

SUTTER COMMUNITY BANK

Independent Auditor's Report

and

Financial Statements

**For the period from June 19, 2006
(Date operations commenced) through
December 31, 2006**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sutter Community Bank

We have audited the accompanying balance sheet of Sutter Community Bank (the Bank) as of December 31, 2006, and the related statement of operations, changes in shareholders' equity and cash flows for the period from June 19, 2006 (date operations commenced) through December 31, 2006. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Sutter Community Bank as of December 31, 2006, and the results of its operations and its cash flows for the period from June 19, 2006 (date operations commenced) through December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Stockton, California
March 29, 2007

SUTTER COMMUNITY BANK

SUTTER COMMUNITY BANK
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

Cash and due from banks	\$ 2,185,703
Federal funds sold	<u>5,060,000</u>
Cash and cash equivalents	7,245,703
Loans, net	17,179,325
Premises and equipment, net	597,068
Interest receivable and other assets	<u>186,539</u>
	<u>\$ 25,208,635</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits	\$ 17,216,952
Interest payable and other liabilities	<u>217,574</u>
Total liabilities	<u>17,434,526</u>
Commitments and contingencies (Notes 9 and 11)	
Shareholders' equity	
Preferred stock, no par value, 5,000,000 shares authorized; no shares issued or outstanding	-
Common stock, no par value, 5,000,000 shares authorized; 951,678 shares issued and outstanding at December 31, 2006	9,478,418
Accumulated deficit	<u>(1,704,309)</u>
Total shareholders' equity	<u>7,774,109</u>
	<u>\$ 25,208,635</u>

SUTTER COMMUNITY BANK
STATEMENT OF OPERATIONS
PERIOD FROM JUNE 19, 2006 (DATE OPERATIONS COMMENCED)
THROUGH DECEMBER 31, 2006

INTEREST INCOME	
Interest and fees on loans	\$ 474,503
Interest on federal funds sold	268,193
	742,696
INTEREST EXPENSE	
Interest expense on deposits	178,075
Interest expense on borrowings	933
	179,008
Net interest income	563,688
PROVISION FOR LOAN LOSSES	217,530
Net interest income after provision for loan losses	346,158
NONINTEREST INCOME	
Service charges on deposits	9,338
Other operating income	7,835
	17,173
NONINTEREST EXPENSES	
Salaries and employee benefits	705,497
Professional fees	161,783
Occupancy expense	149,906
Data processing fees	139,019
Advertising and promotion	104,589
Supplies expense	29,164
Transportation and communication expense	21,971
Insurance expense	15,151
Other operating expenses	15,214
	1,342,294
NET LOSS	\$ (978,963)
NET LOSS PER SHARE – BASIC AND DILUTED	\$ (1.03)
WEIGHTED AVERAGE SHARES OUTSTANDING	951,678

SUTTER COMMUNITY BANK
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
PERIOD FROM JUNE 19, 2006 (DATE OPERATIONS COMMENCED)
THROUGH DECEMBER 31, 2006

	<u>Common Stock</u>		<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Deficit</u>	
Pre-opening expenses	-	\$ -	\$ (725,346)	\$ (725,346)
Issuance of common stock, net of stock offering expenses of \$38,362	951,678	9,478,418	-	9,478,418
Net loss	<u>-</u>	<u>-</u>	<u>(978,963)</u>	<u>(978,963)</u>
Balances at December 31, 2006	<u>951,678</u>	<u>\$ 9,478,418</u>	<u>\$ (1,704,309)</u>	<u>\$ 7,774,109</u>

SUTTER COMMUNITY BANK
STATEMENT OF CASH FLOWS
PERIOD FROM JUNE 19, 2006 (DATE OPERATIONS COMMENCED)
THROUGH DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (978,963)
Adjustments to reconcile net earnings to net cash from operating activities:	
Depreciation and amortization of premises and equipment	108,296
Provision for loan losses	217,530
Increase in interest payable and other liabilities	147,032
Increase in interest receivable and other assets	<u>(150,481)</u>
Net cash from operating activities	<u>(656,586)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Net increase in loans	(17,396,855)
Purchase of FHLB stock	(400)
Purchase of premises and equipment	<u>(424,148)</u>
Net cash from investing activities	<u>(17,821,403)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Net increase in demand deposits and savings accounts	10,768,326
Net increase in time deposits	6,448,626
Repayment of loan from organizers	(400,000)
Repayment of other borrowings	<u>(700,000)</u>
Net cash from financing activities	<u>16,116,952</u>

