COMMUNITY BUSINESS BANK

FINANCIAL STATEMENTS

December 31, 2011 and 2010

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

The Shareholders and
Board of Directors
Community Business Bank
West Sacramento, California

We have audited the accompanying balance sheet of Community Business Bank as of December 31, 2011 and the related statements of income, changes in shareholders' equity and comprehensive income and cash flows for the year 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 audit. The 2010 financial statements of Community Business Bank were audited by Perry-Smith LLP, who combined with Crowe Horwath LLLP as of November 1, 2011, and whose report dated March 23, 2011 expressed an unqualified opinion on those financial statements.

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 2011 financial statements referred to above present fairly, in all material respects, the financial position of Community Business Bank as of December 31, 2011 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
February 16, 2012

COMMUNITY BUSINESS BANK

BALANCE SHEETS

December 31, 2011 and 2010

	2011	2010
ASSETS		
Cash and due from banks (includes interest bearing deposits of $3,000,000 in 2011)	$ 7,782,250	$ 1,951,742
Federal funds sold	9,645,000	6,730,000
Cash and cash equivalents	17,427,250	8,681,742
Interest bearing deposits at other banks	4,498,000	2,489,766
Available-for-sale investment securities (Notes 2 and 3)	21,129,488	18,888,540
Loans, less allowance for loan losses of $2,220,052 in 2011 and $2,147,257 in 2010 (Notes 2, 4, 9, 10 and 13)	104,966,999	107,984,389
Federal Home Loan Bank and other bank stock (Note 5)	875,913	740,113
Premises and equipment, net (Note 6)	1,224,686	1,535,663
Bank owned life insurance (Note 14)	1,812,872	1,744,630
Other real estate, net (Note 2)	1,439,236	221,000
Accrued interest receivable and other assets	2,989,909	2,003,511
	$ 156,364,353	$ 144,289,354
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (Notes 7 and 13):		
Non-interest bearing	$ 30,870,399	$ 29,008,467
Interest bearing	102,626,630	95,239,257
Total deposits	133,497,029	124,247,724
Accrued interest payable and other liabilities (Notes 6 and 14)	1,790,246	1,508,862
Total liabilities	135,287,275	125,756,586
Commitments and contingencies (Note 10)		
Shareholders' equity (Notes 11 and 12):		
Perpetual preferred stock – no par value; 5,000,000 shares authorized:		
Series A, fixed rate non-cumulative, $1,000 per share liquidation preference, 3,976 shares outstanding as of December 31, 2011 and 2010	3,896,400	3,856,600
Series B, fixed rate non-cumulative, $1,000 per share liquidation preference, 199 shares outstanding as of December 31, 2011 and 2010	199,000	199,000
Common stock – no par value; 50,000,000 shares authorized; 2,143,648 and 2,145,648 shares issued and outstanding as of December 31, 2011 and 2010, respectively	21,596,928	21,568,265
Accumulated deficit	(4,949,596)	(6,974,466)
Accumulated other comprehensive income (loss), net of taxes (Note 3)	334,346	(116,631)
Total shareholders' equity	21,077,078	18,532,768
	$ 156,364,353	$ 144,289,354

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

COMMUNITY BUSINESS BANK

STATEMENTS OF INCOME

For the Years Ended December 31, 2011 and 2010

	2011	2010
Interest income:		
Interest and fees on loans	$ 7,318,500	$ 7,797,945
Interest on available-for-sale investment securities	419,028	223,058
Interest on Federal funds sold	16,311	8,919
Interest on deposits in other banks	33,159	4,189
Total interest income	7,786,998	8,034,111
Interest expense:		
Interest on deposits (Note 7)	734,537	1,053,388
Interest on borrowings	1,405	57,434
Total interest expense	735,942	1,110,822
Net interest income	7,051,056	6,923,289
Provision for loan losses (Note 4)	609,575	1,070,000
Net interest income after provision for loan losses	6,441,481	5,853,289
Non-interest income:		
Service charges and fees	146,362	115,768
Gain on sale of available-for-sale investment securities (Note 3)	-	102,341
Gain on sale of other Bank assets, net	6,524	419,372
Increase in cash surrender value of life insurance (Note 14)	68,242	68,875
Other non-interest income (Note 4)	1,000,161	29,516
Total non-interest income	1,221,289	735,872
Non-interest expense:		
Salaries and employee benefits (Notes 4, 11 and 14)	2,902,817	2,939,677
Occupancy and equipment (Notes 6 and 10)	1,279,244	1,122,356
Other non-interest expense (Note 15)	2,512,729	1,974,696
Total non-interest expense	6,694,790	6,036,729
Income before benefit for income taxes	967,980	552,432
Benefit for income taxes (Note 8)	(1,313,400)	(472,000)
Net income	2,281,380	1,024,432
Preferred stock dividends	216,710	216,710
Accretion of preferred stock discount	39,800	39,800
Net income available to common shareholders	$ 2,024,870	$ 767,922
Basic and diluted earnings per share (Note 12)	$ 0.94	$ 0.36

