

The logo graphic consists of two overlapping triangles. The upper triangle is olive green and the lower triangle is maroon. They are positioned to the left of the bank's name.

California Bank of Commerce

...defined by the company we keep.

2010 Annual Report

Fellow Shareholders:

2010 was an excellent year, driven by growth in loans and deposits. Of greatest historical note was our first full year of positive Net Income. The Bank achieved its sixth consecutive quarter of operating profits*, enabling it to capture a significant tax benefit relating to the Bank's early start-up related losses. This credit to income resulted in an increase of \$3.1 million in capital on the balance sheet. In a difficult environment and across a broad range of metrics, the Bank's 2010 performance was also exemplary in comparison to its peer group. Our historical performance and peer standing are depicted further in this annual report.

Our Bank's strategy is straightforward:

- To hire and retain only the best business bankers;
- To develop long term relationships with successful closely held businesses and professional services firms;
- To seek relationship deposits, including most importantly the operating accounts that require the prompt hands-on service at which we excel;
- To grow loans prudently, particularly commercial and industrial loans and related commercial real estate loans, thus building net interest income; and,
- To maintain control over expenses while recognizing the ongoing imperative of investing in the people and infrastructure that will build profits in the future.

Our Bank's external challenges are by this time familiar to us all; first, a general economy which, though now more stable, nevertheless remains weak -- necessitating cautious growth and extra provisioning to our reserve for loan losses; second, the ongoing commitment of the Federal Reserve to maintaining very low short term interest rates has the effect of compressing net interest margins. Both of these conditions will change for the better at some point.

Our primary internal challenge is to balance the twin mandates of steady growth and strong capital. In an environment of low interest rates and costly regulatory reform, scale of operation is essential for optimum financial performance. However, scale makes heavy demands upon capital. We seek to balance these competing mandates in a way that minimizes dilution to our existing shareholders.

Our board and management believe the prospects for our Bank are bright. We occupy a growing position in the closely held business community that is the backbone of the Bay Area economy. We have a first class staff. We work hard for our clients. We have a good reputation. These are the essential ingredients of future prosperity.

Sincerely,



John Rossell
President and Chief Executive Officer



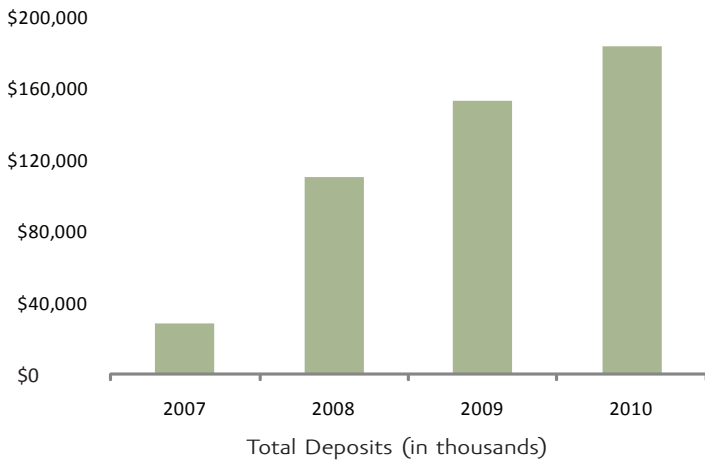
Stephen A. Cortese
Chairman of the Board

* Operating Profit or Income is Net Income plus Provision for Loan Losses adjusted for stock option expense and extraordinary items.

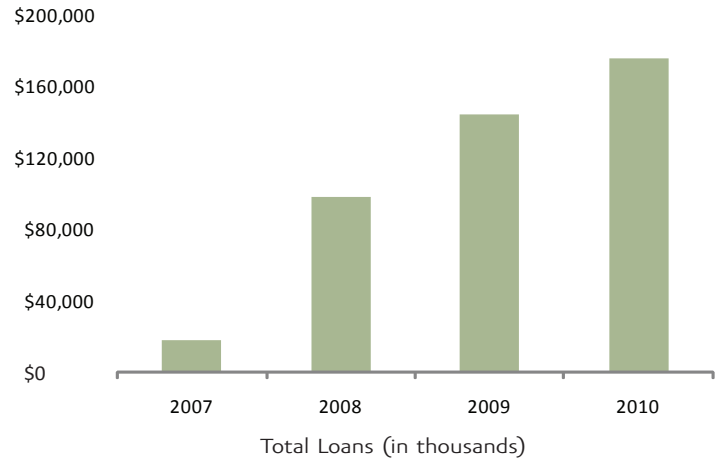


Financial Highlights

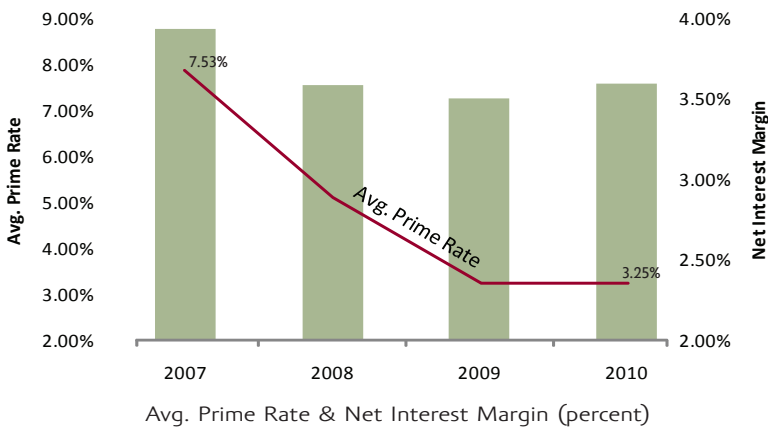
We continue to attract and retain deposits...



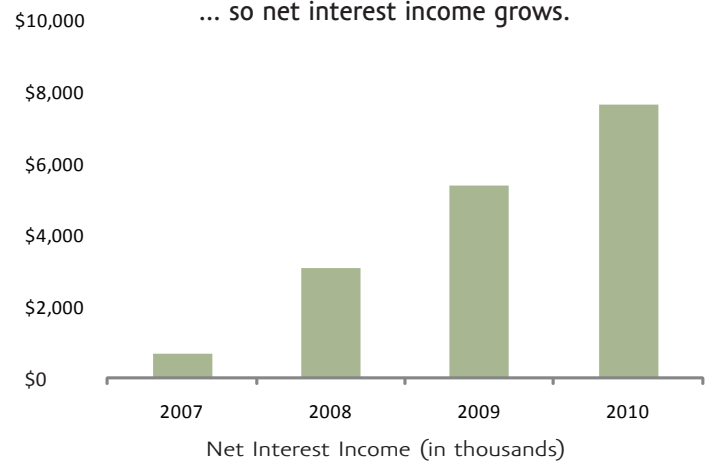
...funding steady loan growth...



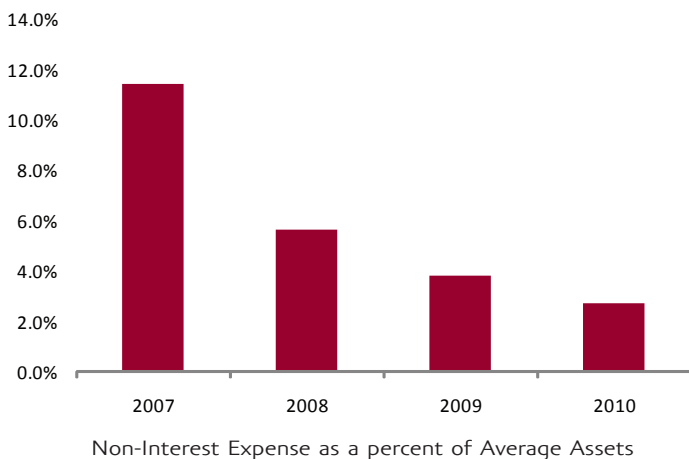
...allowing us to maintain margins, despite low Fed rates...



