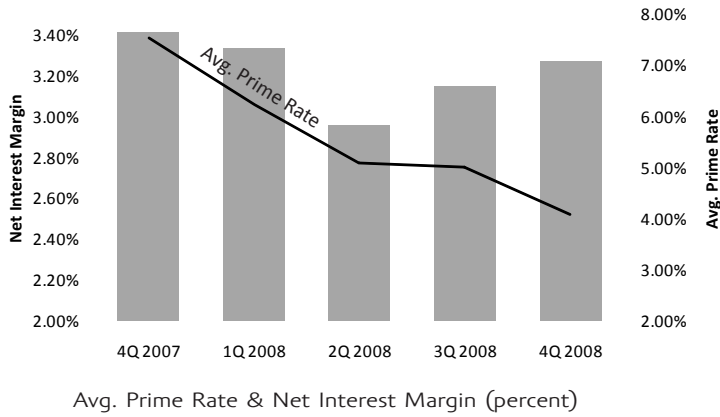


Edward B. Collins
Chairman of the Board

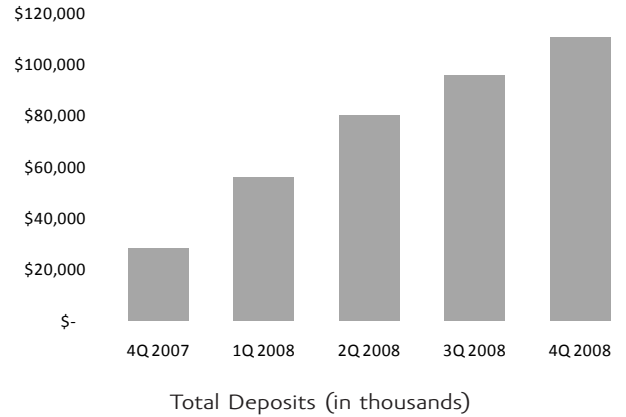


Financial Highlights:

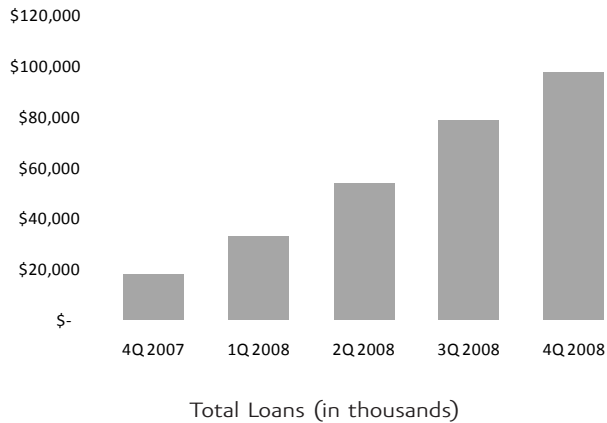
In 2008, Fed rate cuts made margins a challenge...



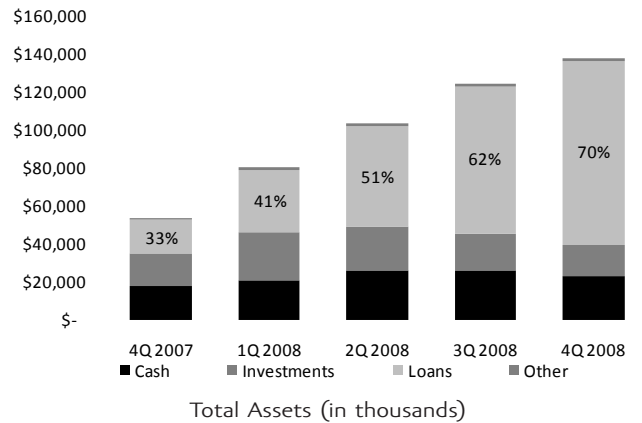
but, we grew deposits...



...to fund new loans



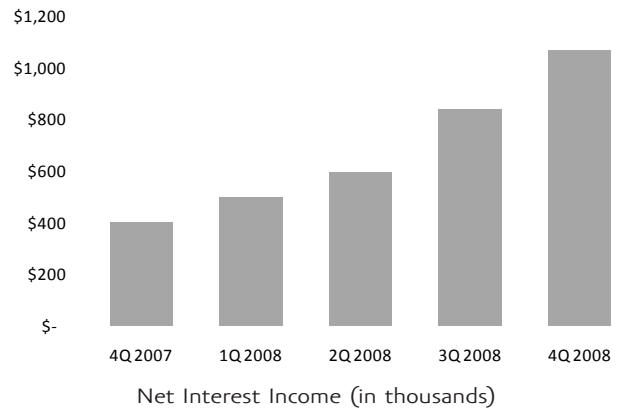
...and strengthen our asset mix in favor of loans



...resulting in lower overhead as a percent of assets



...and steady growth in net interest income.



Board of Directors

Edward B. Collins
*Chairman of the Board,
California Bank of Commerce
Retired, Partner and Managing Director ChinaVest*

Stephen A. Cortese
*Vice Chairman of the Board,
California Bank of Commerce
Managing Partner, Cortese Investments*

John E. Rossell III
President and CEO, California Bank of Commerce

Peter W. Branagh
President, Branagh Development, Inc.

Kevin J. Cullen
Chief Financial Officer, Guarantee Glass, Inc.

Stephen R. Dathe
*Vice President and General Manager
A & B Die Casting Company*

Stuart J. Kahn
President, United Growth Companies

Bradley S. Kisner
President, Triangle Digital INX Company

Rochelle G. Klein
Advisory Director, Ocean Gate Capital Management

John E. Lindstedt
Chief Credit Officer, California Bank of Commerce

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Retired President, Filesafe Inc.

John H. Sears
*Retired, Special Counsel
Sheppard, Mullin, Richter & Hampton*

Edmond E. Traille
Managing Partner, S. J. Gallina & Co., LLP

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John E. Rossell III
President and Chief Executive Officer

Virginia M. Robbins
Chief Administrative Officer

Randall D. Greenfield
Chief Financial Officer

John E. Lindstedt
Chief Credit Officer

Mark A. DeVincenzi
*Chief Marketing Officer
& EVP Investor Relations*

Thomas M. Park
Executive Vice President

Steven E. Shelton
Executive Vice President

Stephen P. Tessler
Executive Vice President



Organizers

Our Organizers share a vision of California Bank of Commerce and they put their time, their money, and their reputations on the line to make it happen. We thank all of them for their contribution and commitment to building this Bank.