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

COMMUNITY BUSINESS BANK

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

For the Years Ended December 31, 2011 and 2010

	Preferred Stock		Common Stock			Accumulated Other Compre-hensive (Loss) Income	
	Shares	Amount	Shares	Amount	Accumulated Deficit	Net of Taxes	Total Shareholders' Equity
Balance, January 1, 2010	4,175	$ 4,015,800	2,138,898	$21,524,408	$ (7,742,388)	$ 37,311	$17,835,131
Net income	-	-	-	-	1,024,432	-	1,024,432
Share-based expense (Note 11)	-	-	-	43,857	-	-	43,857
Net change in unrealized losses on available-for-sale investment securities, net of tax of $106,976	-	-	-	-	-	(153,942)	(153,942)
Issuance of restricted stock (Note 11)	-	-	6,750	-	-	-	-
Accretion of preferred stock discount (Note 12)	-	39,800	-	-	(39,800)	-	-
Preferred stock dividends (Note 12)	-	-	-	-	(216,710)	-	(216,710)
Balance, December 31, 2010	4,175	4,055,600	2,145,648	21,568,265	(6,974,466)	(116,631)	18,532,768
Net income	-	-	-	-	2,281,380	-	2,281,380
Share-based expense (Note 11)	-	-	-	28,663	-	-	28,663
Net change in unrealized gains on available-for-sale investment securities, net of tax of $313,390 (Note 3)	-	-	-	-	-	450,977	450,977
Forfeiture of restricted stock (Note 11)	-	-	(2,000)	-	-	-	-
Accretion of preferred stock discount (Note 12)	-	39,800	-	-	(39,800)	-	-
Preferred stock dividends (Note 12)	-	-	-	-	(216,710)	-	(216,710)
Balance, December 31, 2011	4,175	$ 4,095,400	2,143,648	$21,596,928	$ (4,949,596)	$ 334,346	$21,077,078

	2011	2010
Comprehensive income:		
Net income	$ 2,281,380	$ 1,024,432
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period, net of tax of $313,390 in 2011 and $64,863 in 2010	450,977	(93,714)
Less: reclassification adjustment for gains included in net income, net of tax of $42,113 in 2010	-	60,228
Total other comprehensive income (loss)	450,977	(153,942)
Total comprehensive income	$ 2,732,357	$ 870,490

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

COMMUNITY BUSINESS BANK

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net income	$ 2,281,380	$ 1,024,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of available-for-sale investment securities	-	(102,341)
Gain on sale of loans	-	(122,493)
Loss (gain) on sale of other real estate	7,436	(296,879)
Gain on disposal of premises and equipment	(6,524)	-
Write down of other real estate	797,250	116,851
Provision for loan losses	609,575	1,070,000
Depreciation, amortization and accretion, net	429,282	315,797
Share-based expense	28,663	43,857
Deferred loan origination fees and costs, net	(108,336)	(9,991)
Decrease in accrued interest receivable, other assets and Bank-owned life insurance	317,360	305,822
Increase in accrued interest payable and other liabilities	73,155	61,779
Provision for deferred taxes	(1,372,000)	(490,000)
Net cash provided by operating activities	3,057,241	1,916,834
Cash flows from investing activities:		
Maturities and calls of available-for-sale investment securities	505,000	4,831,262
Maturities of interest-bearing deposits at other banks	490,000	-
Proceeds from sales of available-for-sale investment securities	-	13,111,575
Purchases of available-for-sale investment securities	(3,565,919)	(33,222,823)
Proceeds from principal repayments on available-for-sale investment securities	1,415,472	1,165,632
Purchases of interest-bearing deposits at other banks	(2,498,000)	(2,489,766)
(Purchases) redemptions of Federal Home Loan Bank stock, net	(135,800)	40,100
Increase in loans, net	(395,826)	(414,540)
Purchases of premises and equipment	(54,834)	(233,242)
Proceeds from disposal of premises and equipment	6,524	-
Proceeds from sale of loans	-	5,022,232
Net proceeds from settlement agreement	721,491	-
Purchase of participation portion of other real estate	-	(2,215,889)
Proceeds from sales of other real estate	167,564	1,287,941
Net cash used in investing activities	(3,344,328)	(13,117,518)

(Continued)

COMMUNITY BUSINESS BANK

STATEMENTS OF CASH FLOWS
(Continued)
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from financing activities:		
Increase in demand, interest bearing and savings deposits, net	$ 155,616	$ 23,163,235
Increase in time deposits, net	9,093,689	2,018,686
Decrease in borrowings	-	(6,365,000)
Dividends paid on preferred stock	(216,710)	(216,710)
Net cash provided by financing activities	9,032,595	18,600,211
Increase in cash and cash equivalents	8,745,508	7,399,527
Cash and cash equivalents at beginning of year	8,681,742	1,282,215
Cash and cash equivalents at end of year	$ 17,427,250	$ 8,681,742
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 798,416	$ 1,155,631
Non-cash investing activities:		
Transfer of loans to other real estate	$ 2,190,486	$ 1,033,024
Loan recorded upon sale of other real estate	$ -	$ 3,995,000
Non-cash financing activities:		
Accretion of preferred stock discount	$ 39,800	$ 39,800

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

On June 10, 2005, the organizers of Community Business Bank (the "Bank") filed an application with the Federal Deposit Insurance Corporation (FDIC). The application was approved on August 8, 2005 and the Bank opened for business on November 14, 2005. The Bank provides products and services to customers who are predominantly small to middle-market businesses, professionals and not for profit organizations located in San Joaquin, Yolo, Solano, Sacramento and Placer Counties.

The accounting and reporting policies of the Bank conform with U.S. generally accepted accounting principles and prevailing practices within the banking industry.

Management reviewed all events occurring from December 31, 2011 to February 16, 2012, the date the financial statements were available to be issued.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. The allowance for loan losses, deferred tax assets and a related valuation allowance, and fair value of assets and liabilities are particularly subject to change.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Bank considers all highly liquid investments with maturities of three months or less at the date of acquisition to be cash equivalents. Cash equivalents include cash, due from banks, money market investments and Federal funds sold. Generally, Federal funds are sold for one-day periods.

Investment Securities

Investment securities are classified into the following categories:

- Available-for-sale investment 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 investment 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. At December 31, 2011 and 2010, all securities are classified as available-for-sale.