... so net interest income grows.



We grow assets but control costs...



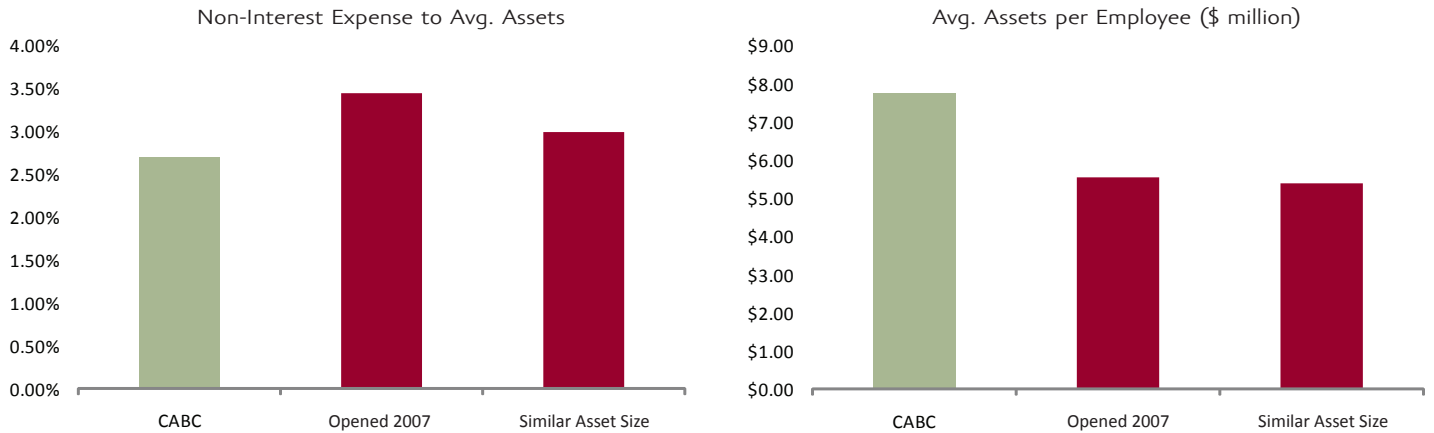
...to build operating income.



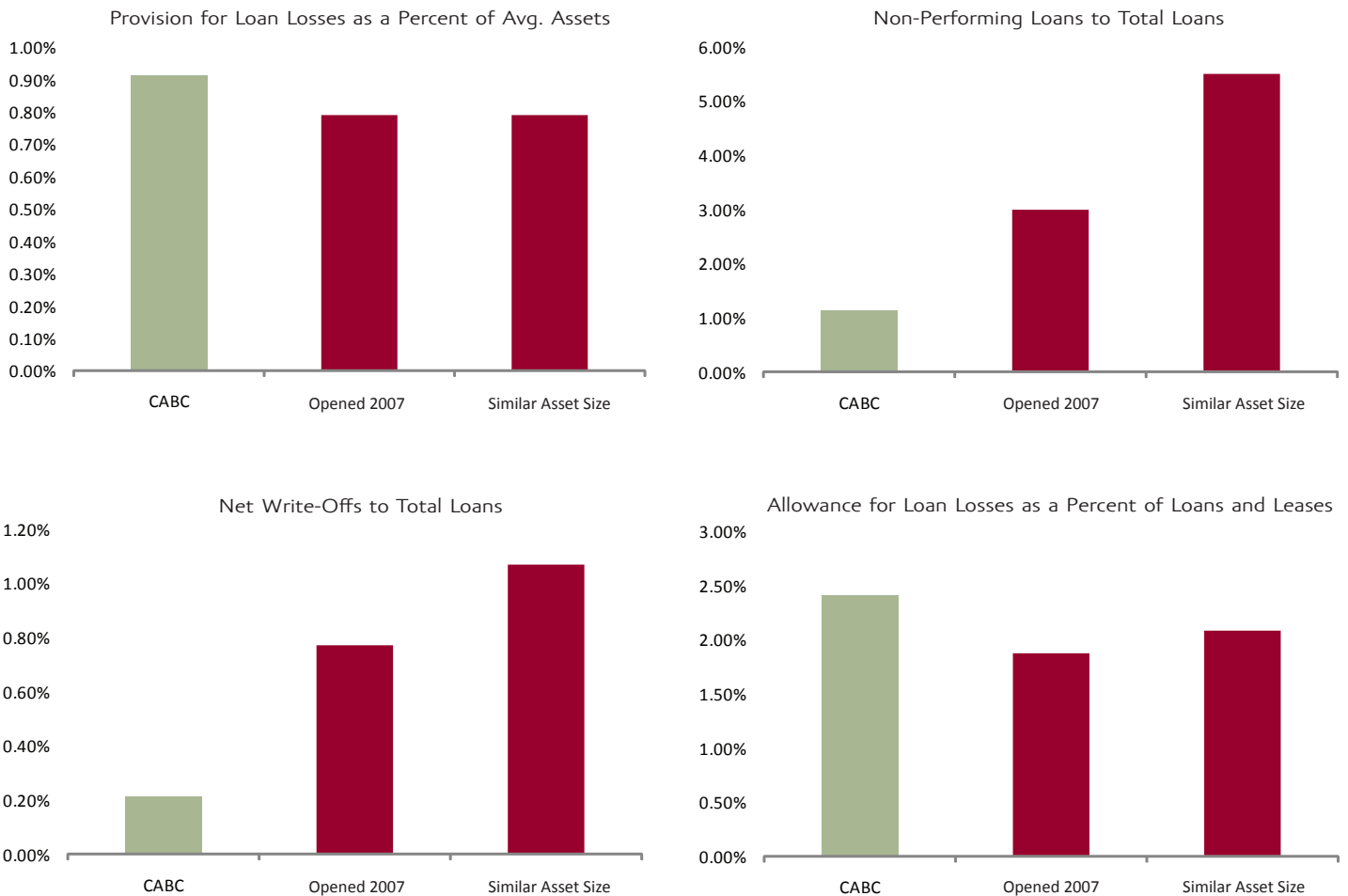
2010 Productivity and Loan Quality

California Bank of Commerce Versus Other Bank Groups**

Productivity



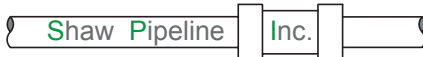
Reserves and Quality of Loans



** "Opened 2007" is all U.S. de novo banks who commenced operations in 2007. "Similar Asset Size" is U.S. banks with \$100 to \$300 million in assets.



...defined by the



company we keep.



FLEENOR PAPER COMPANY



B C McCosker Construction Company, Inc.
GENERAL ENGINEERING CONTRACTOR



CALIFORNIA TRENCHLESS, INC.



FITZGERALD ABBOTT & BEARDSLEY LLP
ATTORNEYS AT LAW



Board of Directors

Stephen A. Cortese
*Chairman of the Board,
California Bank of Commerce
Managing Partner, Cortese Investment Company*

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

Peter W. Branagh
President, Branagh Development, Inc.

Edward B. Collins
Retired, Partner and Managing Director ChinaVest

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

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

Rochelle G. Klein
Advisory Director, Ocean Gate Capital Management

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

Thomas R. Morehouse
Retired President, Filesafe Inc.

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

Edmond E. Traille
Managing Partner, GALLINA LLP

Executive Officers

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.