NET DECREASE IN CASH

AND CASH EQUIVALENTS	(2,361,037)
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CASH AND CASH EQUIVALENTS, date operations commenced

9,606,740

CASH AND CASH EQUIVALENTS, end of period

\$ 7,245,703

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 68,253
Income taxes	\$ -

SUTTER COMMUNITY BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Sutter Community Bank (the Bank) conform with generally accepted accounting principles and general practices within the banking industry. A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

On December 15, 2005, the California Commissioner of Financial Institutions approved the Bank's application for organization. The Bank also received conditional approval of an application that it filed for insurance of bank deposit accounts with the Federal Deposit Insurance Corporation (FDIC). The state chartered bank was incorporated under the laws of the state of California on December 19, 2005, and opened for business on June 19, 2006. The Bank offers traditional commercial banking products and services to businesses and individuals through one branch located in Sutter County.

Estimates – In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, amounts due from banks, money market funds, and federal funds sold. Generally, federal funds are sold for one-day periods. The Bank maintains the minimum required amount of funds on deposit with other federally insured financial institutions under correspondent banking agreements. Generally, banks are required to maintain non-interest bearing cash reserves equal to a percentage of certain deposits. At times throughout the year, balances can exceed FDIC insurance limits. For the period ended December 31, 2006, no reserve balance was required.

Loans and allowance for loan losses – Loans are reported at the principal amount outstanding, net of deferred loan fees and costs and the allowance for loan losses. Unearned discounts on installment loans are recognized as income over the terms of the loans. Interest on other loans is calculated by using the simple interest method on the daily balance of the principal amount outstanding.

Loan fees, net of certain direct costs of origination, are deferred and amortized over the contractual term of the loan as an adjustment to the interest yield. During the period from June 19, 2006 (date operations commenced) through December 31, 2006, salaries, employee benefits, and other expenses totaling \$44,501 were deferred as loan origination costs.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and allowance for loan losses – (continued)

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full and timely collection of interest or principal or when a loan becomes contractually past due by ninety days or more with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

The allowance for loan losses is established through a provision for loan losses charged to operations. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. Subsequent recoveries of previously charged off amounts, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. Impaired loans, as defined, are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. The general component relates to non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

SUTTER COMMUNITY BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and allowance for loan losses – (continued)

The Bank considers a loan impaired when it is probable that all amounts of principal and interest due, according to the contractual terms of the loan agreement, will not be collected, which is the same criteria used for the transfer of loans to non-accrual status. Interest income is recognized on impaired loans in the same manner as non-accrual loans. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Premises and equipment – Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. The estimated lives used in determining depreciation are:

Equipment	2 – 5 years
Furniture and fixtures	2 – 5 years
Leasehold improvements	3 – 4 years

Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease. The straight-line method of depreciation is followed for all assets for financial reporting purposes, but accelerated methods are used for tax purposes. Deferred income taxes have been provided for the resulting temporary differences.

Income taxes – The Bank uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis (temporary differences). Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes in the period of enactment.

A valuation allowance is established to the extent that it is more likely than not that the benefits associated with the deferred tax assets will not be fully realized.

Net loss per common share – Net loss per common share is calculated using the weighted average number of common shares outstanding during the period.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pre-opening activities – During the organizational period, the Bank incurred the following pre-opening expenses:

Salaries and benefits	\$ 369,593
Consulting and professional fees	236,653
Rent and occupancy expense	102,760
Other, net	<u>16,340</u>
 Total pre-opening expenses	 <u><u>\$ 725,346</u></u>

Interest earned on the funds provided by organizers and the proceeds from the sale of common stock totaling \$71,916 was used to offset pre-opening expenses. Net pre-opening expenses totaling \$725,346 were charged to the accumulated deficit at the date the Bank commenced operations. Cash flows from pre-opening activities were as follows:

Net pre-opening expenses	\$ (725,346)
Stock issuance proceeds, net of offering costs	9,478,418
Purchase of leasehold improvements, furniture, and equipment	(281,216)
Other assets	(35,658)
Accrued expenses	70,542
Loan from organizers	400,000
Bank borrowings	<u>700,000</u>
 Cash and cash equivalents at date operations commenced	 <u><u>\$ 9,606,740</u></u>

Transfers 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 to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that contain 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.