<i>Andy and Denise Armanino</i>	<i>Danville, CA</i>	<i>Stu and Sally Kahn</i>	<i>Orinda, CA</i>
<i>Charles and Judith Bellig</i>	<i>Danville, CA</i>	<i>Brad and Jeanne Kisner</i>	<i>Lafayette, CA</i>
<i>John and Susan Bellig</i>	<i>Danville, CA</i>	<i>Ken Kisner</i>	<i>Lafayette, CA</i>
<i>Mike and Patrice Botto</i>	<i>Moraga, CA</i>	<i>Paul and Vicki Klapper</i>	<i>Hillsborough, CA</i>
<i>Peter and Mona Branagh</i>	<i>San Francisco, CA</i>	<i>Roxy and Steve Klein</i>	<i>Lafayette, CA</i>
<i>Joe and Jodie Brescia</i>	<i>Alamo, CA</i>	<i>Bob and Judy Locker</i>	<i>Lafayette, CA</i>
<i>Ray and Terry Brown</i>	<i>Newport Beach, CA</i>	<i>David and Marsha Maiero</i>	<i>Belmont, CA</i>
<i>Jeff and Patty Calder</i>	<i>Orinda, CA</i>	<i>John and Nancy Montgomery</i>	<i>Orinda, CA</i>
<i>Sandy and Jean Colen</i>	<i>Orinda, CA</i>	<i>Tom and Carol Morehouse</i>	<i>Orinda, CA</i>
<i>Ted and Margaret Collins</i>	<i>San Francisco, CA</i>	<i>Terry and Linda Murray</i>	<i>Lafayette, CA</i>
<i>Jerry Condon</i>	<i>Orinda, CA</i>	<i>Guy and Maria Muzio</i>	<i>San Francisco, CA</i>
<i>Michael and Darcy Cookson</i>	<i>Walnut Creek, CA</i>	<i>J.P. and Jane Oosterbaan</i>	<i>Mill Valley, CA</i>
<i>Steve and Ann Cortese</i>	<i>Orinda, CA</i>	<i>Tom and Sue Park</i>	<i>Orinda, CA</i>
<i>Jack and Jackie Cullen</i>	<i>Orinda, CA</i>	<i>Paul Remack</i>	<i>Walnut Creek, CA</i>
<i>Kevin and Amy Cullen</i>	<i>Lafayette, CA</i>	<i>Dave and Lori Sanson</i>	<i>Walnut Creek, CA</i>
<i>Steve and Elaine Dathe</i>	<i>Orinda, CA</i>	<i>Hans Schroeder</i>	<i>San Francisco, CA</i>
<i>Richard and Nancy Doyle</i>	<i>Lafayette, CA</i>	<i>Dan and Denise Siri</i>	<i>Orinda, CA</i>
<i>Joe and Jackie Duffel</i>	<i>Orinda, CA</i>	<i>Randy and Kathryn Soso</i>	<i>Orinda, CA</i>
<i>Doug and Lori Fowler</i>	<i>Lafayette, CA</i>	<i>Bill and Sherry Stevenson</i>	<i>Orinda, CA</i>
<i>John and Leslie French</i>	<i>Orinda, CA</i>	<i>Mark and Kristi Swimmer</i>	<i>Orinda, CA</i>
<i>Rob and Laurie Fuller</i>	<i>Orinda, CA</i>	<i>Steve and Trish Thomas</i>	<i>Walnut Creek, CA</i>
<i>Claude and Jackie Gaubert</i>	<i>Lafayette, CA</i>	<i>Ed and Mary Traille</i>	<i>Moraga, CA</i>
<i>Barry and Mary Gilbert</i>	<i>Alameda, CA</i>	<i>Bruce and Patti Westphal</i>	<i>Oakland, CA</i>
<i>Mollie and Greg Gilbert</i>	<i>Oakland, CA</i>	<i>Dick and Lorraine Whitehurst</i>	<i>Alamo, CA</i>
		<i>Steve and Linda Wight</i>	<i>Lafayette, CA</i>



...defined by the



B C McCosker Construction Company, Inc.
GENERAL ENGINEERING CONTRACTOR



eLLWOOD COMMERCIAL REAL ESTATE



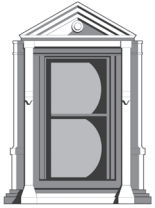
company we keep.

ARMANINO McKENNA LLP

Certified Public Accountants & Consultants



HUNSUCKER
GOODSTEIN
& NELSON PC
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BRANNAGH
DEVELOPMENT

CALIFORNIA TRENCHLESS, INC.



ROMAK IRON WORKS

Structural Steel • Miscellaneous Iron • Ornamental Metals

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FLEENOR PAPER COMPANY



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DECKER
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CONCRETE
CONSTRUCTION



JOHNSON
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Stacy and Witbeck, Inc.
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All Net, All the Time



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C.W. ROEN
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Company

MBC
METAL BUILDING COMPANY

City Picture Frame

B
Bayside Insulation, Inc.

CREEKSIDE
PARTNERS
Investment Counsel

DISNEY
CONSTRUCTION

TaylorMade
Water Systems, Inc.

SILVERADO
CONTRACTORS

GORDON
COMMERCIAL REAL ESTATE SERVICES



INDEPENDENT AUDITOR'S REPORT



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To the Board of Directors
California Bank of Commerce
Lafayette, California

We have audited the accompanying balance sheets of California Bank of Commerce as of December 31, 2008 and 2007, and the related statements of operations, changes in shareholders' equity and comprehensive loss and cash flows for the year ended December 31, 2008 and for the period from July 17, 2007 (date operations commenced) to 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 audits 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 California Bank of Commerce 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 of July 17, 2007 (date operations commenced) to December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Perry-Smith LLP

March 20, 2009



BALANCE SHEET

December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and due from banks	\$ 1,753,770	\$ 1,355,160
Federal funds sold	<u>4,825,000</u>	<u>16,440,000</u>
Total cash and cash equivalents	6,578,770	17,795,160
Interest-bearing deposits in banks	914,651	-
Investment securities (Note 4)		
Available-for-sale, at estimated fair value	31,869,637	9,839,952
Held to maturity, at amortized cost	-	7,156,045
Loans held for sale (Note 1)	490,000	-
Loans, less allowance for loan losses of \$1,400,000 in 2008 and \$248,000 in 2007 (Notes 5, 9, 10 and 13)	95,730,266	17,662,514
Premises and equipment, net (Note 6)	520,571	414,157
Accrued interest receivable and other assets	<u>1,313,210</u>	<u>494,652</u>
Total assets	<u>\$ 137,417,105</u>	<u>\$ 53,362,480</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 17,787,276	\$ 4,191,879
Interest bearing (Note 7)	<u>92,722,908</u>	<u>24,136,944</u>
Total deposits	110,510,184	28,328,823
Long-term borrowings (Note 9)	6,000,000	-
Accrued interest payable and other liabilities (Note 14)	<u>573,584</u>	<u>243,692</u>
Total liabilities	<u>117,083,768</u>	<u>28,572,515</u>
Commitments and contingencies (Notes 9 and 10)		
Shareholders' equity (Notes 11 and 12):		
Preferred stock – no par value; 10,000,000 shares authorized; none outstanding	-	-
Common stock - no par value; 40,000,000 shares authorized; 2,750,000 issued and outstanding in 2008 and 2007	28,540,035	27,821,247
Accumulated deficit (including net pre-opening expenses of \$1,275,347) (Note 2)	(8,361,480)	(3,107,872)
Accumulated other comprehensive income, net of taxes (Notes 4 and 15)	<u>154,782</u>	<u>76,590</u>
Total shareholders' equity	<u>20,333,337</u>	<u>24,789,965</u>
Total liabilities and shareholders' equity	<u>\$ 137,417,105</u>	<u>\$ 53,362,480</u>

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



STATEMENT OF OPERATIONS

For the Year Ended December 31, 2008 and
the Period from July 17, 2007 (Date Operations Commenced) to December 31, 2007

	<u>2008</u>	<u>2007</u>
Interest income:		
Interest and fees on loans	\$ 2,956,465	\$ 122,508
Interest on investment securities	1,096,087	164,125
Interest on Federal funds sold	230,998	630,034
Interest on deposits in banks	<u>189,814</u>	<u>-</u>
Total interest income	4,473,364	916,667
Interest expense:		
Interest on deposits (Note 7)	1,475,944	231,533
Interest on long-term borrowings (Note 9)	<u>4,995</u>	<u>-</u>
Total interest expense	<u>1,480,939</u>	<u>231,533</u>
Net interest income before provision for loan losses	2,992,425	685,134
Provision for loan losses (Note 5)	<u>1,152,000</u>	<u>248,000</u>
Net interest income after provision for loan losses	<u>1,840,425</u>	<u>437,134</u>
Non-interest income:		
Service charges and fees	29,838	111
Dividends on preferred stock	93,187	-
Net gains on sales of loans	151,249	-
Net gains on sales of investment securities (Note 4)	130,778	1,122
Other	<u>62,871</u>	<u>8,254</u>
Total non-interest income	<u>467,923</u>	<u>9,487</u>
Non-interest expenses:		
Salaries and employee benefits (Notes 5 and 14)	3,541,863	1,410,347
Occupancy and equipment (Note 6)	645,849	198,659
Impairment charge on available-for-sale securities (Note 4)	2,045,875	-
Other (Note 15)	<u>1,327,569</u>	<u>670,140</u>
Total non-interest expense	<u>7,561,156</u>	<u>2,279,146</u>
Loss before provision for income taxes	(5,252,808)	(1,832,525)
Provision for income taxes (Note 8)	<u>800</u>	<u>-</u>
Net loss	<u>\$ (5,253,608)</u>	<u>\$ (1,832,525)</u>
Basic loss per share	<u>\$ (1.91)</u>	<u>\$ (0.67)</u>
Weighted average number of shares outstanding	<u>2,750,000</u>	<u>2,750,000</u>