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



INDEPENDENT AUDITOR'S REPORT



Perry-Smith LLP
575 Market Street | Suite 3300
San Francisco, CA 94105
www.perry-smith.com
415.576.1100

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and
Board of Directors
California Bank of Commerce

We have audited the accompanying balance sheet of California Bank of Commerce (the "Bank") as of December 31, 2010 and 2009, and the related statements of operations, changes in shareholders' equity and comprehensive income (loss) and cash flows for the years then ended. 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Perry-Smith LLP

March 21, 2011



BALANCE SHEET

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and due from banks	\$ 4,458,291	\$ 30,568,105
Federal funds sold	5,765,000	-
Total cash and cash equivalents	10,223,291	30,568,105
Investment securities (Note 3)		
Available-for-sale, at estimated fair value	50,359,618	17,315,449
Loans held for sale (Note 1)	1,390,100	909,000
Loans, less allowance for loan losses of \$4,327,000 in 2010 and \$2,565,000 in 2009 (Notes 4, 5, 9 and 10)	170,073,533	140,689,024
Premises and equipment, net (Note 6)	275,343	385,703
Accrued interest receivable and other assets	7,361,349	3,896,817
Total assets	<u>\$ 239,683,234</u>	<u>\$ 193,764,098</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 41,090,677	\$ 35,417,907
Interest bearing (Note 7)	142,525,987	117,256,129
Total deposits	183,616,664	152,674,036
Long-term borrowings (Note 9)	18,000,000	12,000,000
Short-term borrowings (Note 9)	10,000,000	5,000,000
Accrued interest payable and other liabilities (Note 14)	1,107,938	759,929
Total liabilities	<u>212,724,602</u>	<u>170,433,965</u>
Commitments and contingencies (Notes 9 and 10)	-	-
Shareholders' equity (Notes 11 and 12):		
Preferred stock – no par value; 10,000,000 shares authorized		
Series A, noncumulative, \$1,000 per share liquidation value, 4,000 shares issued and outstanding at December 31, 2010 and 2009 (Note 16)	3,825,134	3,787,039
Series B, noncumulative, \$1,000 per share liquidation value, 200 shares issued and outstanding at December 31, 2010 and 2009 (Note 16)	193,970	192,065
Common stock - no par value; 40,000,000 shares authorized; 2,750,000 issued and outstanding in 2010 and 2009	29,804,008	29,269,174
Accumulated deficit	(7,034,399)	(10,142,295)
Accumulated other comprehensive income, net of taxes (Note 3)	169,919	224,150
Total shareholders' equity	<u>26,958,632</u>	<u>23,330,133</u>
Total liabilities and shareholders' equity	<u>\$ 239,683,234</u>	<u>\$ 193,764,098</u>

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



STATEMENT OF OPERATIONS

For the Year Ended December 31, 2010 and 2009

	2010	2009
Interest income:		
Interest and fees on loans	\$ 8,320,135	\$ 5,927,097
Interest on investment securities	788,149	751,771
Interest on Federal funds sold	119	1,208
Interest on deposits in banks	87,600	59,385
Total interest income	9,196,003	6,739,461
Interest expense:		
Interest on deposits (Note 7)	1,227,546	1,195,283
Interest on long-term borrowings (Note 9)	326,880	151,514
Interest on short-term borrowings (Note 9)	1,489	307
Total interest expense	1,555,915	1,347,104
Net interest income before provision for loan losses	7,640,088	5,392,357
Provision for loan losses (Note 5)	2,094,697	1,256,357
Net interest income after provision for loan losses	5,545,391	4,136,000
Non-interest income:		
Service charges and fees	188,676	124,958
Net gains on sales of investment securities (Note 3)	372,895	106,971
Other	145,400	117,855
Total non-interest income	706,971	349,784
Non-interest expenses:		
Salaries and employee benefits (Notes 4 and 14)	3,589,139	3,764,291
Occupancy and equipment (Note 6)	630,254	649,679
Other (Note 15)	1,717,747	1,607,762
Total non-interest expenses	5,937,140	6,021,732
Income (loss) before provision for income taxes	315,222	(1,535,948)
(Benefit) provision for income taxes (Note 8)	(3,050,674)	800
Net Income (loss)	3,365,896	(1,536,748)
Preferred stock dividend	(218,000)	(210,733)
Income (loss) to common shareholders	\$ 3,147,896	\$ (1,747,481)
Basic and diluted income (loss) per common share	\$ 1.14	\$ (0.64)
Weighted average number of shares outstanding – basic and diluted	2,750,000	2,750,000

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



STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY AND COMPREHENSIVE INCOME (LOSS)

For the Year Ended December 31, 2010 and 2009

	Preferred Stock – Series A		Preferred Stock – Series B		Common Stock		Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Comprehensive Income (loss)
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, January 1, 2009					2,750,000	\$ 28,540,035	\$ (8,361,480)	\$ 154,782	\$ 20,333,337	
Issuance of Series A Preferred stock, net of discount (Note 16)	4,000	\$ 3,755,293							3,755,293	
Issuance of Series B Preferred stock (Note 16)			200	\$ 190,477					190,477	
Amortization of discount on Series A and discount accretion on Series B preferred stock (Note 16)							(33,334)			
Share-based compensation expense (Note 11)						729,139			729,139	
Preferred dividends (Note 16)							(210,733)		(210,733)	
Comprehensive loss: Net loss							(1,536,748)		(1,536,748)	\$ (1,536,748)
Other Comprehensive income: Net change in unrealized gains on available-for-sale investment securities, net of taxes								69,368	69,368	
Balance, December 31, 2009	4,000	3,787,039	200	192,065	2,750,000	29,269,174	(10,142,295)	224,150	23,330,133	\$ (1,467,380)

(Continued)



STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY AND COMPREHENSIVE INCOME (LOSS)

For the Year Ended December 31, 2010 and 2009 (Continued)

	Preferred Stock – Series A		Preferred Stock – Series B		Common Stock		Accum- ulated Other Compre-- hensive Income	Accum- ulated Deficit	Total Share- holders' Equity	Compre- hensive Income (loss)
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, December 31, 2009	4,000	\$ 3,787,039	200	\$ 192,065	2,750,000	\$ 29,269,174	\$ 224,150	\$ (10,142,295)	\$ 23,330,133	
Amortization of discount on Series A and discount accretion on Series B preferred stock (Note 16)		38,095		1,905				(40,000)		
Share-based compensation expense (Note 11)						534,834			534,834	
Preferred dividends (Note 16)								(218,000)	(218,000)	
Comprehensive earnings: Net Income								3,365,896	3,365,896	\$3,365,896
Other Comprehensive income (loss): Net change in unrealized gains on available-for-sale investment securities, net of taxes							(54,231)		(54,231)	(54,231)
Balance, December 31, 2010	4,000	\$ 3,825,134	200	\$ 193,970	2,750,000	\$ 29,804,008	\$ 169,919	\$ (7,034,399)	\$ 26,958,632	\$ 3,311,665