Gains and losses on the sale of 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. In addition, unrealized losses that are other than temporary are recognized in earnings for all investments.

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.

Federal Home Loan Bank Stock

The investment in Federal Home Loan Bank (FHLB) stock is carried at cost and is redeemable at par with certain restrictions. FHLB stock is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

Loans are reported at the principal amounts outstanding, adjusted for unearned income, deferred loan origination fees and costs, purchase premiums and discounts, write-downs and the allowance for loan losses. Loan origination fees, net of certain deferred origination costs, and purchase premiums and discounts are recognized as an adjustment to the yield of the related loans.

The accrual of interest on all loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed against current income unless the loan is in the process of collection. Interest received on all nonaccrual loans is either applied against principal or reported as interest income, according to management's judgment as to the ultimate collectibility of principal. Generally, all 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 collectibility of the total contractual principal and interest is no longer in doubt. Past due status is based on the contractual terms of the loans.

The Bank services loans that have been participated with other financial institutions totaling approximately $2,549,000 and $11,200,000 as of December 31, 2011 and 2010, respectively. The participated balances of these loans were sold without recourse and are not included on the Bank's balance sheet.

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 impaired loans and general reserves for inherent losses related to loans that are evaluated collectively for impairment.

The Bank's process for identifying impaired loans is the same for all classes of loans. 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. Factors considered in this assessment include the borrower's historical payment performance, financial condition, and global cash flows. All 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Bank grants a concession to the borrower for economic or legal reasons related to the borrower's financial difficulties that it would not otherwise consider. Restructured 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 trends, geographic concentrations, estimated collateral values, underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

The Bank determines a separate allowance for each portfolio segment (loan type). These portfolio segments include real estate–construction (including commercial, residential and acquisition and development loans), real estate-commercial (including farmland loans), real estate-residential (including 1-4 family and home equity lines of credit), commercial, and agriculture and other loans (including agriculture production and consumer loans). The allowance for loan losses attributable to each portfolio segment, which includes both impaired loans and loans that are collectively evaluated for impairment, 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 at least annually performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectibility of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Bank and the Bank's regulators. 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 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:

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

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 inadequate cash flow or collateral support, a project's lack of marketability, failure to complete construction on time or a 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.

Real estate–construction – Construction 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 timelines. 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.

Real estate–commercial – Commercial real estate 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

Real estate–residential – 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.

Commercial – 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.

Agricultural and other – Loans secured by crop production and livestock are especially vulnerable to two risk factors that are largely outside the control of the Bank and borrowers: commodity prices and weather conditions. Other loans are comprised of a large number of small loans, usually scheduled to be amortized over a specific period. Most other 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 the 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank Premises and Equipment

Bank premises and equipment are carried at cost, less accumulated depreciation. 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 three to five years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, including expected renewal periods, whichever is shorter. 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.

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 adjustment to the amount of rental expense recognized each period. Lease incentives, including tenant improvement credits, 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 tenant improvement credits are included in accrued interest payable and other liabilities on the balance sheets.

Other Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are expected to be sold and are initially recorded at the fair value of the property, less estimated costs to sell. The excess, if any, of the loan amount over the fair value less costs to sell is charged to the allowance for loan losses. Subsequent declines in the fair value of other real estate, along with related revenue and expenses from operations, are charged to noninterest expense as incurred.

Deposits

The Bank is participating in the FDIC's Transaction Account Guarantee Program. Under this program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. 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. Although coverage under the Transaction Account Guarantee Program expired December 31, 2010, the FDIC adopted a final rule amending its deposit insurance regulations on November 15, 2010 to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act providing for unlimited deposit insurance for noninterest-bearing transaction accounts for two years starting December 31, 2010.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates which are expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. 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.

The Bank uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. At December 31, 2011 and 2010, the Bank recognized no uncertain tax positions.

Earnings Per Share

Basic earnings per share (EPS) is net income divided by the weighted average number of common shares outstanding during the period. Diluted EPS includes the dilutive effect of additional potential common shares issuable under stock options and unvested restricted stock. Earnings per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Salary Continuation Agreements and Bank Owned Life Insurance

The Bank has established salary continuation agreements providing retirement income for certain executive officers of the Bank. In connection with establishing these agreements, the Bank purchased single premium life insurance policies on each participant. The salary continuation agreements are accounted for by accruing a liability based upon the present value of each individual's benefit at retirement age and recognizing the related cost of these benefits over the term of employment. The single payment premium for the life insurance policies is recorded based on the cash surrender value adjusted for income earned on the investment and expense related to mortality costs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-Based Payments

The Bank has one share-based payment plan, the Community Business Bank Equity Incentive Plan (the "Plan"), which has been approved by its shareholders. Under the Plan, 558,656 shares of common stock are reserved for issuance to employees, directors and consultants under incentive and nonstatutory stock option agreements and 79,807 shares are reserved for issuance as restricted stock bonus awards. The Plan is designed to retain employees, directors and founders who are advisory group members. 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 stock bonus awards. 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. All options expire on a date determined by the Board of Directors but not later than ten years from the date of grant. The vesting period for stock options and restricted stock bonus awards is determined by the Board of Directors and is generally over a three to five year period.

Management estimates the fair value of each option award as of the date of grant using a Black-Scholes-Merton option pricing formula and the following assumptions. Expected volatility is based on historical volatility over a preceding period commensurate with the expected life of the option. The "simplified" method described in SEC Staff Accounting Bulletin No. 110 is used to determine the expected term of the options due to the lack of sufficient historical data. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant with substantially the same remaining term as the term of the option. Expected dividend yield was not considered in the option pricing formula since the Bank has not paid dividends to its shareholders 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.