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



STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY AND COMPREHENSIVE LOSS

For the Year Ended December 31, 2008 and

the Period from July 17, 2007 (Date Operations Commenced) to December 31, 2007

	Common Stock		Accumulated Deficit	Accumulated Other Compre- hensive Income (Net of Taxes)	Total Shareholders' Equity	Total Compre- hensive Loss
	Share	Amount				
Balance, July 17, 2007 (date operations commenced)	2,750,000	\$ 27,499,181	\$ (1,275,347)	\$ -	\$ 26,223,834	\$ -
Comprehensive loss (Note 15)						
Net loss			(1,832,525)		(1,832,525)	(1,832,525)
Net change in unrealized gains on available- for-sale investment securities, net of taxes				76,590	76,590	76,590
Total comprehensive loss						<u>\$ (1,755,935)</u>
Share-based compensation expense (Note 11)		<u>322,066</u>			<u>322,066</u>	
Balance, December 31, 2007	<u>2,750,000</u>	<u>27,821,247</u>	<u>(3,107,872)</u>	<u>76,590</u>	<u>24,789,965</u>	
Comprehensive loss (Note 15)						
Net loss			(5,253,608)		(5,253,608)	(5,253,608)
Other comprehensive income:						
Net change in unrealized gains on available- for-sale investment securities, net of taxes				78,192	78,192	<u>78,192</u>
Total comprehensive loss						<u>\$ (5,175,416)</u>
Share-based compensation expense (Note 11)		<u>718,788</u>			<u>718,788</u>	
Balance, December 31, 2008	<u>2,750,000</u>	<u>\$ 28,540,035</u>	<u>\$ (8,361,480)</u>	<u>\$ 154,782</u>	<u>\$ 20,333,337</u>	

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



STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2008 and

the Period from July 17, 2007 (Date Operations Commenced) to December 31, 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net loss	\$ (5,253,608)	\$ (1,832,525)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	1,152,000	248,000
Impairment charge on securities available-for-sale	2,045,875	-
Depreciation	143,903	28,426
Deferred loan origination costs, net	(247,682)	(106,800)
Change in amortization (accretion) of investment security premiums (discounts), net	(11,158)	(15,607)
Share-based compensation expense	718,788	322,066
Gain on sale of investment securities, net	(130,778)	(1,122)
Increase in loans held for sale	(490,000)	-
Increase in accrued interest receivable and other assets	(346,558)	(204,526)
Increase (decrease) in accrued interest payable and other liabilities	<u>275,555</u>	<u>(76,764)</u>
Net cash used in operating activities	<u>(2,143,663)</u>	<u>(1,638,852)</u>
Cash flows from investing activities:		
Purchase of interest-bearing deposits in banks	(914,651)	-
Purchase of available-for-sale investment securities	(48,545,519)	(12,881,570)
Proceeds from sales of available-for-sale investment securities	29,301,080	2,967,335
Purchase of held-to-maturity investment securities	-	(7,222,729)
Proceeds from principal payments on available-for-sale investment securities	1,597,353	220,054
Proceeds from principal payments on held-to-maturity investment securities	1,002,036	67,456
Net increase in loans	(78,972,070)	(17,803,714)
Purchases of premises and equipment	(250,427)	(312,906)
Gain on sale of equipment	110	-
Purchase of Federal Home Loan Bank stock	(282,000)	-
Purchase of the Independent Banker's Bank stock	-	(50,419)
Purchase of Pacific Coast Bankers Bank stock	<u>(190,000)</u>	<u>-</u>
Net cash used in investing activities	<u>(97,254,088)</u>	<u>(35,016,493)</u>

(Continued)

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



STATEMENT OF CASH FLOWS (continued)

For the Year Ended December 31, 2008 and

the Period from July 17, 2007 (Date Operations Commenced) to December 31, 2007

	<u>2008</u>	<u>2007</u>
Cash flows from financing activities:		
Increase in demand, interest bearing and savings deposits	\$ 45,797,738	\$ 23,911,841
Net increase in time deposits	36,383,623	4,416,982
Proceeds from borrowings from Federal Home Loan Bank	6,000,000	-
Re-payment of pre-opening advances from organizers	<u>-</u>	<u>(1,530,000)</u>
Net cash provided by financing activities	<u>88,181,361</u>	<u>26,798,823</u>
Decrease in cash and cash equivalents	(11,216,390)	(9,856,522)
Cash and cash equivalents at beginning of period	<u>17,795,160</u>	<u>27,651,682</u>
Cash and cash equivalents at end of period	<u>\$ 6,578,770</u>	<u>\$ 17,795,160</u>

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest	\$ 1,416,930	\$ 231,533
Income taxes	\$ 800	\$ -

Non-cash investing activities:

Net change in unrealized gains on available-for-sale investment securities	\$ 132,530	\$ 129,814
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The accompanying notes are an integral part of these financial statements.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

California Bank of Commerce (the “Bank”) was approved as a state-chartered non-member bank on March 23, 2007, and commenced operations on July 17, 2007. The Bank is subject to regulation by the California Department of Financial Institutions (the “DFI”) and the Federal Deposit Insurance Corporation (the “FDIC”). The Bank is headquartered in Lafayette, California and provides products and services to customers who are predominately small to middle-market businesses, professionals and not-for-profit organizations located in Contra Costa and surrounding counties.

Prior to commencement of operations on July 17, 2007, the Bank was considered a development stage company and was engaged in activities designed to prepare it for opening. These pre-opening activities included, among other things, the retention of management and staff, acquisition and preparation of facilities for operation, regulatory filings related to approval of the Bank’s charter, obtaining FDIC insurance and the sale of common stock.

The Bank’s deposits are insured by the FDIC up to applicable legal limits. Additionally, the Bank is participating in the FDIC’s Transaction Account Guarantee Program. Under this program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account and the Bank is assessed an annual fee of 10 basis points for all deposit amounts exceeding the existing deposit insurance limit of \$250,000. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC’s general deposit insurance rules.

The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Use of Estimates

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

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and due from banks and Federal funds sold. Generally, Federal funds are sold for one day periods.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Investment Securities

Investment securities are classified into the following categories:

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

Management determines the appropriate classification of its investments at the time of purchase. Subsequent transfers between categories are accounted for at fair value. During 2008, as financial and credit markets deteriorated, an analysis of the Bank's held-to-maturity ("HTM") investment portfolio denominated with long maturity mortgage-backed securities issued by FNMA and FHLMC, identified a potential rising level of credit exposure. As a result of this increased credit exposure, the Bank transferred all of its securities classified as HTM, with a fair value of \$6,162,683, to the available-for-sale classification. The transfer and subsequent sale of these investment securities, which occurred during the fourth quarter of 2008, complied with specific exemptions under SFAS 115.

During the period from July 17, 2007 (date operations commenced) to December 31, 2007 there were no transfers between categories.

Gains and losses on the sale of investment securities are computed using the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

Investment securities are periodically evaluated for impairment and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Bank to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank of San Francisco, the Bank is required to maintain an investment in the capital stock of the Federal Home Loan Bank (FHLB). The investment is carried at cost. The Bank became a member during 2008 and at December 31, 2008, FHLB stock totaled \$282,000 and is included on the balance sheet in accrued interest receivable and other assets.

Investment in Other Bank StocksIndependent Bankers Financial Corporation

The Independent Bankers Financial Corporation ("IBFC"), the holding company for The Independent Banker's Bank, provides services exclusively to banks. During 2007, the Bank made an investment in the capital stock of IBFC. The investment is carried at cost. At December 31, 2008 and 2007, IBFC stock totaled \$50,419 and is included on the balance sheet in accrued interest receivable and other assets.