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



STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net Income (loss)	\$ 3,365,896	\$ (1,536,748)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	2,094,697	1,256,357
Deferred tax provision (benefit)	143,241	(395,591)
Change in valuation allowance on deferred tax asset	(3,439,718)	395,591
Depreciation	144,933	159,882
Deferred loan origination (costs) fees, net	(201,541)	38,221
Change in amortization (accretion) of investment security premiums (discounts), net	172,303	56,024
Share-based compensation expense	534,834	729,139
Increase in cash surrender value of life insurance	(39,967)	(18,052)
Change in amortization of discount on retained portion of sold loans	(7,290)	31,446
Gain on sale of investment securities, net	(372,895)	(106,971)
Increase in loans held for sale	(481,100)	(419,000)
Increase in accrued interest receivable and other assets	90,612	(920,255)
Increase in accrued interest payable and other liabilities	385,695	83,640
Net cash provided by (used in) operating activities	<u>2,389,700</u>	<u>(646,317)</u>
Cash flows from investing activities:		
Purchase of available-for-sale investment securities	(53,309,065)	(10,138,180)
Proceeds from sales and maturities of available-for-sale investment securities	12,458,735	18,542,967
Proceeds from principal payments on available-for-sale investment securities	7,914,836	6,317,921
Net increase in loans	(31,270,375)	(46,284,782)
Purchases of premises and equipment	(34,573)	(25,014)
Purchase of bank-owned life insurance policies	-	(1,300,000)
Purchase of Bank equity securities	(218,700)	(345,300)
Net cash used in investing activities	<u>(64,459,142)</u>	<u>(33,232,388)</u>

(Continued)



STATEMENT OF CASH FLOWS (Continued)

For the Year Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from financing activities:		
Increase in demand, interest bearing and savings deposits	\$ 24,247,569	\$ 49,942,942
Net (decrease) increase in time deposits	6,695,059	(7,779,090)
Net proceeds from sale of preferred stock	-	3,945,770
Payment of dividends on preferred stock	(218,000)	(156,233)
Proceeds from short-term borrowings	5,000,000	5,000,000
Proceeds from long-term borrowings	6,000,000	6,000,000
	<u>41,724,628</u>	<u>56,953,389</u>
Net cash provided by financing activities		
Decrease in cash and cash equivalents	(20,344,814)	23,074,684
Cash and cash equivalents at beginning of period	<u>30,568,105</u>	<u>7,493,421</u>
Cash and cash equivalents at end of period	<u>\$ 10,223,291</u>	<u>\$ 30,568,105</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 1,578,921	\$ 1,380,145
Income taxes	\$ 800	\$ 800
Non-cash investing activities:		
Net change in unrealized gains on available-for-sale investment securities	\$ (91,917)	\$ 117,573

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, Alameda and surrounding counties.

The Bank’s deposits are insured by the FDIC up to applicable legal limits. Additionally, during 2010, the Bank participated in the FDIC’s Transaction Account Guarantee Program (“TAGP”) under which all noninterest-bearing transaction accounts were fully guaranteed by the FDIC for the entire amount in the account and the Bank was assessed an annual fee of 15 basis points for all deposit amounts exceeding the existing deposit insurance limit of \$250,000. The TAGP program expired December 31, 2010 when it was replaced by provisions of the Dodd-Frank Act, which provides that all funds in noninterest-bearing transaction accounts will be fully insured from December 31, 2010 through December 31, 2012. The FDIC will not charge a separate assessment or premium for the insurance of noninterest-bearing transaction accounts under the Dodd-Frank Act.

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.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to classifications used in 2010.

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.

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.

An investment security is impaired when its carrying value is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the 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, and management does not intend to sell the security or it is more likely than not that the Bank will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that the Bank will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank of San Francisco, the Bank is required to maintain an investment in the capital stock of the Federal Home Loan Bank (the "FHLB"). The investment is carried at cost. At December 31, 2010 and 2009, the Bank's investment in FHLB stock totaled \$846,000 and \$627,300, respectively, and is included on the balance sheet in accrued interest receivable and other assets.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Investment in Other Bank Stocks*Independent Bankers Financial Corporation*

The Independent Bankers Financial Corporation (the "IBFC"), the holding company for The Independent Banker's Bank, provides services exclusively to banks. At December 31, 2010 and 2009, IBFC stock totaled \$50,419. The investment is carried at cost 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. At December 31, 2010 and 2009, PCBB stock totaled \$190,000. The investment is carried at cost and is included on the balance sheet in accrued interest receivable and other assets.

Loans

Loans are stated at principal balances outstanding, except for loans transferred from loans held for sale which are carried at the lower of principal balance or market value at the date of transfer, adjusted for accretion of discounts. 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. Interest income on impaired loans, if appropriate, is recognized on a cash basis. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

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.

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 \$3,856,000 and \$7,126,000, respectively, as of December 31, 2010 and 2009. The participated balances of these loans were sold without recourse and are not included on the Bank's balance sheet.



NOTES TO FINANCIAL STATEMENTS

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

The allowance for loan losses is an estimate of credit losses inherent in the Bank's loan portfolio that have been incurred as of the balance-sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to individually identified impaired loans and general reserves for inherent losses related to loans that are collectively evaluated for impairment.

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 principal and interest, according to the contractual terms of the original agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Bank measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Bank for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

The determination of the general reserve for loans that are collectively evaluated for impairment is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment, internal asset classifications, and qualitative factors to include economic trends in the Bank's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Bank's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

The Bank maintains a separate allowance for each portfolio segment (loan type). These portfolio segments include commercial & industrial, real estate - construction & land, real estate, real estate - home equity lines of credit ("HELOC") and installment. The allowance for loan losses attributable to each portfolio segment, which includes both impaired loans and loans that are not impaired, is combined to determine the Bank's overall allowance, which is included on the balance sheet.

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



NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

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

Real Estate - HELOC – The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Installment – An installment loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most installment loans are made directly for consumer purchases, but business loans granted for the purchase of heavy equipment or industrial vehicles may also be included. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators, the FDIC and California Department of Financial Institutions, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures

The Bank also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance-sheet commitments is included in accrued interest payable and other liabilities on the balance sheet.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Sales and Servicing of Government Guaranteed Loans

Included in the portfolio are loans which, in general, are 70 to 90 percent guaranteed by either the U.S. Department of Agriculture (the "USDA") or the Small Business Administration (the "SBA"). The guaranteed portion of these loans may be sold to a third party, with the Bank retaining the unguaranteed portion. The Bank generally receives a premium in excess of the adjusted carrying value of the loan at the time of sale. The Bank may be required to refund a portion of the sales premium if the borrower defaults or the loan prepays within ninety days of the settlement date. However, none of the premiums the Bank had received were subject to these recourse provisions as of December 31, 2010 or 2009. USDA and SBA loans held for sale at December 31, 2010 or 2009 totaled \$1,390,100 and \$909,000, respectively. The guaranteed portion of USDA and SBA loans sold, totaling approximately \$4,053,000 and \$4,072,000 were being serviced for others at December 31, 2010 and 2009, respectively.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are recorded at the difference between the contractual servicing fees and adequate compensation for performing the servicing, and are subsequently amortized in proportion to, and over the period of the related net servicing income or expense. Servicing assets are periodically evaluated for impairment. Fair values are estimated using discounted cash flows based on current market interest rates. For purposes of measuring impairment, servicing assets are stratified based on note rate and term. The amount of impairment recognized is the amount by which the servicing assets for a stratum exceed their fair value. Servicing assets totaling \$1,731 and \$2,012 associated with loans previously sold which were included in accrued interest receivable and other assets at December 31, 2010 and 2009, respectively.

In addition, assets (accounted for as interest-only (IO) strips) are recorded at the fair value of the difference between note rates and rates paid to purchasers (the interest spread) and contractual servicing fees, if applicable. IO strips are carried at fair value with gains or losses recorded as a component of shareholders' equity, similar to available-for-sale investment securities. At December 31, 2010 and 2009 no IO strips were outstanding.

The Bank's investment in the loan is allocated between the retained portion of the loan, the servicing asset, the IO strip, and the sold portion of the loan based on their relative fair values on the date the loan is sold. The gain on the sold portion of the loan is recognized as income at the time of sale. The carrying value of the retained portion of the loan is discounted based on the estimated yield of a comparable non-guaranteed loan. Significant future prepayments of these loans will result in the recognition of additional amortization of related servicing assets and an adjustment to the carrying value of related IO strips.