Advertising costs – The Bank expenses marketing costs as they are incurred. Advertising expense was \$49,951 for the period from June 19, 2006 (date operations commenced) through December 31, 2006.

SUTTER COMMUNITY BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock based compensation – The Bank adopted the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123R, *Share Based Payments*, a revision to the previously issued guidance on accounting for stock options and other forms of equity-based compensation. SFAS No. 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based forms of compensation issued to employees and directors over the requisite service period (generally the vesting period).

Upon obtaining regulatory approval on February 13, 2007, the Bank granted 101,546 incentive based stock options and 155,520 non-qualified stock options to the employees and directors of the Bank. The granted options vest over three years and have an estimated grant date fair value of \$787,389.

NOTE 2 – CASH AND DUE FROM BANKS

Cash and due from banks includes balances with the Federal Reserve and other correspondent banks. The Bank is required to maintain specified reserves by the Federal Reserve Bank. The average reserve requirements are based on a percentage of the Bank’s deposit liabilities. At December 31, 2006, no reserve was required. At December 31, 2006, the Bank had cash deposits at other financial institutions in excess of the FDIC insured limits. However, as the Bank places these deposits with major financial institutions, management believes the risk of loss to be minimal.

NOTE 3 – LOANS

Major classifications of loans at December 31, 2006, are as follows:

Commercial	\$ 3,389,324
Commercial real estate	5,315,312
Construction and land development	2,760,962
Residential real estate	768,947
Agricultural production, land, and equipment	4,789,767
Consumer and other	386,243
	<hr/>
	17,410,555
Allowance for loan losses	(217,530)
Deferred loan fees and costs, net	(13,700)
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	<u>\$ 17,179,325</u>

SUTTER COMMUNITY BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 3 – LOANS (CONTINUED)

The Bank's customers are primarily located in Sutter County. Approximately 22% of the Bank's loans are for general commercial uses including professional, retail, and small business. Approximately 31% of the Bank's loans are commercial real estate loans. Additionally, 16% of the Bank's loans are for real estate construction for residential and commercial real estate. The remaining 31% are in residential real estate, agriculture, and consumer loans. Generally, real estate loans are collateralized by real property while commercial and other loans are collateralized by funds on deposit, business, or personal assets. Repayment is generally expected from the proceeds of the sales of property for real estate construction loans and from cash flows of the borrower for other loans.

Changes in the allowance for loan losses as of December 31, 2006, are as follows:

Balance, beginning of period	\$ -
Provision for loan losses	217,530
Loans charged off	-
Recoveries of loans previously charged off	-
Balance, end of period	<u><u>\$ 217,530</u></u>

There were no impaired loans at December 31, 2006, and no loans were considered to be impaired during the period from June 19, 2006 (date operations commenced) through December 31, 2006. In addition, no loans were placed on non-accrual status and no loans were past due greater than 90 days and still accruing interest at December 31, 2006.

NOTE 4 – PREMISES AND EQUIPMENT

Premises and equipment consists of the following at December 31, 2006:

Furniture, fixtures, and equipment	\$ 218,506
Computer software	223,285
Leasehold improvements	<u>263,573</u>
	705,364
Less accumulated depreciation and amortization	<u>(108,296)</u>
	<u><u>\$ 597,068</u></u>

Depreciation and amortization expense totaled \$108,296 for the period from June 19, 2006 (date operations commenced) through December 31, 2006.

SUTTER COMMUNITY BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 5 – INTEREST RECEIVABLE AND OTHER ASSETS

Interest receivable and other assets are as follows:

Accrued interest and fees – loans	\$ 134,347
Federal Home Loan Bank stock	400
Prepaid expenses and other assets	<u>51,792</u>
	<u>\$ 186,539</u>

NOTE 6 – DEPOSITS

Customer deposits are as follows:

Demand, non-interest bearing	\$ 3,701,756
Money market	4,188,043
NOW	1,378,873
Savings	1,499,654
Time – less than \$100,000	3,066,337
Time – greater than \$100,000	<u>3,382,289</u>
	<u>\$ 17,216,952</u>

Certificates of deposit issued and their remaining maturities as of December 31, 2006, are as follows:

Year ending December 31,

2007	\$ 5,853,277
2008	433,011
2009	118,133
2010	-
2011	<u>44,205</u>
	<u>\$ 6,448,626</u>