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 have no voting and dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors.

Comprehensive Income

Comprehensive income 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. Sources of other comprehensive income or loss include unrealized gains and losses on available-for-sale investment securities. Total comprehensive income and components of accumulated other comprehensive income (loss) are presented in the statement of changes in shareholders' equity and comprehensive income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 2. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to classifications used in 2011. Reclassifications had no impact on the prior year's net income or shareholders' equity.

Adoption of New Financial Accounting Standards

Disclosures about Credit Quality

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 were 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Financial Accounting Standards (Continued)

Troubled Debt Restructurings

In April 2011, the FASB issued ASU 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring.* ASU 2011-02 amends existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring. The amendments clarify the guidance for a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, the ASU clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor's ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. This guidance is effective for annual reporting periods ending after December 15, 2012. Early adoption is permitted. The Bank is currently evaluating the impact of this amendment on the financial statements.

Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. ASU 2011-05 increases the prominence of items reported in other comprehensive income (OCI). The ASU requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total OCI, the components of OCI, and the total of comprehensive income. The new guidance becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this amendment will change the presentation of the components of comprehensive income for the Bank, as this presentation will no longer be included on the statement of changes in shareholders' equity.

2. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

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

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 7,782,250	$ 7,782,250	$ 1,951,742	$ 1,951,742
Federal funds sold	9,645,000	9,645,000	6,730,000	6,730,000
Interest-bearing deposits at other banks	4,498,000	4,538,538	2,489,766	2,567,000
Available-for-sale investment securities	21,129,488	21,129,488	18,888,540	18,888,540
Loans, net	104,966,999	106,906,437	107,984,389	109,457,000
FHLB and other bank stock	875,913	N/A	740,113	N/A
Accrued interest receivable	563,978	563,978	564,136	564,136
Financial liabilities:				
Deposits	133,497,029	133,617,731	124,247,724	124,400,000
Accrued interest payable	98,287	98,287	160,761	160,761

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

The following methods and assumptions were used to estimate the fair value of financial instruments. For cash and due from banks, Federal funds sold, variable-rate loans, accrued interest receivable and payable, and demand deposits, the carrying amount is estimated to be fair value. For available-for-sale investment securities, fair values are based on quoted market prices, quoted market prices for similar securities and indications of value provided by brokers. The fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. Fair values for interest bearing deposits at other banks and fixed-rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date for certificates with similar remaining maturities. It was not practicable to determine the fair value of FHLB and other bank stock due to restrictions placed on transferability and a lack of marketability. 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.

2. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy

The Bank groups its assets and liabilities measured at fair value within 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.

2. FAIR VALUE MEASUREMENTS (Continued)

Assets Recorded at Fair Value

The following tables present information about the Bank's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2011 and 2010:

Recurring Basis

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

Description	December 31, 2011 Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury	$ 13,836,094	$ 13,836,094	$ -	$ -
Residential mortgage-backed securities issued by U.S. Government sponsored agencies	7,293,394	-	7,293,394	-
Total assets measured at fair value on a recurring basis	$ 21,129,488	$ 13,836,094	$ 7,293,394	$ -

Description	December 31, 2010 Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury	$ 10,223,437	$ 10,223,437	$ -	$ -
U.S. Government sponsored entities and agencies	502,792	-	502,792	-
Residential mortgage-backed securities issued by U.S. Government sponsored agencies	8,162,311	-	8,162,311	-
Total assets measured at fair value on a recurring basis	$ 18,888,540	$ 10,223,437	$ 8,665,103	$ -

Fair values for Level 1 available-for-sale investment securities are based on quoted market prices for the same securities. Fair values for Level 2 available-for-sale investment securities are based on quoted market prices for similar securities. During the year ended December 31, 2011, there were no significant transfers in or out of Levels 1 and 2.

There were no liabilities recorded at fair value on a recurring basis at December 31, 2011 and 2010.

2. FAIR VALUE MEASUREMENTS (Continued)

Assets Recorded at Fair Value (Continued)

Non-recurring Basis

The Bank may be required, from time to time, to measure the following assets at fair value on a non-recurring basis.

	December 31, 2011				
Description	Fair Value	Level 1	Level 2	Level 3	Total Losses
Impaired loans:					
Real estate – commercial:					
Commercial	$ 29,375	$ -	$ -	$ 29,375	$ (87,145)
Commercial	80,577	-	-	80,577	(80,577)
Agriculture and other	518,128	-	-	518,128	(518,127)
Other real estate:					
Real estate – construction	1,269,000	-	-	1,269,000	(797,250)
Other	170,236	-	-	170,236	-
Total assets measured at fair value on a non-recurring basis	$ 2,067,316	$ -	$ -	$ 2,067,316	$ (1,483,099)

	December 31, 2010				
Description	Fair Value	Level 1	Level 2	Level 3	Total Gains (Losses)
Impaired loans:					
Real estate – construction:					
Acquisition and development	$ 2,978,187	$ -	$ 2,978,187	$ -	$ 13,425
Real estate – commercial:					
Commercial	357,500	-	-	357,500	(42,500)
Real estate – residential:					
Residential 1 to 4 family	282,376	-	282,376	-	(3,100)
Commercial	262,500	-	-	262,500	(125,752)
Other real estate	221,000	-	221,000	-	-
Total assets measured at fair value on a non-recurring basis	$ 4,101,563	$ -	$ 3,481,563	$ 620,000	$ (157,927)

2. FAIR VALUE MEASUREMENTS (Continued)

Assets Recorded at Fair Value (Continued)

Non-recurring Basis (Continued)

The fair value of impaired loans is based on the fair value of the collateral, less estimated selling costs, using appraisals performed by independent third parties. The fair values were categorized as Level 3 at December 31, 2011 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions. The fair values of certain loans were considered to be Level 2 at December 31, 2010 due to the availability of appraisals with current market data. 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 reserve or a charge-off recorded through the allowance for loan losses. Total losses of $686,000 and $158,000 represent impairment charges recognized during the years ended December 31, 2011 and 2010, respectively, related to the above impaired loans.