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.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Bank Premises and Equipment (Continued)

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.

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.

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.



NOTES TO FINANCIAL STATEMENTS

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

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, of which 147,110 shares were available for grant at December 31, 2010. 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.

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.

The Bank recognizes share-based compensation expense for all stock options and restricted stock that are ultimately expected to vest as the requisite service is rendered and considering the probability of any performance criteria being achieved.

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 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 the Bank has not paid dividends and has 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. The fair value of restricted stock awards is based on the value of the underlying shares at the date of the grant.

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 income (loss).



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Adoption of New Financial Accounting Standards*Transfers of Financial Assets*

In June 2009, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update ("ASU") 2009-16, *Accounting for Transfers of Financial Assets (Statement 166)*, which amends previously issued accounting guidance to enhance accounting and reporting for transfers of financial assets, including securitizations or continuing exposure to the risks related to transferred financial assets. Prior to the issuance of Statement 166, transfers under participation agreements and other partial loan sales fell under the general guidance for transfers of financial assets. Statement 166 introduces a new definition for a participating interest along with the requirement for partial loan sales to meet the definition of a participating interest for sale treatment to occur. If participation or other partial loan sale does not meet the definition, the portion sold should remain on the books and the proceeds recorded as a secured borrowing until the definition is met. Additionally, existing provisions that require the transferred assets to be isolated from the originating institution (transferor), that the transferor does not maintain effective control through certain agreements to repurchase or redeem the transferred assets and that the purchasing institution (transferee) has the right to pledge or exchange the assets acquired were retained. The new provisions became effective on January 1, 2010 and early adoption was not permitted. The impact of adoption was not material to the financial statements.

Fair Value Measurements

In January 2010, the FASB issued FASB ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, which amends and clarifies existing standards to require additional disclosures regarding fair value measurements. Specifically, the standard requires disclosure of the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers, the reasons for any transfers in or out of Level 3, and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. This standard clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities—previously separate fair value disclosures were required for each major category of assets and liabilities. This standard also clarifies the requirement to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. Except for the requirement to disclose information about purchases, sales, issuances, and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, these disclosures are effective for the year ended December 31, 2010. The requirement to separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements becomes effective for the Bank for the year beginning on January 1, 2011. The Bank adopted this new accounting standard as of January 1, 2010 and the impact of adoption was not material to the financial statements.



NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Disclosures about Credit Quality*

In July 2010, the FASB issued FASB ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 requires more robust and disaggregated disclosures about the credit quality of financing receivables (loans) and allowances for loan losses, including disclosure about credit quality indicators, past due information and modifications of finance receivables. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on and after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance has significantly expanded disclosure requirements related to accounting policies and disclosures related to the allowance for loan losses but did not have an impact on the Bank's financial position, results of operation or cash flows.

2. FAIR VALUE MEASUREMENTSFair Value of Financial Instruments

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

	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 10,223,291	\$ 10,223,291	\$ 30,568,105	\$ 30,568,105
Investment securities	50,359,618	50,359,618	17,315,449	17,315,449
Loans held for sale	1,390,100	1,395,653	909,000	912,237
Loans, net	170,073,533	189,012,475	140,689,024	153,465,713
Federal Home Loan Bank stock	846,000	846,000	627,300	627,300
The Independent Banker's Bank stock	50,419	50,419	50,419	50,419
Pacific Coast Banker's Bank stock	190,000	190,000	190,000	190,000
Accrued interest receivable	795,475	795,475	596,946	596,946
Bank-owned life insurance	1,358,019	1,358,019	1,318,052	1,318,052
Financial liabilities:				
Deposits	183,616,664	183,524,127	152,674,036	152,518,482
Short-term borrowings	10,000,000	10,000,000	5,000,000	5,000,000
Long-term borrowings	18,000,000	17,641,054	12,000,000	12,031,472
Accrued interest payable	7,962	7,962	30,968	30,968

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.



NOTES TO FINANCIAL STATEMENTS

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

The following methods and assumptions were used to estimate the fair value of financial instruments. For cash and cash equivalents, accrued interest receivable and payable, FHLB, IBFC and PCBB stock, demand deposits, short-term borrowings and fixed-rate 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 loans and leases, including loans held-for-sale, 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. The fair value of the Bank's investment in BOLI is its cash surrender value. 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.

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

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



NOTES TO FINANCIAL STATEMENTS

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

The following table's present information about the Bank's assets and liabilities measured at fair value on a recurring and nonrecurring basis:

Recurring Basis

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

<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2010</u>				
Available-for-sale investment securities				
Debt securities:				
U.S. Government agencies	\$ 2,001,638	\$ -	\$ 2,001,638	\$ -
U.S. Government agencies collateral- ized by mortgage obligations	20,857,980	-	20,857,980	-
Money Market mutual funds	<u>27,500,000</u>	<u>27,500,000</u>	<u>-</u>	<u>-</u>
Total assets measured at fair value on a recurring basis	<u>\$ 50,359,618</u>	<u>\$ 27,500,000</u>	<u>\$ 22,859,618</u>	<u>\$ -</u>

December 31, 2009

Available-for-sale investment securities				
Debt securities:				
U.S. Government agencies collateral- ized by mortgage obligations	<u>\$ 17,315,449</u>	<u>\$ -</u>	<u>\$ 17,315,449</u>	<u>\$ -</u>
Total assets measured at fair value on a recurring basis	<u>\$ 17,315,449</u>	<u>\$ -</u>	<u>\$ 17,315,449</u>	<u>\$ -</u>

Fair values for available-for-sale investment securities are based on quoted market prices for exact or similar securities. During the year ended December 31, 2010, there were no significant transfers in or out of Levels 1 and 2.

Fair values for debt securities of U.S. Governmental Agencies and U.S. Agency guaranteed mortgage-backed securities are based on quoted market prices for similar securities. Fair values for money market mutual funds are based on quoted market prices for exact securities.

There were no changes in the valuation techniques used during the years ended December 31, 2010 or 2009.



NOTES TO FINANCIAL STATEMENTS

2. FAIR VALUE MEASUREMENTS (Continued)*Non-recurring Basis*

The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date.

Description	Fair Value	Level 1	Level 2	Level 3
<u>December 31, 2010</u>				
Impaired loans:				
Commercial and industrial	\$ 582,717	-	-	\$ 582,717
Real estate	2,339,259	-	-	2,339,259
Total assets measured at fair value on a non-recurring basis	\$ 2,921,976	\$ -	\$ -	\$ 2,921,976

The fair value of impaired commercial and industrial loans and real estate loans is based on the fair value to the collateral for all collateral dependent loans and for other impaired loans is estimated using a discounted cash flow model.

If the Bank determines that the value of an impaired loan is less than the recorded investment in the loan, the carrying value is adjusted through a specific provision for loan losses or a charge-off recorded through the allowance for loan losses. Losses totaling \$1,142,000 were recognized as impairment charges during the year ended December 31, 2010 related to the above impaired loans, of which \$724,000 related to impaired commercial and industrial loans and \$418,000 related to impaired real estate loans. There were no impaired loans as of, or impairment charges during, the year ended December 31, 2009.