Pacific Coast Bankers' Bancshares

The Pacific Coast Bankers' Bancshares ("PCBB"), the holding company for The Pacific Coast Banker's Bank, provides services exclusively to banks. During 2008, the Bank made an investment in the capital stock of PCBB. The investment is carried at cost. At December 31, 2008, PCBB stock totaled \$190,000 and is included on the balance sheet in accrued interest receivable and other assets.

Loans

Loans are stated at principal balances outstanding. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered to be impaired and the future collectability of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

An impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective rate or, as a practical matter, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent. 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 (including both principal and interest) in accordance with the contractual terms of the loan agreement.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Loans (Continued)

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

The Bank services loans that have been participated with other financial institutions totaling approximately \$8,165,435 as of December 31, 2008. The participated balances of these loans were sold without recourse and are not included on the Bank's balance sheet.

Loans held for sale are valued at the lower of cost or fair market value.

Allowance for Loan Losses

The allowance for loan losses (the "allowance") is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses (net of recoveries) and loan growth. The allowance for loan losses at December 31, 2008 reflects management's estimate of probable losses in the portfolio.

The allowance is maintained to provide for losses related to impaired loans and other losses that can be expected to occur in the normal course of business. The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan portfolio, specifically identified problem loans, potential losses inherent in the portfolio taken as a whole, and economic conditions in the Bank's service area.

Loans determined to be impaired or classified are individually evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans based on management's assessment of the following for each identified loan type: (1) inherent credit risk, (2) historical losses and (3) where the Bank has not experienced losses, the loss experience of peer banks, and (4) other qualitative factors.

The Bank maintains a separate allowance for losses related to undisbursed loan commitments. Management estimates the amount of probable losses by applying a loss factor to the available portion of undisbursed lines of credit. This allowance of \$60,000 and \$12,000, at December 31, 2008 and 2007, respectively, is included in accrued interest payable and other liabilities on the balance sheet.

These estimates are particularly susceptible to changes in the economic environment and market conditions.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Allowance for Loan Losses (Continued)

The Bank's Directors' Loan Committee reviewed the adequacy of the allowance for loan losses at December 31, 2007, and quarterly during 2008. The allowance will be adjusted based on that review if, in the judgment of the Directors' Loan Committee and management, changes are warranted.

In addition, the FDIC and California Department of Financial Institutions, as an integral part of their examination process, review the adequacy of the allowance. These agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Sales and Servicing of Government Guaranteed Loans

During 2008 the Bank originated loans which, in general are 70 to 85 percent guaranteed by either the U.S. Department of Agriculture (USDA) or the Small Business Administration (SBA). The Bank recorded a gain of \$151,249 on the sale of the guaranteed portion of two of these loans in 2008. The Bank's investment in the loans is allocated between the retained portion of the loan, the servicing asset, the interest only strip and the sold portion of the loan. The carrying value of the retained portion is discounted based on the estimated yield of a comparable non-guaranteed loan. The value of servicing assets and interest only strips related to these loans is not significant at December 31, 2008.

Bank Premises and Equipment

Bank premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures and equipment are estimated to be 3 to 5 years. Leasehold improvements are amortized over the lesser of the respective lease term (including renewal periods that are reasonably assured) or their useful lives, which are generally 7 to 14 years.

Certain operating leases contain scheduled and specified rent increases or incentives in the form of tenant improvement allowances or credits. The scheduled rent increases are recognized on a straight-line basis over the lease term as an increase in the amount of rental expense recognized each period. Lease incentives are capitalized at the inception of the lease and amortized on a straight-line basis over the lease term as a reduction of rental expense. Amounts accrued in excess of amounts paid related to the scheduled rent increases and the unamortized deferred credits are included in accrued interest payable and other liabilities on the balance sheet.

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Income Taxes

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized. At December 31, 2008 and 2007, the bank established a valuation allowance for substantially all of its net deferred tax position.

Accounting for Uncertainty in Income Taxes

The Bank considers all tax positions recognized in its financial statements for the likelihood of realization. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of the tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the statement of operations.

Earnings (Loss) Per Share

Basic earnings (loss) per share (EPS), which excludes dilution, is computed by dividing net income (loss) by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which share in the earnings (loss) of the Bank. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted earnings (loss) per share. However, diluted earnings (loss) per share is not presented when a net loss occurs because the conversion of potential common stock is anti-dilutive.

Share-Based Payments

The Bank has one share-based compensation plan, the California Bank of Commerce 2007 Equity Incentive Plan (the "Plan"), which has been approved by its shareholders and permits the grant of stock options and restricted stock for up to 825,000 shares of the Bank's common stock. The Plan is designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. New shares are issued upon option exercise or restricted share grants.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Share-Based Payments (Continued)

The Plan does not provide for the settlement of awards in cash. The Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised.

Restricted stock awards are grants of shares of common stock that are subject to forfeiture until specific conditions or goals are met. Conditions may be based on continuing employment or achieving specified performance goals. During the period of restriction, participants holding restricted stock may have full voting and dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors. No awards of restricted stock were made during the period from July 17, 2007 (date operations commenced) to December 31, 2008.

The Bank recognizes share-based compensation expense be recorded for all stock options that are ultimately expected to vest as the requisite service is rendered, which is generally the vesting period.

Management estimates the fair value of each option award as of the date of grant using a Black-Scholes-Merton option pricing formula. Expected volatility is based on historical volatility of similar entities over a preceding period commensurate with the expected term of the option because the Bank's common stock has been publicly traded for a shorter period than the expected term for the options. The "simplified" method described in SEC Staff Accounting Bulletin (SAB) No. 107, as amended, by SAB No. 110 is used to determine the expected term of our options due to the lack of sufficient historical data.

The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield was not considered in the option pricing formula since we have not paid dividends and have no current plans to do so in the future. In addition to these assumptions, management makes estimates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the Plan.

Comprehensive Income (Loss)

Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income or loss that historically has not been recognized in the calculation of net income or loss. Sources of other comprehensive income or loss include unrealized gains and losses on available-for-sale investment securities. Total comprehensive income (loss) and components of accumulated other comprehensive income (loss) are presented in the statement of changes in shareholders' equity and comprehensive loss.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Impact of New Financial Accounting StandardsFair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines and establishes a framework for measuring fair value used in FASB pronouncements issued by FASB that require or permit fair value measurement. This statement expands disclosures using fair value to measure assets and liabilities in interim and annual periods subsequent to the period of initial recognition. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. The Bank adopted SFAS 157 on January 1, 2008 and its adoption did not have a material impact on the Bank's financial position, results of operations or cash flows. See Note 3 - Fair Value Measurements.

Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active

In October 2008, FASB issued FASB Staff Position (FSP) Financial Accounting Standard 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. The FSP clarifies the application of FASB Statement No. 157, *Fair Value Measurements* and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP is effective immediately, and includes prior period financial statements that have not yet been issued. The Bank is subject to the provisions of the FSP effective immediately; however, the impact of adoption was not material to the Bank's financial condition, results of operations or cash flows.

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities*, including an Amendment of FASB Statement No. 115. SFAS No. 159 permits fair value accounting to be irrevocably elected for certain financial assets and liabilities on an individual contract basis at the time of acquisition, or at a re-measurement event date. Upon adoption of SFAS No. 159, fair value accounting may also be elected for existing financial assets and liabilities. For those instruments for which fair value accounting is elected, changes in fair value will be recognized in earnings and fees and costs associated with origination or acquisition will be recognized as incurred rather than deferred. The Bank adopted SFAS 159 on January 1, 2008, but did not elect the fair value option for any assets or liabilities for the year ended December 31, 2008.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Business Combinations

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141(R), among other things, establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquired business, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Bank is required to adopt SFAS No. 141(R) for all business combinations for which the acquisition date is on or after January 1, 2009. Earlier adoption is prohibited. This Standard will change the Bank's accounting treatment for business combinations on a prospective basis.

The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). This standard identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities.

It establishes that the GAAP hierarchy should be directed to entities because it is the entity (not the auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS No. 162 is effective November 15, 2008. The adoption of this Statement did not have any effect on the Bank's financial position, results of operations or cash flows.