Other real estate has been adjusted to estimated fair value, less estimated selling costs. At the time of foreclosure, assets are recorded at the lower of the carrying amount of the loan or the estimated fair value, based on current appraisals, less estimated selling costs. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, management periodically obtains updated valuations of the foreclosed assets and, if additional impairments are deemed necessary, the impairment is recorded in other non-interest expenses on the statement of income. The fair values were categorized as Level 3 at December 31, 2011 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions. The fair values of other real estate were considered to be Level 2 at December 31, 2010, due to the availability of appraisals with current market data. Total losses represent impairment charges recognized during the year related to the other real estate. Total losses of $797,000 represent impairment charges recognized during the year ended December 31, 2011 related to the above other real estate. There were no impairment charges to the other real estate shown above during the year ended December 31, 2010.

3. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2011 and 2010 consisted of the following:

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Treasury	$ 13,336,957	$ 499,137	$ -	$ 13,836,094
Residential mortgage-backed securities issued by U.S. Government sponsored agencies	7,225,843	67,551	-	7,293,394
	$ 20,562,800	$ 566,688	$ -	$ 21,129,488

Net unrealized gains on available-for-sale investment securities totaling $567,000 were recorded net of $233,000 in tax expense as accumulated other comprehensive income within shareholders' equity at December 31, 2011.

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Treasury	$ 10,373,235	$ -	$ (149,798)	$ 10,223,437
U.S. Government sponsored entities and agencies	499,882	2,910	-	502,792
Residential mortgage-backed securities issued by U.S. Government sponsored agencies	8,213,102	29,124	(79,915)	8,162,311
	$ 19,086,219	$ 32,034	$ (229,713)	$ 18,888,540

All available-for-sale investment securities in a loss position at December 31, 2010 had been in a loss position for less than twelve months. Net unrealized losses on available-for-sale investment securities totaling $198,000 were recorded net of $81,000 in tax benefits as accumulated other comprehensive loss within shareholders' equity at December 31, 2010.

There were no sales of available-for-sale investment securities during the year ended December 31, 2011. Proceeds and gross realized gains on the sale of available-for-sale investment securities were $13,112,000 and $102,000, respectively, during the year ended December 31, 2010.

3. AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2011 by contractual maturity are shown below. Expected maturities may 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.

	2011	
	Amortized Cost	Estimated Fair Value
One year to five years	$ 13,336,957	13,836,094
Investment securities not due at a single maturity date: Residential mortgage-backed securities issued by U.S. Government sponsored agencies	7,225,843	7,293,394
	$ 20,562,800	$ 21,129,488

4. LOANS

Outstanding loans as of December 31, 2011 and 2010 are summarized below:

	2011	2010
Real estate – construction	$ 17,313,221	$ 19,077,405
Real estate – commercial	52,674,464	51,178,975
Real estate – residential	12,363,966	16,550,801
Total real estate	82,351,651	86,807,181
Commercial	17,453,851	17,627,168
Agriculture and other	7,381,549	5,697,297
	107,187,051	110,131,646
Allowance for loan losses	(2,220,052)	(2,147,257)
	$ 104,966,999	$ 107,984,389

Salaries and employee benefits totaling $379,000 and $335,000 were deferred as loan origination costs for the years ended December 31, 2011 and 2010, respectively.

Certain loans have been pledged to secure borrowing arrangements (see Note 9).

4. LOANS (Continued)

Activity in the allowance for loan losses for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Balance, beginning of year	$ 2,147,257	$ 1,679,703
Losses charged to the allowance, net of recoveries	(536,780)	(602,446)
Provision for loan losses	609,575	1,070,000
Balance, end of year	$ 2,220,052	$ 2,147,257

4. LOANS (Continued)

The following table shows the allocation of the allowance for loan losses at December 31, 2011 and activity during the year by portfolio segment and by impairment methodology:

	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Commercial	Agriculture and Other	Unallocated	Total
Allowance for Loan Losses							
Beginning balance	$ 588,880	$ 418,981	$ 623,554	$ 257,702	$ 25,310	$ 232,830	$ 2,147,257
Charge-offs	(603,706)	(10,947)	-	(35,062)	-	-	(649,715)
Recoveries	100,000	-	7,935	5,000	-	-	112,935
Provision	272,035	203,768	(553,490)	176,586	524,783	(14,107)	609,575
Ending balance	$ 357,209	$ 611,802	$ 77,999	$ 404,226	$ 550,093	$ 218,723	$ 2,220,052
Ending balance: individually evaluated for impairment	$ 23,209	$ 87,145	$ -	$ 80,577	$ 518,127	$ -	$ 709,058
Ending balance: collectively evaluated for impairment	$ 334,000	$ 524,657	$ 77,999	$ 323,649	$ 31,966	$ 218,723	$ 1,510,994
Loans							
Ending balance	$ 17,313,221	$ 52,674,464	$ 12,363,966	$ 17,453,851	$ 7,381,549		$107,187,051
Ending balance: individually evaluated for impairment	$ 973,182	$ 116,520	$ -	$ 161,154	$ 1,831,445		$ 3,082,301
Ending balance: collectively evaluated for impairment	$ 16,340,039	$ 52,557,944	$ 12,363,966	$ 17,292,697	$ 5,550,104		$104,104,750