3. INVESTMENT SECURITIESAvailable-for-Sale

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2010 and 2009 consisted of the following:

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	\$ 2,000,000	\$ 1,638	\$ -	\$ 2,001,638
U.S. Government agencies collateralized by mortgage obligations	20,571,619	287,369	(1,008)	20,857,980
Other securities:				
Money Market mutual funds	27,500,000	-	-	27,500,000
	<u>\$ 50,071,619</u>	<u>\$ 289,007</u>	<u>\$ (1,008)</u>	<u>\$ 50,359,618</u>



NOTES TO FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES (Continued)Available-for-Sale (Continued)

Net unrealized gains on available-for-sale investment securities totaling \$287,999 were recorded, net of \$118,080 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2010. Unrealized holding gains arising during the year ended December 31, 2010 totaled \$660,894. Proceeds and gross realized gains from the sale of available-for-sale investment securities for the year ended December 31, 2010 totaled \$10,862,782 and \$372,895 respectively.

	2009		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
			Estimated Fair Value
Debt securities:			
U.S. Government agencies collateralized by mortgage obligations	\$ 16,935,533	\$ 379,916	\$ -
			\$ 17,315,449

Net unrealized gains on available-for-sale investment securities totaling \$379,916 were recorded, net of \$155,766 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2009. Unrealized holding gains arising during the year ended December 31, 2009 totaled \$486,887. Proceeds and gross realized gains from the sale of available-for-sale investment securities for the year ended December 31, 2009 totaled \$18,380,098 and \$106,971 respectively.

At December 31, 2010, investment securities included one U.S. Government Agency security maturing in 2012 and U.S. Government agency collateralized mortgage-backed securities with no single maturity dates. 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.

At December 31, 2010, all investment securities were pledged to secure State Treasury funds on deposit and borrowing arrangements in place at the Federal Reserve Bank of San Francisco. (See Note 9)



NOTES TO FINANCIAL STATEMENTS

4. LOANS

Outstanding loans are summarized below:

	December 31,	
	2010	2009
Commercial & industrial	\$ 74,546,021	\$ 58,259,401
Real estate – construction & land	6,837,451	15,241,727
Real estate	86,901,318	63,895,135
Real estate - HELOC	4,598,076	3,995,834
Installment	999,865	1,545,666
	<u>173,882,731</u>	<u>142,937,763</u>
Deferred loan origination costs, net	517,802	316,261
Allowance for loan losses	<u>(4,327,000)</u>	<u>(2,565,000)</u>
	<u>\$ 170,073,533</u>	<u>\$ 140,689,024</u>

Salaries and employee benefits totaling \$1,039,003 and \$752,391 were deferred as loan origination costs for the years ended December 31, 2010 and 2009, respectively.

Loans with carrying values totaling approximately \$107,417,000 were pledged to secure borrowing arrangements at December 31, 2010 (see Note 9).

5. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan and lease losses were as follows:

	Years Ended December 31,	
	2010	2009
Balance at beginning of year	\$ 2,565,000	\$ 1,400,000
Provision for loan losses	2,094,697	1,256,357
Loans charged-off	(419,297)	(91,357)
Recoveries of loans previously charged-off	86,600	-
	<u>\$ 4,327,000</u>	<u>\$ 2,565,000</u>



NOTES TO FINANCIAL STATEMENTS

5. ALLOWANCE FOR LOAN LOSSES (Continued)

The following table shows the allocation of the allowance for loan losses at and for the year ended December 31, 2010 by portfolio segment and by impairment methodology:

	Commercial & Industrial	Real Estate Construction & Land	Real Estate	Real Estate HELOC	Installment	Total
<u>Allowance for Loan Losses</u>						
Ending balance allocated to portfolio segments	<u>\$ 2,839,300</u>	<u>\$ 253,589</u>	<u>\$ 1,176,655</u>	<u>\$ 34,160</u>	<u>\$ 23,296</u>	<u>\$ 4,327,000</u>
Ending balance: individually evaluated for impairment	<u>\$ 724,000</u>	<u>\$ -</u>	<u>\$ 418,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,142,000</u>
Ending balance: collectively evaluated for impairment	<u>\$ 2,115,300</u>	<u>\$ 253,589</u>	<u>\$ 758,655</u>	<u>\$ 34,160</u>	<u>\$ 23,296</u>	<u>\$ 3,185,000</u>
<u>Loans</u>						
Ending balance	<u>\$74,546,021</u>	<u>\$ 6,837,451</u>	<u>\$86,901,318</u>	<u>\$ 4,598,076</u>	<u>\$ 999,865</u>	<u>\$173,882,731</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,306,717</u>	<u>\$ -</u>	<u>\$ 2,757,259</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,063,976</u>
Ending balance: collectively evaluated for impairment	<u>\$73,239,304</u>	<u>\$ 6,837,451</u>	<u>\$84,144,059</u>	<u>\$ 4,598,076</u>	<u>\$ 999,865</u>	<u>\$169,818,755</u>

The following table shows the loan portfolio allocated by management's internal risk ratings at December 31, 2010:

	Credit Exposure Credit Risk Profile by Internally Assigned Grade					
	Commercial & Industrial	Real Estate Construction & Land	Real Estate	Real Estate HELOC	Installment	Total
Grade:						
Pass	\$68,609,384	\$ 6,837,451	\$78,730,518	\$ 4,598,076	\$ 999,865	\$158,176,874
Special Mention	2,647,349	-	4,626,536	-	-	7,273,885
Substandard	3,289,288	-	3,544,264	-	-	8,431,972
Total	<u>\$74,546,021</u>	<u>\$ 6,837,451</u>	<u>\$86,901,318</u>	<u>\$ 4,598,076</u>	<u>\$ 999,865</u>	<u>\$173,882,731</u>



NOTES TO FINANCIAL STATEMENTS

5. ALLOWANCE FOR LOAN LOSSES (Continued)

The following table shows an aging analysis of the loan portfolio by the time past due at December 31, 2010:

	<u>30-89 Days Past Due</u>	<u>90 Days and Still Accruing</u>	<u>Nonaccrual</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total</u>
Commercial & Industrial	\$ -	\$ -	\$ 1,042,000	\$ 1,042,000	\$ 73,504,021	\$ 74,546,021
Real Estate – Construction & Land	-	-	-	-	6,837,451	6,837,451
Real Estate	1,770,348	-	986,911	2,757,259	84,144,059	86,901,318
Real Estate - HELOC	-	-	-	-	4,598,076	4,598,076
Installment	-	-	-	-	999,865	999,865
Total	<u>\$ 1,770,348</u>	<u>\$ -</u>	<u>\$ 2,028,911</u>	<u>\$ 3,799,259</u>	<u>\$171,473,572</u>	<u>\$173,882,731</u>

The following table shows information related to impaired loans at and for the year ended December 31, 2010:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial & Industrial	\$ 292,000	\$ 292,000	\$ -	\$ 164,000	\$ -
Real Estate	986,911	986,911	-	-	-
With an allowance recorded:					
Commercial & Industrial	1,014,717	1,014,717	724,000	603,507	44,664
Real Estate	1,770,348	1,770,348	418,000	446,225	98,578
Total:					
Commercial & Industrial	\$ 1,306,717	\$ 1,306,717	\$ 724,000	\$ 767,507	\$ 44,664
Real Estate	\$ 2,757,259	\$ 2,757,259	\$ 418,000	\$ 446,225	\$ 98,578

The Bank does not have commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings. Interest forgone on nonaccrual loans totaled \$128,248 for the year ended December 31, 2010. As of and during the year ended December 31, 2009, the Bank had no impaired loans or loans placed on nonaccrual status.

6. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Furniture, fixtures and equipment	\$ 608,452	\$ 584,532
Leasehold improvements	144,035	133,382
	752,487	717,914
Less accumulated depreciation and amortization	(477,144)	(332,211)
	<u>\$ 275,343</u>	<u>\$ 385,703</u>

Depreciation and amortization included in occupancy and equipment expense totaled \$144,933 and \$159,882, respectively, for 2010 and 2009.