2. PRE-OPENING ACTIVITIES

Prior to commencement of operations on July 17, 2007, the Bank was considered a development stage company and was engaged in activities designed to prepare it for opening as an FDIC-insured financial institution. The Bank received its initial funding during this period from directors and organizers in the form of interest free loans.

The initial funds were used during the development stage of the Bank to pay for salaries, legal and consulting expenses, rent, and the purchase and build-out of leasehold improvements and to purchase furniture and equipment. These funds were repaid to the directors and organizers following approval by the banking regulators. In consideration for the funding, each director and organizer received the lesser of (a) one option for each \$20 of funding or, (b) one option with every share purchased. The estimated fair value of these options was \$222,224 and is included as share-based expense as part of pre-opening expenses.



NOTES TO FINANCIAL STATEMENTS

2. PRE-OPENING ACTIVITIES (Continued)

During the development stage, the Bank incurred the following pre-opening expenses, net of interest earned, which were charged to accumulated deficit at the date the Bank commenced operations:

Consulting and professional fees	\$ 1,045,959
Share-based compensation expense	222,224
Rent	31,404
Other	63,718
Interest income	<u>(87,958)</u>
Net pre-opening expenses	<u>\$ 1,275,347</u>

Cash flows from organizational and pre-opening activities were as follows:

Proceeds from organizational advances from Directors and organizers	\$ 1,530,000
Proceeds from sale of common stock	27,500,000
Stock offering costs	(223,042)
Pre-opening expenses, net of interest income of \$87,958	(1,275,347)
Share-based compensation expense	222,224
Purchase of property and equipment	(129,677)
Prepaid expenses and other assets	(239,708)
Accrued liabilities	<u>267,232</u>
Cash and cash equivalents at date operations commenced	<u>\$ 27,651,682</u>

Transactions during the pre-opening period with related parties included the rental and use of office space in a building in which a director has a financial interest and, execution of a lease for space in a newly constructed retail/office building to house the Bank's permanent headquarters office with a Company in which a different Director has a financial interest.

3. FAIR VALUE MEASUREMENTSFair Value of Financial Instruments

The estimated carrying and fair values of the Bank's financial instruments are as follows:

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 6,578,770	\$ 6,578,770	\$ 17,795,160	\$ 17,795,160
Interest-bearing deposits in banks	914,651	914,651	-	-
Investment securities	31,869,637	31,869,637	16,995,997	17,045,870
Loans held for sale	490,000	493,184	-	-
Loans, net	95,730,266	101,820,834	17,662,514	17,791,120
Federal Home Loan Bank (FHLB) stock	282,000	282,000	-	-
The Independent Banker's Bank stock	50,419	50,419	50,419	50,419
Pacific Coast Banker's Bank stock	190,000	190,000	-	-
Accrued interest receivable	454,959	454,959	150,572	150,572
Financial liabilities:				
Deposits	110,510,184	110,471,280	28,323,823	28,312,729
Borrowings	6,000,000	5,994,703	-	-
Accrued interest payable	64,009	64,009	-	-



NOTES TO FINANCIAL STATEMENTS

3. FAIR VALUE MEASUREMENTS (Continued)Fair Value of Financial Instruments (Continued)

These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following methods and assumptions were used to estimate the fair value of financial instruments. For cash and cash equivalents, variable-rate loans and leases, accrued interest receivable and payable, FHLB, IBFC and PCBB stock, demand deposits and long-term borrowings, the carrying amount is estimated to be fair value. For investment securities, fair values are based on quoted market prices, quoted market prices for similar securities and indications of value provided by brokers. The fair values for fixed-rate loans and leases are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. Fair values for fixed-rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Bank for certificates with similar remaining maturities.

The fair values of commitments are estimated using the fees currently charged to enter into similar agreements and are not significant and, therefore, not included in the above table.

Fair Value Hierarchy

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

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

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

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



NOTES TO FINANCIAL STATEMENTS

3. FAIR VALUE MEASUREMENTS (Continued)Assets Recorded at Fair Value

The following table presents information about the Bank's assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

Recurring Basis

The Bank is required or permitted to record the following assets at fair value on a recurring basis under other accounting pronouncements.

<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale investment securities	\$ 31,869,637	\$ -	\$ 31,869,637	\$ -

Fair values for available-for-sale investment securities, which include debt securities of U.S. Governmental agencies and U.S. Agency guaranteed mortgage-backed securities are based on quoted market prices for similar securities. There were no changes in the valuation techniques used during 2008.

The Bank did not have any assets or liabilities measured at fair value on a non-recurring basis at December 31, 2008.

4. INVESTMENT SECURITIESAvailable-for-Sale

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2008 and 2007 consisted of the following:

	<u>2008</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Debt securities:				
U.S. Government agencies	\$ 1,000,000	\$ 30,938	\$ -	\$ 1,030,938
U.S. Agency guaranteed mortgage-backed securities	15,307,294	168,113	(3,108)	15,472,299
Other Securities:				
Money Market mutual funds	15,300,000	-	-	15,300,000
Preferred stock	-	66,400	-	66,400
	<u>\$ 31,607,294</u>	<u>\$ 265,451</u>	<u>\$ (3,108)</u>	<u>\$ 31,869,637</u>



NOTES TO FINANCIAL STATEMENTS

4. INVESTMENT SECURITIES (Continued)

Available-for-Sale (Continued)

Net unrealized gains on available-for-sale investment securities totaling \$262,343 were recorded, net of \$107,561 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2008. Proceeds and gross realized gains from the sale of available-for-sale investment securities for the year ended December 31, 2008 totaled \$29,301,080 and \$130,778, respectively.

At December 31, 2008, the Bank's investment securities included 80,000 shares of FNMA Series S preferred stock. Due to the current status of FNMA, which is in a conservatorship relationship with the U.S. Treasury, and the significant decline in the stock price, the Bank recorded an other-than-temporary impairment write-down of \$2,045,875, as of September 30, 2008.

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	\$ 2,971,251	\$ 51,243	\$ -	\$ 3,022,494
U.S. Agency guaranteed mortgage-backed securities	<u>6,738,888</u>	<u>78,570</u>	<u>-</u>	<u>6,817,458</u>
	<u>\$ 9,710,139</u>	<u>\$ 129,813</u>	<u>\$ -</u>	<u>\$ 9,839,952</u>

Net unrealized gains on available-for-sale investment securities totaling \$129,813 were recorded, net of \$53,223 in tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2007. Proceeds and gross realized gains from the sale of available-for-sale investment securities for the period from July 17, 2007 (date operations commenced) to December 31, 2007 totaled \$2,967,335 and \$1,122, respectively.

The amortized cost and estimated fair value of debt securities at December 31, 2008 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
After one year through five years	\$ 1,000,000	\$ 1,030,938
After ten years	<u>-</u>	<u>66,400</u>
	1,000,000	1,097,338
Investment securities not due at a single maturity date:		
U.S. Agency guaranteed mortgage-backed securities	<u>15,307,294</u>	<u>15,472,299</u>
	<u>\$ 16,307,294</u>	<u>\$ 16,569,637</u>



NOTES TO FINANCIAL STATEMENTS

4. INVESTMENT SECURITIES (Continued)Held-to-Maturity

All held-to-maturity investment securities were transferred to available-for-sale at fair market value during 2008.

	2007		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
			Estimated Fair Value
Debt securities:			
U.S. Agency guaranteed			
mortgage-backed securities	\$ 7,156,045	\$ 49,873	\$ -
			\$ 7,205,918

There were no sales or transfers of held-to-maturity investment securities for the period ended December 31, 2007.

U.S. Agency Guaranteed Mortgage-Backed Securities

At December 31, 2008, the Bank held one security, which was in a loss position for less than twelve months. The unrealized loss on this direct guaranteed mortgage-backed obligation of a U.S. Government Agency was caused by interest rate increases. The Bank purchased this investment at a premium relative to its face amount, and the contractual cash flows of this investment are guaranteed by an agency of the U.S. Government. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank has the ability and intent to hold this investment until a recovery of fair value, which may be maturity, the Bank does not consider this investment to be other-than-temporarily-impaired, at December 31, 2008.