4. LOANS (Continued)

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

	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Commercial	Agriculture and Other	Unallocated	Total
Allowance for Loan Losses							
Ending balance	$ 588,880	$ 418,981	$ 623,554	$ 257,702	$ 25,310	$ 232,830	$ 2,147,257
Ending balance: individually evaluated for impairment	$ 135,670	$ 2,500	$ 3,100	$ 2,500	$ -	$ -	$ 143,770
Ending balance: collectively evaluated for impairment	$ 453,210	$ 416,481	$ 620,454	$ 255,202	$ 25,310	$ 232,830	$ 2,003,487
Loans							
Ending balance	$ 19,077,405	$ 51,178,975	$ 16,550,801	$ 17,627,168	$ 5,697,297		$110,131,646
Ending balance: individually evaluated for impairment	$ 5,766,113	$ 369,214	$ 559,876	$ 270,181	$ -		$ 6,965,384
Ending balance: collectively evaluated for impairment	$ 13,311,292	$ 50,809,761	$ 15,990,925	$ 17,356,987	$ 5,697,297		$103,166,262

4. LOANS (Continued)

The following table shows the loan portfolio allocated by management's internal risk ratings at December 31, 2011:

	Credit Risk Profile by Internally Assigned Grade					
	Real Estate – Construction	Real Estate – Commercial	Real Estate – Residential	Commercial	Agriculture and Other	Total
Grade:						
Pass	$ 14,221,761	$ 46,830,600	$ 12,115,850	$ 14,866,415	$ 4,824,149	$ 92,858,775
Special mention	2,118,278	5,394,928	248,116	2,183,009	725,955	10,670,286
Substandard	973,182	448,936	-	243,273	795,190	2,460,581
Doubtful	-	-	-	161,154	1,036,255	1,197,409
Total	$ 17,313,221	$ 52,674,464	$ 12,363,966	$ 17,453,851	$ 7,381,549	$ 107,187,051

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

	Credit Risk Profile by Internally Assigned Grade					
	Real Estate – Construction	Real Estate – Commercial	Real Estate – Residential	Commercial	Agriculture and Other	Total
Grade:						
Pass	$ 12,218,265	$ 46,152,790	$ 11,525,738	$ 16,362,988	$ 4,293,405	$ 90,553,186
Special mention	973,888	4,291,052	2,346,171	199,563	1,398,225	9,208,899
Substandard	5,885,252	735,133	2,678,892	1,064,617	5,667	10,369,561
Total	$ 19,077,405	$ 51,178,975	$ 16,550,801	$ 17,627,168	$ 5,697,297	$ 110,131,646

The following table shows an analysis of the loan portfolio by the time past due at December 31, 2011:

	Accruing Interest		Not Accruing Interest		
	Current	30-89 Days Past Due	Current	Greater Than 89 Days Past Due	Total
Real estate – construction:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	4,423,110	-	-	-	4,423,110
Acquisition and development	12,890,111	-	-	-	12,890,111
Real estate – commercial:					
Commercial	42,083,346	-	-	116,520	42,199,866
Farmland	10,474,598	-	-	-	10,474,598
Real estate – residential:					
Residential 1 to 4 family	10,334,518	-	-	-	10,334,518
Home equity lines of credit	2,029,448	-	-	-	2,029,448
Commercial	17,292,697	-	-	161,154	17,453,851
Agriculture and other:					
Agriculture	5,335,837	-	-	1,831,445	7,167,282
Consumer	214,267	-	-	-	214,267
Total	$ 105,077,932	$ -	$ -	$ 2,109,119	$ 107,187,051

4. LOANS (Continued)

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

	Accruing Interest		Not Accruing Interest		
	Current	30-89 Days Past Due	Current	Greater Than 89 Days Past Due	Total
Real estate – construction:					
Commercial	$ 1,924,000	$ -	$ -	$ -	$ 1,924,000
Residential	1,157,014	-	-	-	1,157,014
Acquisition and development	11,041,678	-	78,234	4,876,479	15,996,391
Real estate – commercial:					
Commercial	41,311,348	-	-	360,000	41,671,348
Farmland	9,507,627	-	-	-	9,507,627
Real estate – residential:					
Residential 1 to 4 family	13,865,373	-	-	559,876	14,425,249
Home equity lines of credit	2,125,552	-	-	-	2,125,552
Commercial	17,362,168	-	-	265,000	17,627,168
Agriculture and other:					
Agriculture	4,829,371	639,619	-	-	5,468,990
Consumer	228,307	-	-	-	228,307
Total	$ 103,352,438	$ 639,619	$ 78,234	$ 6,061,355	$ 110,131,646

The following table shows information related to impaired loans at and for the year ended December 31, 2011:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Agriculture and other:					
Agriculture	$ 795,190	$ 795,190	$ -	$ 595,163	$ 18,068
With an allowance recorded:					
Real estate – construction:					
Acquisition and development	973,182	1,120,182	23,209	556,489	18,074
Real estate – commercial:					
Commercial	116,520	116,520	87,145	289,901	18,073
Commercial and Industrial	161,154	161,154	80,577	286,967	1,465
Agriculture and other:					
Agriculture	1,036,255	1,036,255	518,127	1,090,542	-
Total:					
Real estate – construction:					
Acquisition and development	$ 973,182	$ 1,120,182	$ 23,209	$ 556,489	$ 18,074
Real estate – commercial:					
Commercial	116,520	116,520	87,145	289,901	18,073
Commercial and Industrial	161,154	161,154	80,577	286,967	1,465
Agriculture and other:					
Agriculture	1,831,445	1,831,445	518,127	1,685,705	18,068