NOTES TO FINANCIAL STATEMENTS

7. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2010	2009
Savings	\$ 9,625,224	\$ 7,061,028
Money market	88,167,095	72,325,767
Interest-bearing demand accounts	5,017,094	4,847,819
Time, \$100,000 or more	38,694,223	32,326,515
Other time	1,022,351	695,000
	<u>\$ 142,525,987</u>	<u>\$ 117,256,129</u>

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2011	\$ 38,879,361
2012	736,291
2013	<u>100,922</u>
	<u>\$ 39,716,574</u>

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2010 and 2009 consisted of the following:

	Year Ended December 31,	
	2010	2009
Savings	\$ 91,674	\$ 63,358
Money market	830,122	781,151
Interest-bearing demand accounts	22,235	26,207
Time, \$100,000 or more	270,701	315,963
Other time	12,814	8,604
	<u>\$ 1,227,546</u>	<u>\$ 1,195,283</u>



NOTES TO FINANCIAL STATEMENTS

8. INCOME TAXES

The provision for income taxes for the years ended December 31, 2010 and 2009 consisted of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2010</u>			
Current	\$ -	\$ 245,803	\$ 245,803
Deferred	307,851	(164,610)	143,241
Decrease in valuation allowance	<u>(2,711,967)</u>	<u>(727,751)</u>	<u>(3,439,718)</u>
Benefit for income taxes	<u><u>\$ (2,404,116)</u></u>	<u><u>\$ (646,558)</u></u>	<u><u>\$ (3,050,674)</u></u>
	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2009</u>			
Current	\$ -	\$ 800	\$ 800
Deferred	(291,720)	(103,871)	(395,591)
Decrease in valuation allowance	<u>291,720</u>	<u>103,871</u>	<u>395,591</u>
Benefit for income taxes	<u><u>\$ -</u></u>	<u><u>\$ 800</u></u>	<u><u>\$ 800</u></u>

The Bank's reported amount of income tax expense differs from federal statutory rates due principally to California franchise taxes and the decrease in the valuation allowance on its deferred tax assets.

Deferred tax assets (liabilities) consisted of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Net operating losses	\$ 1,195,390	\$ 1,965,916
Share-based compensation	166,824	142,307
Organization costs	352,928	383,507
Allowance for loan losses	1,421,193	835,135
State deferred tax asset	731,209	622,567
Other	<u>19,266</u>	<u>1,766</u>
Deferred tax assets before valuation allowance	3,886,810	3,951,198
Valuation allowance	<u>(141,979)</u>	<u>(3,581,697)</u>
Total deferred tax assets	<u>3,744,831</u>	<u>369,501</u>
Deferred tax liabilities:		
Accrual to cash conversion	(102,797)	(102,666)
Deferred loan origination costs	(344,571)	(265,668)
Premises and equipment	-	(181)
Unrealized gain on available-for-sale investment securities	(118,080)	(155,766)
Other	<u>(986)</u>	<u>(986)</u>
Total deferred tax liabilities	<u>(566,434)</u>	<u>(525,267)</u>
Net deferred tax assets (liabilities)	<u><u>\$ 3,178,397</u></u>	<u><u>\$ (155,766)</u></u>



NOTES TO FINANCIAL STATEMENTS

8. INCOME TAXES (Continued)

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded, if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed.

Included in the valuation allowance against the deferred tax assets is the loss on sale of FNMA Preferred Stock at December 31, 2010 and 2009. The loss on the preferred shares was accorded ordinary treatment for federal income tax purposes, but 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 \$141,979 as of December 31, 2010.

Based upon its analysis of available evidence, management determined that it is "more likely than not" that all of the Bank's deferred income tax assets would be fully realized, therefore, the valuation allowance of \$3,439,718 related to all of the Bank's net deferred tax assets, other than the deferred tax assets associated with the loss on the sale of FNMA Preferred Stock described above, was reversed during the year ended December 31, 2010. In making this determination, management concluded that future earnings would be sufficient to realize the benefit from the Bank's deferred tax assets.

At December 31, 2010, the Bank had Federal and State net operating loss carry-forwards (NOLs) of \$3,515,852 and \$3,782,070, respectively. The Federal and State NOLs begin to expire in 2027 and 2019, 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. 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, 2010 and 2009, there were no unrecognized tax benefits or interest and penalties accrued by the Bank.

9. BORROWING ARRANGEMENTS

The Bank has \$18,000,000 in unsecured borrowing arrangements with four of its correspondent banks to meet short-term liquidity needs. In a separate agreement, the Bank can borrow up to the lesser of \$8,000,000 or the total market value of securities pledged to a correspondent bank under a repurchase agreement. At December 31, 2010 and 2009, there were no investment securities pledged to the correspondent bank under this agreement. There were no borrowings outstanding under these arrangements at December 31, 2010 and \$5,000,000 in borrowings outstanding under these arrangements at December 31, 2009.



NOTES TO FINANCIAL STATEMENTS

9. BORROWING ARRANGEMENTS (Continued)

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, 2010, amounts pledged and available under such limits were approximately \$50,606,000. There were \$10,000,000 in over-night borrowings outstanding under this arrangement as of December 31, 2010, at a fixed interest rate of 0.75%.

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, 2010, amounts pledged and available borrowing capacity under such limits were approximately \$19,010,000 and \$1,010,000, respectively. There were \$18,000,000 in borrowings outstanding under this arrangement at fixed interest rates ranging from 0.69% to 2.79% at December 31, 2010, with an average maturity of approximately 2.2 years. The average interest rate on these borrowings was 2.00%.

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.

Future minimum lease payments are as follows:

Year Ending December 31,	
2011	\$ 405,765
2012	414,990
2013	424,755
2014	434,970
2015	184,950
Thereafter	-
	<u>\$ 1,865,430</u>

Rental expense included in occupancy and equipment expense totaled \$408,276 and \$408,276 for the years ended December 31, 2010 and 2009, respectively.



NOTES TO FINANCIAL STATEMENTS

10. COMMITMENTS AND CONTINGENCIES (Continued)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,	
	2010	2009
Commitments to extend credit	\$ 60,141,000	\$ 62,082,000
Standby letters of credit	\$ 2,960,000	\$ 1,352,000

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.

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, 2010 and 2009. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

Commercial loan commitments represent approximately 84% 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 10% 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.



NOTES TO FINANCIAL STATEMENTS

10. COMMITMENTS AND CONTINGENCIES (Continued)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 58% of the Bank's loan portfolio at both December 31, 2010 and 2009. 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.

Deposit Concentrations

At December 31, 2010, only one deposit relationship, a time deposit in the amount of \$15,000,000, or 8.2% of total deposits, exceeded 5% of total deposits. If this time deposit, which is collateralized, were not renewed, the underlying investment securities providing the collateral would become available to pledge as collateral elsewhere.

At December 31, 2009, approximately \$34,549,000, or 22.6% of total deposits were from three customers whose individual deposit relationships each exceeded 5% of total deposits. The loss of these relationships could have a material impact on the Bank's operations and liquidity. Management attempts to mitigate this risk by working directly with these depositors and by maintaining sufficient liquidity to manage fluctuations in current balances within these larger relationships.

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. Although not all of the Bank's correspondent banks have elected to participate in the FDIC sponsored Transaction Account Guarantee Program ("TAGP"), insured financial institution deposits up to \$250,000 are fully insured by the FDIC under the FDIC's general deposit insurance rules. Under the TAGP program, through December 31, 2012, all noninterest-bearing transaction accounts were fully guaranteed by the FDIC for the entire balance in the account above \$250,000. As a result of these coverage limitations, deposits at one correspondent bank totaling about \$352,000 were not fully insured as of December 31, 2010. There were no uninsured deposits with correspondent banks at December 31, 2009. 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.