There were no securities in an unrealized loss position at December 31, 2007.

Investment securities with amortized costs of \$16,307,294 and estimated market values of \$16,569,637 were pledged to secure State Treasury funds on deposit and borrowing arrangements in place at the Federal Reserve Bank of San Francisco, at December 31, 2008. (See Note 9)

5. LOANS

Outstanding loans are summarized below:

	December 31,	
	2008	2007
Commercial	\$ 44,133,804	\$ 9,935,144
Real estate - commercial	40,234,431	6,695,186
Real estate - construction	7,622,415	-
Real estate - residential	2,827,333	850,000
Personal and installment	1,957,801	323,384
	96,775,784	17,803,714
Deferred loan origination costs, net	354,482	106,800
Allowance for loan losses	(1,400,000)	(248,000)
	\$ 95,730,266	\$ 17,662,514



NOTES TO FINANCIAL STATEMENTS

5. LOANS (Continued)

For the year ended December 31, 2008 and the period from July 17, 2007 (date operations commenced) to December 31, 2007, the Bank had no impaired loans or loans placed on nonaccrual status. During the same periods, the Bank recognized a provision for loan losses of \$1,152,000 and \$248,000, respectively, and no losses were charged to the allowance.

Salaries and employee benefits totaling \$893,448 and \$190,195 were deferred as loan origination costs for the year ended December 31, 2008 and the period from July 17, 2007 (date operations commenced) to December 31, 2007, respectively.

Loans with fair values of approximately \$55,932,824 were pledged to secure borrowing arrangements at December 31, 2008 (see Note 9).

6. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,	
	2008	2007
Furniture, fixtures and equipment	\$ 559,518	\$ 322,453
Leasehold improvements	<u>133,382</u>	<u>120,130</u>
	692,900	442,583
Less accumulated depreciation and amortization	<u>(172,329)</u>	<u>(28,426)</u>
	<u>\$ 520,571</u>	<u>\$ 414,157</u>

Depreciation and amortization included in occupancy and equipment expense totaled \$143,903 and \$28,426, respectively, for 2008 and for the period from July 17, 2007 (date operations commenced) to December 31, 2007.

7. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2008	2007
Savings	\$ 4,243,227	\$ 55,978
Money market	45,609,801	19,315,634
Interest-bearing demand accounts	2,069,275	348,350
Time, \$100,000 or more	40,279,843	4,205,787
Other time	<u>520,762</u>	<u>211,195</u>
	<u>\$ 92,722,908</u>	<u>\$ 24,136,944</u>



NOTES TO FINANCIAL STATEMENTS

7. INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits are as follows:

<u>Year Ending December 31,</u>	
2009	\$ 40,411,693
2010	232,175
2011	-
2012	<u>156,737</u>
	<u>\$ 40,800,605</u>

Interest expense recognized on interest-bearing deposits for the year ended December 31, 2008 and the period from July 17, 2007 (date operations commenced) to December 31, 2007 consisted of the following:

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Savings	\$ 28,662	\$ 245
Money market	745,409	175,719
Interest-bearing demand accounts	32,877	1,643
Time, \$100,000 or more	659,423	52,778
Other time	<u>9,573</u>	<u>1,148</u>
	<u>\$ 1,475,944</u>	<u>\$ 231,533</u>

8. INCOME TAXES

The provision for income taxes for the year ended December 31, 2008 and the period from July 17, 2007 (date operations commenced) to December 31, 2007 consisted of the following:

	<u>2008</u>
Current	\$ 800
Deferred	(1,869,295)
Increase in valuation allowance	<u>1,869,295</u>
Income tax expense	<u>\$ -</u>
	<u>2007</u>
Current	\$ -
Deferred	(99,031)
Establishment of valuation allowance	<u>99,031</u>
Income tax expense	<u>\$ -</u>



NOTES TO FINANCIAL STATEMENTS

8. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following:

	December 31,	
	2008	2007
Deferred tax assets:		
Net operating losses	\$ 1,350,392	\$ 598,544
Share-based compensation	84,635	28,183
Organization costs	414,086	444,664
Allowance for loan losses	468,171	74,468
Impairment on FNMA preferred stock	695,598	-
State deferred tax asset	<u>554,012</u>	<u>269,983</u>
Deferred tax assets before valuation allowance	<u>3,566,894</u>	<u>1,415,842</u>
Valuation allowance	<u>(3,186,106)</u>	<u>(1,316,811)</u>
Total deferred tax assets	<u>380,788</u>	<u>99,031</u>
Deferred tax liabilities:		
Accrual to cash conversion	(99,058)	(31,724)
Deferred loan origination costs	(237,162)	(57,065)
Premises and equipment	(39,079)	(10,242)
Unrealized gain on available-for-sale investment securities	(107,561)	(53,223)
Other	<u>(5,489)</u>	<u>-</u>
Total deferred tax liabilities	<u>(488,349)</u>	<u>(152,254)</u>
Net deferred tax liability	<u>\$ (107,561)</u>	<u>\$ (53,223)</u>

A valuation allowance is provided to reduce deferred tax assets to a level which, more likely than not, will be realized. Included in the valuation allowance against the deferred tax assets is the other-than-temporary impairment on FNMA Preferred Stock. The loss on the preferred shares will be accorded ordinary treatment for federal income tax purposes, but will be treated as a capital loss for California tax purposes. For California, capital losses are deductible only to the extent they offset capital gains within five years of the date that the loss is realized for tax. Management believes that a valuation allowance is appropriate against the California capital loss exposure in the amount of \$140,000. This valuation allowance is included as a component in the full valuation allowance against the Bank's deferred tax assets.

Due to the losses recognized during the organizational period and since operations commenced, a valuation allowance has been recorded for substantially all of the Bank's net deferred tax assets. The need for this valuation allowance will be periodically reviewed and benefits will be recognized when they are determined to be realizable.

At December 31, 2008, the Bank had Federal and State net operating loss carry-forwards (NOLs) of \$6,016,468 and \$5,912,410, respectively. The Federal and State NOLs begin to expire in 2027 and 2017, respectively.

The Bank files income tax returns in the U.S federal and California jurisdictions. There are currently no pending U.S. federal or state income tax or non-U.S. income tax examinations by tax authorities.



NOTES TO FINANCIAL STATEMENTS

8. INCOME TAXES (Continued)

The Bank is subject to tax examinations by U.S. Federal and state taxing authorities for all tax returns filed since its inception.

As of December 31, 2008 and 2007, there were no unrecognized tax benefits or interest and penalties accrued by the Bank.

9. BORROWING ARRANGEMENTS

The Bank has \$21,000,000 in unsecured borrowing arrangements with five of its correspondent banks to meet short-term liquidity needs. In a separate agreement, the Bank can borrow up to \$8,000,000, or the total market value of securities pledged to a correspondent bank under a repurchase agreement. At December 31, 2008 and 2007, there were no investment securities pledged to the correspondent bank under this agreement. There were no borrowings outstanding under these arrangements at December 31, 2008 or 2007.

The Bank entered into a borrowing arrangement with the Federal Reserve Bank of San Francisco (FRB) during 2008 under which advances are secured by portions of the Bank's loan and investment securities portfolios. The Bank's credit limit varies according to the amount and composition of the assets pledged as collateral. At December 31, 2008, amounts pledged and available under such limits were approximately \$32,630,000.

The Bank entered into a borrowing arrangement with the Federal Home Loan Bank (FHLB) during 2008 under which advances are secured by portions of the Bank's loan portfolio. The Bank's credit limit varies according to its total assets and the amount and composition of the loan portfolio pledged as collateral. At December 31, 2008, amounts pledged and available under such limits were approximately \$6,165,000 and \$165,000, respectively. There was \$6,000,000 in borrowings outstanding under this arrangement at interest rates ranging from 2.05% to 2.65% at December 31, 2008, with average maturities of approximately four years.