4. LOANS (Continued)

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

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate – construction:					
Acquisition and development	$ 2,652,004	$ 2,653,171	$ -	$ 2,653,171	$ -
Real estate – residential:					
Residential 1 to 4 family	274,400	274,400	-	274,400	-
With an allowance recorded:					
Real estate – construction:					
Acquisition and development	3,114,109	3,113,857	135,670	6,833,413	39,717
Real estate – commercial:					
Commercial	369,214	1,217,145	2,500	1,257,145	-
Real estate – residential:					
Residential 1 to 4 family	285,476	425,476	3,100	466,941	-
Commercial	270,181	792,579	2,500	927,579	-
Total:					
Real estate – construction:					
Acquisition and development	$ 5,766,113	$ 5,767,028	$ 135,670	$ 9,486,584	$ 39,717
Real estate – commercial:					
Commercial	369,214	1,217,145	2,500	1,257,145	-
Real estate – residential:					
Residential 1 to 4 family	559,876	699,876	3,100	741,341	-
Commercial	270,181	792,579	2,500	927,579	-

For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs.

Forgone interest on nonaccrual loans was approximately $186,000 and $158,000 for the years ended December 31, 2011 and 2010, respectively. Interest income recognized on impaired loans on a cash basis for the years ended December 31, 2011 and 2010 was not material.

<u>Troubled Debt Restructurings</u>

The Bank has allocated $23,000 and $161,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2011 and 2010, respectively. The Bank has no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ended December 31, 2011, the terms of one loan was modified as a troubled debt restructuring. The modification included an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk.

4. LOANS (Continued)

Troubled Debt Restructurings (Continued)

The following table presents the troubled debt restructuring that occurred during the year ended December 31, 2011:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructuring:			
Real estate – construction:			
Acquisition and development	1	$ 448,243	$ 448,243

The troubled debt restructuring described above increased the allowance for loan losses by $23,000. No charge-offs were recorded for troubled debt restructurings during the year ended December 31, 2011. There were no loans modified as troubled debt restructurings that suffered a payment default during the year ended December 31, 2011. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

Settlement Agreement

During March 2011, the Bank reached a settlement agreement with another financial institution in connection with the nonperformance of certain purchased residential loans. Included in the settlement was the release by the Bank of all future claims against the other party as well as the return of certain purchased loans. During March 2011, the Bank recorded income of approximately $721,000 relating to this settlement.

5. FEDERAL HOME LOAN BANK STOCK

As a member of the Federal Home Loan Bank of San Francisco (FHLB), the Bank is required to own capital stock in an amount specified by regulation. The amount of stock required to be held is adjusted periodically based on a determination made by the FHLB. At December 31, 2011 and 2010, the Bank owned 6,362 and 5,004 shares, respectively, of $100 par value FHLB stock.

6. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,	
	2011	2010
Leasehold improvements	$ 1,385,944	$ 1,384,398
Furniture, fixtures and equipment	1,949,260	1,908,582
	3,335,204	3,292,980
Less accumulated depreciation and amortization	(2,110,518)	(1,757,317)
	$ 1,224,686	$ 1,535,663

During October 2007, the Bank sold a building in a sale-leaseback transaction. The sale price was $3,481,000 and resulted in a total gain on sale of $1,322,000, of which $299,856 was recognized immediately and $1,022,000 was recorded as deferred revenue and is being accreted into income over the 10 year life of the lease. Deferred revenue totaling $106,000 was recognized as an offset to rental expense during each of the years ended December 31, 2011 and 2010. The remaining deferred revenue totaled $607,000 and $713,000 as of December 31, 2011 and 2010, respectively, and is included in accrued interest payable and other liabilities on the balance sheets.

Depreciation and amortization included in occupancy and equipment expense totaled $366,000 and $354,000 for the years ended December 31, 2011 and 2010, respectively.

7. INTEREST BEARING DEPOSITS

Interest bearing deposits consisted of the following:

	December 31,	
	2011	2010
Savings	$ 3,526,697	$ 1,659,985
Money market	36,001,706	37,262,175
NOW accounts	4,279,704	6,592,263
Time – $100,000 or more	49,999,310	40,995,631
Other time	8,819,213	8,729,203
	$ 102,626,630	$ 95,239,257

7. INTEREST BEARING DEPOSITS (Continued)

At December 31, 2011 and 2010, certificates of deposit acquired through the Certificate of Deposit Account Registry Service (CDARS) totaled $37,301,000 and $28,650,000, respectively. The Bank uses the CDARS program to offer its deposit customers full FDIC insurance coverage on their balances by placing them at multiple banks with individual balances not exceeding the FDIC insured limit. In return, the Bank typically receives equal amounts of certificates of deposit through CDARS from other institutions and their customers in reciprocal transactions.

At December 31, 2010, certificates of deposit acquired through wholesale brokers, excluding CDARS, totaled $1,509,000. The Bank had no such deposits at December 31, 2011.

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2012	$ 52,594,776
2013	4,050,642
2014	1,020,655
2015	623,270
2016	529,180
	$ 58,818,523

Interest expense recognized on interest bearing deposits for the years ended December 31, 2011 and 2010 consisted of the following:

	2011	2010
Savings	$ 17,415	$ 6,550
Money market	183,537	305,060
NOW accounts	5,709	4,096
Time – $100,000 or more	412,315	438,102
Other time	115,561	299,580
	$ 734,537	$ 1,053,388

At December 31, 2011, the largest depositor accounted for $10,709,000, or 8% of total deposits. The loss of this customer could have a material impact on the Bank's operations. However, the depositor has other business relationships with the Bank, which management believes mitigates the risk of losing these deposits.