NOTES TO FINANCIAL STATEMENTS

11. SHARE-BASED COMPENSATIONStock 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 years ended December 31, 2010 and 2009, the compensation cost recognized for stock option compensation was \$534,834 and \$729,139, respectively.

A summary of option activity under the Plan for the years ended December 31, 2010 and 2009 is presented below:

<u>Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>
Outstanding at January 1, 2009	609,500	\$ 10.01	8.61
Granted	58,647	\$ 7.61	
Forfeited	(7,444)	\$ 10.48	
Outstanding at December 31, 2009	<u>660,703</u>	<u>\$ 9.79</u>	<u>7.81</u>
Vested or expected to vest at December 31, 2009	<u>644,671</u>	<u>\$ 9.79</u>	<u>7.81</u>
Exercisable at December 31, 2009	<u>487,381</u>	<u>\$ 10.01</u>	<u>7.59</u>
Outstanding at December 31, 2009	660,703	\$ 9.79	7.81
Granted	24,993	\$ 6.86	
Forfeited	(7,806)	\$ 10.00	
Outstanding at December 31, 2010	<u>677,890</u>	<u>\$ 9.68</u>	<u>6.91</u>
Vested or expected to vest at December 31, 2010	<u>673,964</u>	<u>\$ 9.69</u>	<u>6.90</u>
Exercisable at December 31, 2010	<u>612,690</u>	<u>\$ 9.93</u>	<u>6.68</u>



NOTES TO FINANCIAL STATEMENTS

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

As of December 31, 2010, the unrecognized compensation cost related to non-vested stock option awards totaled \$243,732. That cost is expected to be amortized on a straight-line basis over a weighted average period of 2.04 years and will be adjusted for subsequent changes in estimated forfeitures.

At December 31, 2010, there was no intrinsic value associated with outstanding stock option awards.

The following information relates to stock option grants granted during the years ended December 31, 2010 and 2009:

	2010	2009
Weighted average grant date fair value per share of options granted	\$ 3.59	\$ 5.03
Significant fair value assumptions:		
Expected term in years	6 years	6 years
Expected annual volatility	53.96%	74.23%
Expected annual dividend yield	0%	0%
Risk-free interest rate	2.12%	2.25%

Restricted Stock Award

During 2010, the Bank granted one award of 3,243 shares of restricted stock under the Plan with a grant date fair value of \$7.00 per share. Compensation cost of \$1,948 was recognized for the year ended December 31, 2010. As of December 31, 2010, the unrecognized compensation cost related to non-vested restricted stock awards totaled \$10,213. That cost is expected to be amortized over 2.6 years and will be adjusted for subsequent changes in forfeitures. None of the restricted stock was vested as of December 31, 2010 and there were no restricted stock awards at December 31, 2009.

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, 2010, 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.



NOTES TO FINANCIAL STATEMENTS

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

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, 2010 and 2009.

	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>Leverage Ratio</u>				
California Bank of Commerce	\$ 24,361,000	10.7%	\$ 23,106,000	12.8%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	\$ 11,347,000	5.00%	\$ 9,040,000	5.0%
Minimum regulatory requirement	\$ 9,078,000	4.00%	\$ 7,233,000	4.0%
<u>Tier 1 Risk-Based Capital Ratio</u>				
California Bank of Commerce	\$ 24,361,000	10.8%	\$ 23,106,000	13.4%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	\$ 13,538,000	6.00%	\$ 10,337,000	6.0%
Minimum regulatory requirement	\$ 9,025,000	4.00%	\$ 6,891,000	4.0%
<u>Total Risk-Based Capital Ratio</u>				
California Bank of Commerce	\$ 27,200,000	12.1%	\$ 25,265,000	14.7%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	\$ 22,563,000	10.0%	\$ 17,228,000	10.0%
Minimum regulatory requirement	\$ 18,050,000	8.0%	\$ 13,782,000	8.0%



NOTES TO FINANCIAL STATEMENTS

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.

The following is a summary of the aggregate activity involving related party borrowers during the year ended December 31, 2010:

Balance, December 31, 2009	\$ 7,991,421
Disbursements	3,730,483
Amounts participated with other banks	-
Amounts repaid	7,366,562
Balance, December 31, 2010	\$ 4,355,342
Undisbursed commitments to related parties, December 31, 2010	\$ 1,302,567

At December 31, 2010, the Bank's deposits from related parties totaled \$4,956,000.

The Bank also leases its office from a company owned by a member of the Board of Directors. Rental payments under this agreement totaled \$431,368 for the year ended December 31, 2010 and \$427,391 for the year ended December 31, 2009.

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 401(k) 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 401(k) Plan during the years ended December 31, 2010 or 2009.

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 years ended December 31, 2010 and 2009 totaled \$57,025 and \$50,782, respectively. Accrued compensation payable under the salary continuation plan totaled \$192,799 and \$135,774 at December 31, 2010 and 2009, respectively, and is included in accrued interest payable and other liabilities on the Bank's balance sheet.



NOTES TO FINANCIAL STATEMENTS

15. OTHER EXPENSES

Other expenses for the years ended December 31, 2010 and 2009 consisted of the following:

	2010	2009
Outsourced data processing and electronic banking	\$ 262,671	\$ 224,109
Computer network and internet support	165,913	177,222
Director's stock-based compensation	102,574	169,625
Professional fees	214,214	201,618
Bank Insurance	49,994	38,286
Advertising, promotion and business development	183,012	165,412
Regulatory fees	376,625	337,590
Provision for unfunded loan commitments	-	(25,000)
Correspondent Bank service charges	81,224	74,779
Other operating expenses	281,520	244,121
	<u>\$ 1,717,747</u>	<u>\$ 1,607,762</u>

16. PREFERRED STOCK

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"), which were issued to the United States Department of the Treasury in exchange for warrants to purchase 200.002 shares of Preferred Stock with a liquidation value of \$1,000 per share. Costs incurred by the Bank for the issuance of the Series A and Series B Preferred Stock totaled \$54,230.

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 Series B Preferred will qualify as Tier 1 capital and will pay non-cumulative dividends quarterly 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 Stock and the Series B Preferred Stock were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. Neither the Series A nor the Series B Preferred Stock will be subject to any contractual restrictions on transfer, except that the Treasury and its transferees shall not effect any transfer of the Series A or Series B Preferred Stock which would require us to become subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act.



NOTES TO FINANCIAL STATEMENTS

16. PREFERRED STOCK (Continued)

The Series A Preferred and Series B Preferred are 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.

With respect to dividends on our common stock, the Treasury's consent shall be required for any increase in common dividends per share until the third anniversary of the date of its investment, unless prior to such third anniversary the Series A Preferred Stock and the Warrant Preferred are redeemed in whole or the Treasury has transferred all of the Series A Preferred Stock and Warrant Preferred to third parties. After the third anniversary and prior to the tenth anniversary, the Treasury's consent shall be required for any increase in aggregate common dividends per share greater than 3% per annum; provided that no increase in common dividends may be made as a result of any dividend paid in common shares, any stock split or similar transaction. After the tenth anniversary, we are prohibited from paying common dividends or repurchasing any equity securities or trust preferred securities until all equity securities held by the Treasury are redeemed in whole or the Treasury has transferred all of such equity securities to third parties.

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.

The Bank recorded a discount on the Series A Preferred Stock at approximately the liquidation preference of the Series B Preferred Stock. The discount recorded on the Series A Preferred Stock will be amortized on the level-yield method over 5 years.

17. SUBSEQUENT EVENTS

Management has reviewed all events occurring from December 31, 2010 through March 21, 2011, the date the financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.





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