The Bank is eligible to apply for and potentially issue certain debt that is backed by the full faith and credit of the United States, up to a limit of \$2,074,000, under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program. Any senior unsecured debt with a stated maturity of more than thirty days issued by the Bank up to its debt guarantee limit falls under this program. The Bank will be charged an annualized assessment from the FDIC, ranging from 50 to 100 basis points, based on the term and amount of the debt outstanding under the program. At December 31, 2008, the Bank had no borrowings under this debt guarantee program.

10. COMMITMENTS AND CONTINGENCIESOperating Leases

The Bank leases its headquarters facility in Lafayette, California from an affiliated party under a non-cancelable operating lease. The lease expires on May 30, 2015 and has one 7 1/2 year renewal option. The lease includes annual rent adjustments during the initial lease term and increases to the then current fair-market rent commencing the first year of the option. It is management's intention to exercise the renewal option.



NOTES TO FINANCIAL STATEMENTS

10. COMMITMENTS AND CONTINGENCIES (Continued)Operating Leases (Continued)

Future minimum lease payments are as follows:

Year Ending December 31,	
2009	\$ 387,360
2010	396,090
2011	405,765
2012	414,990
2013	424,755
Thereafter	<u>619,920</u>
	<u>\$ 2,648,880</u>

Rental expense included in occupancy and equipment expense totaled \$409,906 and \$97,747 for the year ended December 31, 2008 and for the period from July 17, 2007 (date operations commenced) to December 31, 2007.

Financial Instruments With Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates.

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

	December 31,	
	2008	2007
Commitments to extend credit	\$ 61,609,606	\$ 14,233,694
Standby letters of credit	\$ 996,654	\$ -

The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend 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 included on the balance sheet.

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis.

The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.



NOTES TO FINANCIAL STATEMENTS

10. COMMITMENTS AND CONTINGENCIES (Continued)Financial Instruments With Off-Balance-Sheet Risk (Continued)

Standby letters of credit are conditional commitments issued to guarantee the performance of a client to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2008 and 2007. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

Commercial loan commitments represent approximately 77% of total commitments and are generally unsecured or secured by collateral other than real estate and have variable interest rates. Real estate loan commitments represent approximately 17% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 75%. The majority of real estate commitments also have variable interest rates. Home equity and personal lines of credit represent the remaining 6% of total commitments and are generally secured by residential real estate and have both variable and fixed interest rates.

Significant Concentrations of Credit Risk

The Bank grants real estate mortgage, real estate construction, commercial and installment loans to customers in the Bank's geographic service area. In management's judgment, a concentration exists in real estate related loans which represented approximately 53% and 42% of the Bank's loan portfolio at December 31, 2008 and 2007, respectively. Although management believes such concentrations to have no more than the normal risk of collectability, a substantial decline in the economy in general, or a decline in real estate values in the Bank's primary market area in particular, could have an adverse impact on collectability of these loans. Personal and business income represents the primary source of repayment for a majority of these loans.

Contingencies

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

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Those insured financial institutions have elected to participate in the FDIC sponsored Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account and, as a result of the program, there were no uninsured deposits at December 31, 2008. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. This program was not in effect in 2007; however, uninsured deposits were not significant at that time.



NOTES TO FINANCIAL STATEMENTS

11. SHARE-BASED PAYMENTStock Option Awards

The California Bank of Commerce 2007 Equity Incentive Plan (the "Plan") permits the grant of stock options to directors, organizers and employees of the Bank. Grants of options to the organizers during the start up phase of the Bank and to the Directors are considered Non-Qualified Stock Option Awards. All other option grants are considered Incentive Stock Option Awards. All of the options granted under the Plan have a 10 year term and have been issued with exercise prices at the fair market value of the underlying shares at the date of grant. The Non-Qualified stock option awards to the organizers vested 100% immediately, whereas the Stock Option Awards to directors and employees vest over a three year period from the date the options were granted. The share-based compensation expense related to awards granted to organizers is included in pre-opening expenses.

For the year ended December 31, 2008 and the period from July 17, 2007 (date operations commenced) to December 31, 2007, the compensation cost recognized for stock option compensation was \$718,788 and \$322,066, respectively.

A summary of option activity under the Plan for the year ended December 31, 2008 and the period from July 17, 2007 (date operations commenced) to December 31, 2007 is presented below:

<u>Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>
Granted and outstanding at December 31, 2007	592,250	\$ 10.00	
Granted	21,500	\$ 10.16	
Forfeited	<u>(4,250)</u>	\$ 10.00	
Outstanding at December 31, 2008	<u>609,500</u>	<u>\$ 10.01</u>	<u>8.61</u>
Vested or expected to vest at December 31, 2008	<u>594,975</u>	<u>\$ 10.01</u>	<u>8.61</u>
Exercisable at December 31, 2008	<u>302,674</u>	<u>\$ 10.00</u>	<u>8.58</u>

As of December 31, 2008, the unrecognized compensation cost related to non-vested stock option awards totaled \$1,122,781. That cost is expected to be amortized on a straight-line basis over a weighted average period of 1.61 years and will be adjusted for subsequent changes in estimated forfeitures.

At December 31, 2008, there was no intrinsic value associated with outstanding stock option awards.



NOTES TO FINANCIAL STATEMENTS

11. SHARE-BASED PAYMENT (Continued)Stock Option Awards (Continued)

The following information relates to stock option grants granted during the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Weighted average grant date fair value per share		
Of options granted	\$ 3.86	\$ 4.09
Significant fair value assumptions:		
Expected term in years	6 years	6 years
Expected annual volatility	33.22%	32.58%
Expected annual dividend yield	0%	0%
Risk-free interest rate	3.09%	4.93%
Total share-based compensation costs included in operating expenses	\$ 718,788	\$ 322,066

12. SHAREHOLDERS' EQUITYDividends

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2008, no amounts were free of such restrictions.

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by the Federal Deposit Insurance Corporation (FDIC). Failure to meet these minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

Under capital adequacy guidelines, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. These quantitative measures are established by regulation and require that minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets be maintained. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Bank is also subject to additional capital guidelines under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table on the following page. The most recent notification from the FDIC categorized the Bank as well capitalized under these guidelines. There are no conditions or events since that notification that management believes have changed the Bank's category.

Management believes that the Bank met all capital adequacy requirements as of December 31, 2008 and 2007.



NOTES TO FINANCIAL STATEMENTS

12. SHAREHOLDERS' EQUITY (Continued)Regulatory Capital (Continued)

During its first three years, the Bank is required to maintain a minimum leverage ratio of 8%. In addition, to be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below.

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>Leverage Ratio</u>				
California Bank of Commerce	\$20,179,000	15.2%	\$24,713,000	53.0%
Minimum requirement for "Well-Capitalized" institution				
under prompt corrective action provisions	\$ 6,643,000	5.0%	\$ 2,333,000	5.0%
Minimum regulatory requirement	\$ 5,315,000	4.0%	\$ 1,867,000	4.0%
Minimum leverage ratio for de novo institution	\$10,629,000	8.0%	\$ 3,733,000	8.0%

Tier 1 Risk-Based Capital Ratio

California Bank of Commerce	\$20,179,000	14.4%	\$24,713,000	76.3%
Minimum requirement for "Well-Capitalized" institution				
under prompt corrective action provisions	\$ 8,412,000	6.0%	\$ 1,943,000	6.0%
Minimum regulatory requirement	\$ 5,608,000	4.0%	\$ 1,295,000	4.0%

Total Risk-Based Capital Ratio

California Bank of Commerce	\$21,669,000	15.5%	\$24,973,000	77.1%
Minimum requirement for "Well-Capitalized" institution				
under prompt corrective action provisions	\$14,020,000	10.0%	\$ 3,238,000	10.0%
Minimum regulatory requirement	\$11,216,000	8.0%	\$ 2,590,000	8.0%

13. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including Directors, executive officers and affiliates. These transactions include borrowings from the Bank with substantially the same terms, including rates and collateral, as loans to unrelated parties.