SUTTER COMMUNITY BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 6 – DEPOSITS (CONTINUED)

Interest expense, net of early withdrawal penalty, recognized on interest-bearing deposits for the period from June 19, 2006 (date operations commenced) through December 31, 2006, consisted of the following:

Interest-bearing checking	\$ 1,252
Savings and club	2,998
Money market	34,354
Time deposits less than \$100,000	68,349
Time deposits greater than \$100,000	<u>71,122</u>
 Total interest expense on deposits	 <u><u>\$ 178,075</u></u>

NOTE 7 – INCOME TAXES

Deferred tax assets at December 31, 2006, consisted of the following:

Deferred tax assets:	
Net operating losses	\$ 403,000
Accumulated depreciation	5,000
Allowance for loan loss	<u>71,000</u>
	<u>479,000</u>
 Deferred tax liabilities:	
Accrual to cash	(48,000)
Organization and start-up costs	(11,000)
Deferred loan fees	<u>(18,000)</u>
	(77,000)
 Valuation allowance	 <u>(402,000)</u>
 Net deferred income tax asset	 <u><u>\$ -</u></u>

SUTTER COMMUNITY BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 7 – INCOME TAXES (CONTINUED)

As of December 31, 2006, a valuation allowance equal to the amount of realizable deferred tax assets was recorded based on the determination that the Bank is more likely than not unable to utilize the deferred tax assets. At December 31, 2006, the Bank has federal and state net operating loss carryforwards totaling approximately \$979,000, respectively. These net operating loss carryforwards will expire in 2026 for federal income tax purposes and in 2016 for state income tax purposes if not previously utilized. Utilization of the net operating loss may be subject to substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of net operating loss carryforwards before utilization.

NOTE 8 – FINANCIAL INSTRUMENTS

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans or through standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

	<u>Contract Amount</u>
Financial instruments whose contract amounts represent credit risk:	
Undisbursed loan commitments	\$ 2,826,749
Overdraft protection	<u>131,830</u>
	<u>\$ 2,958,579</u>

NOTE 8 – FINANCIAL INSTRUMENTS (CONTINUED)

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 many 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. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

NOTE 9 – RELATED-PARTY TRANSACTIONS

The Bank, in the normal course of business, makes loans to and receives deposits from its directors, officers, principal shareholders, and their associates. In management's opinion, these transactions are on substantially the same terms as comparable transactions with other customers of the Bank.

The Bank's related party loan activity at December 31, 2006, is summarized below:

Aggregate amount outstanding, date operations commenced	\$ -
New loans or advances during the period	181,671
Repayments during the period	<u>-</u>
Aggregate amount outstanding, December 31, 2006	<u><u>\$ 181,671</u></u>
Loan commitments	<u><u>\$ 376,000</u></u>

Related party deposits amounted to \$2,401,564 as of December 31, 2006.

SUTTER COMMUNITY BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Bank is obligated for rental payments under certain operating lease agreements, some of which contain renewal options and escalation clauses that provide for increased rentals. Total rental expenses for the period from June 19, 2006 (date operations commenced) through December 31, 2006, was \$43,800.

As of December 31, 2006, the future minimum rental payments under noncancellable operating leases are as follows:

<u>Year ending December 31,</u>	
2007	\$ 93,000
2008	97,200
2009	<u>49,200</u>
	<u>\$ 239,400</u>

The Bank has an unsecured federal funds line totaling \$2 million with its correspondent bank, Pacific Coast Bankers' Bank. There were no amounts outstanding under these facilities at December 31, 2006.

NOTE 11 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

NOTE 11– REGULATORY MATTERS (CONTINUED)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2006, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2006, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The Bank’s actual capital amounts and ratios are presented in the following table.

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
As of December 31, 2006:						
Total Capital (to Risk- Weighted Assets)	\$ 7,992	34.6%	\$ 1,849	≥8.0%	\$ 2,311	≥10.0%
Tier I Capital (to Risk- Weighted Assets)	\$ 7,774	33.6%	\$ 924	≥4.0%	\$ 1,387	≥ 6.0%
Tier I Capital (to Average Assets)	\$ 7,774	38.4%	\$ 809	≥4.0%	\$ 1,011	≥ 5.0%

The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lessor of the Bank’s retained earnings or 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, 2006, no amounts were available for dividend distributions.