NOTES TO FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS (Continued)

The following is a summary of the aggregate activity involving related party borrowers during the year ended December 31, 2008:

Balance, December 31, 2007	<u>\$ 5,217,410</u>
Disbursements	5,489,164
Amounts participated	(2,591,511)
Amounts repaid	<u>(1,744,503)</u>
Balance, December 31, 2008	<u>\$ 6,370,560</u>
Undisbursed commitments to related parties, December 31, 2008	<u>\$ 2,415,000</u>

At December 31, 2008, the Bank's deposits from related parties totaled \$2,563,000.

The Bank also leases its office from a company owned by a member of the Board of Directors. Rental payments under this agreement totaled \$425,386 for the year ended December 31, 2008 and \$42,824 for the period from the period from July 17, 2007 (date operations commenced) to December 31, 2007.

14. EMPLOYEE BENEFIT PLANSProfit Sharing Plan

In 2007, the Bank adopted the California Bank of Commerce Profit Sharing 401(k) Plan. All full-time employees 21 years of age or older with 3 months of service are eligible to participate in the plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. The Bank may make additional contributions to the plan at the discretion of the Board of Directors. Bank contributions vest at a rate of 20% annually for all employees. The Bank did not make a contribution to the Plan during the year ended December 31, 2008 or for the period from July 17, 2007 (date operations commenced) to December 31, 2007.

Salary Continuation and Retirement Plan

The Board of Directors approved a salary continuation plan for the Chief Executive Officer (CEO) during 2007. Under the Plan, once the CEO reaches age 65, the Bank is obligated to provide the CEO with annual benefits for twenty years after retirement. The estimated present value of these future benefits is accrued from the effective date of the plan until the CEO's expected retirement date based on a discount rate of 6.5%. The expense recognized under this plan for the year ended December 31, 2008 and the period from July 17, 2007 (date operations commenced) to December 31, 2007 totaled \$38,711 and \$46,281, respectively. Accrued compensation payable under the salary continuation plan totaled \$84,992 and \$32,592 at December 31, 2008 and 2007, respectively, and is included in accrued interest payable and other liabilities on the Bank's balance sheet.



NOTES TO FINANCIAL STATEMENTS

15. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is reported in addition to net income for all periods presented. Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income. Unrealized gains and losses on the Bank's available-for-sale investment securities are included in other comprehensive income (loss). Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the statement of changes in shareholder's equity.

The Bank held securities classified as available-for-sale which had unrealized gains as follows:

	Before Tax	Tax Liability	After Tax
For the Year Ended December 31, 2008			
Net unrealized holding gains	\$ 262,343	\$ (107,561)	\$ 154,782
For the Year Ended December 31, 2007			
Net unrealized holding gains	\$ 129,813	\$ (53,223)	\$ 76,590

16. OTHER EXPENSES

Other expenses for the year ended December 31, 2008 and the period from July 17, 2007 (date operations commenced) to December 31, 2007 consisted of the following:

	2008	2007
Outsourced data processing and electronic banking	\$ 156,461	\$ 67,490
Computer network and internet support	169,101	73,528
Director's stock-based compensation	166,034	82,892
Professional fees	202,354	284,644
Advertising, promotion and business development	177,890	41,193
Regulatory fees	76,323	6,196
Provision for unfunded loan commitments	48,000	12,000
Stationery and supplies	44,689	24,628
Correspondent Bank service charges	45,474	4,453
Other operating expenses	241,243	73,116
	<u>\$ 1,327,569</u>	<u>\$ 670,140</u>



NOTES TO FINANCIAL STATEMENTS

17. SUBSEQUENT EVENT

On February 27, 2009, the Bank entered into a Letter Agreement (the "Purchase Agreement") with the United States Department of the Treasury (the "Treasury"), pursuant to which the Bank issued and sold 4,000 shares of the Bank's Fixed Rate Non-cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred") for a purchase price of \$4,000,000. Additionally, the Bank created and authorized 200.002 shares of the Bank's Fixed Rate Non-cumulative Perpetual Preferred Stock, Series B stock, (the "Series B Preferred").

The Series A Preferred will qualify as Tier 1 capital and will pay non-cumulative dividends quarterly at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The unissued Series B Preferred will pay cumulative dividends at a rate of 9% per annum until redemption. Subject to the approval of the Appropriate Federal Banking Agency, either series may be redeemed, in whole or in part, by the Bank after three years; however, the Series B Preferred may not be redeemed until after all the Series A Preferred has been redeemed. Prior to the end of three years, terms of the Series A Preferred and the Series B Preferred provide that such securities may be redeemed by the Bank only with proceeds from the sale of qualifying equity securities of the Bank (a "Qualified Equity Offering"). However, under Section 7001 of the American Recovery and Reinvestment Act of 2009 effective February 17, 2009, as acknowledged in a side letter with the Treasury dated February 27, 2009 and subject to consultation with the Federal Deposit Insurance Corporation, the Bank shall be permitted to redeem such securities without regard to the source of funds or waiting periods.

The Series A Preferred and Series B Preferred shall be non-voting, other than class voting rights on (i) any authorization or issuance of shares ranking senior to the Series A Preferred and Series B Preferred, (ii) any amendment to the rights of the Series A Preferred and Series B Preferred, or (iii) any merger, exchange or similar transaction which would adversely affect the rights of the Series A Preferred and Series B Preferred.

If dividends on the Series A Preferred and Series B Preferred are not paid in full for six dividend periods, whether or not consecutive, the holders of the Series A Preferred and Series B Preferred will have the right to elect 2 directors. The right to elect directors will end when full dividends have been paid for four consecutive dividend periods.

In the Purchase Agreement, the Bank agreed that, until such time as the Treasury ceases to own any debt or equity securities of the Bank acquired pursuant to the Purchase Agreement, the Bank will take all necessary action to ensure that its benefit plans with respect to its senior executive officers comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 (the "EESA") as implemented by any guidance or regulation under the EESA that has been issued and is in effect as of the date of issuance of the Series A Preferred and the Series B Preferred, and has agreed to not adopt any benefit plans with respect to, or which cover, its senior executive officers that do not comply with the EESA, and the applicable executives have consented to the foregoing. Furthermore, the Purchase Agreement allows the Treasury to unilaterally amend the terms of the agreement.



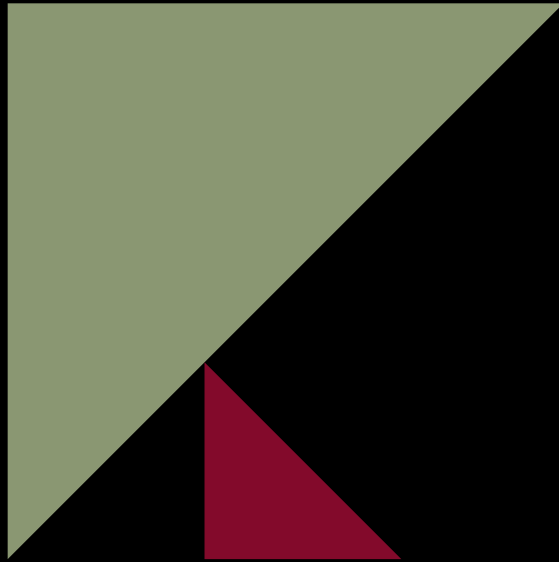
NOTES TO FINANCIAL STATEMENTS

17. SUBSEQUENT EVENT (Continued)

So long as any share of Series A Preferred or Series B Preferred is outstanding, no dividend or distribution may be declared or paid on the Bank's Common Stock, other than dividends payable solely in shares of Common Stock.

Furthermore, for as long as any Series A Preferred or Series B Preferred is outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking pari passu with the Series A Preferred or Series B Preferred (other than in the case of pari passu preferred shares, dividends on a pro rata basis with the Series A Preferred or Series B Preferred), nor may the Bank repurchase or redeem any common shares, junior preferred shares, preferred shares ranking pari passu with the Series A Preferred or Series B Preferred, unless all accrued and unpaid dividends for all past dividend periods on the Series A Preferred and Series B Preferred are fully paid.





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