8. INCOME TAXES

Income taxes for the years ended December 31, 2011 and 2010 consisted of the following:

2011

Current	$ 58,600
Deferred	340,000
Decrease in valuation allowance	(1,712,000)
Income tax benefit	$ (1,313,400)

2010

Current	$ 18,000
Deferred	(17,000)
Decrease in valuation allowance	(473,000)
Income tax benefit	$ (472,000)

Deferred tax assets (liabilities) at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Deferred tax assets:		
Net operating losses	$ 2,125,000	$ 2,697,000
Other real estate	372,000	-
Allowance for loan losses	354,000	496,000
Interest on nonaccrual loans	226,000	156,000
Hiring and sales tax credits	170,000	323,000
Bank premises and equipment	98,000	154,000
Unrealized loss on available-for-sale investment securities	-	81,000
Share-based compensation	66,000	58,000
Organization costs	51,000	57,000
Sale leaseback	13,000	60,000
Other	64,000	26,000
Deferred tax assets before valuation allowance	3,539,000	4,108,000
Valuation allowance	(1,213,000)	(2,925,000)
Total deferred tax assets	2,326,000	1,183,000

8. INCOME TAXES (Continued)

	2011	2010
Deferred tax liabilities:		
Future liability of state deferred tax asset	$ (454,000)	$ (485,000)
Unrealized gain on available-for-sale investment securities	(233,000)	-
FHLB stock dividends	(22,000)	(22,000)
Accrual to cash conversion	(5,000)	(122,000)
Total deferred tax liabilities	(714,000)	(629,000)
Net deferred tax assets	$ 1,612,000	$ 554,000

A valuation allowance is provided to reduce deferred tax assets to a level which, more likely than not, will be realized. Due to the losses recognized during the organizational period and through the year ended December 31, 2009, a valuation allowance was recorded for a portion of the Bank's net deferred tax assets. The need for this valuation allowance is periodically reviewed and benefits are recognized when they are determined to be realizable.

At December 31, 2011 and 2010, management assessed the need for the valuation allowance and believes it is more likely than not that the Bank will realize a portion of the benefit of the deferred tax assets in future periods based upon the fact that taxable earnings were recognized during the years ended December 31, 2011 and 2010 and improvements were recognized in the credit quality of the Bank's loan portfolio. Accordingly, a portion of the valuation allowance was reversed as an income tax benefit during each of the years ended December 31, 2011 and 2010.

The Bank files income tax returns in the United States and California jurisdictions. At December 31, 2011, the Bank had Federal and state net operating loss carryforwards (NOLs) of approximately $3,733,000 and $7,899,000, respectively. The Federal and state NOLs expire beginning in 2025 and 2015, respectively.

9. BORROWING ARRANGEMENTS

Federal Reserve Bank

The Bank could borrow up to $20,243,000 and $14,260,000 through the Federal Reserve Bank (FRB) discount window at December 31, 2011 and 2010, respectively. Various loans totaling $29,550,000 and $25,090,000 as of December 31, 2011 and 2010, respectively, were pledged to secure FRB borrowings. There were no borrowings outstanding under this arrangement at December 31, 2011 and 2010.

9. BORROWING ARRANGEMENTS (Continued)

Correspondent Banks

The Bank could also borrow up to $14,000,000 under two unsecured Federal funds lines of credit with two of its correspondent banks. There were no Federal funds purchased under this arrangement at December 31, 2011 and 2010.

Federal Home Loan Bank Advances

The Bank has an arrangement with the FHLB under which it may borrow an amount not to exceed 15% of total assets. At December 31, 2011 and 2010, the Bank's borrowing capacity totaled $18,675,000 and $10,280,000, respectively. Various loans totaling approximately $39,043,000 and $19,457,000 were pledged to secure FHLB borrowings as of December 31, 2011 and 2010, respectively. There were no advances from the FHLB as of December 31, 2011 and 2010.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Bank leases its branch offices, administration office and various equipment under noncancelable operating leases. These leases expire on various dates through 2018 and have renewal options ranging from three to five years.

Future minimum lease payments are as follows:

Year Ending December 31,	
2012	$ 453,100
2013	373,200
2014	355,200
2015	361,700
2016	371,500
Thereafter	509,300
	$ 2,424,000

Rent expense, net of rental income from a sublease and the accretion of the gain on a sale-leaseback transaction (see Note 6) totaling $156,000 and $169,000, included in occupancy and equipment expense totaled $354,000 and $325,000 for the years ended December 31, 2011 and 2010, respectively.

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. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet. The Bank's exposure to credit loss in the event of nonperformance by the other party 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 standby letters of credit as it does for loans included on the balance sheet.

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

	December 31,	
	2011	2010
Commitments to extend credit	$ 9,013,689	$ 7,833,199
Standby letters of credit	$ -	$ 1,160,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. 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 and agricultural properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance or financial obligation of a customer 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 customers. The Bank recognizes fees received for issuing the guarantees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2011, commercial and agriculture loan commitments represent approximately 63% of total commitments and are generally secured by accounts receivable, inventory, crops, or livestock. Real estate loan commitments represent approximately 37% of total commitments. The majority of the Bank's loan commitments have variable interest rates.

10. COMMITMENTS AND CONTINGENCIES (Continued)

Concentrations of Credit Risk

The Bank grants commercial and residential real estate mortgage, real estate construction, commercial, agriculture and consumer loans to customers in San Joaquin, Yolo, Solano, Sacramento and Placer Counties. Although management continues to diversify the Bank's loan portfolio, a substantial portion of the portfolio is secured by commercial and residential real estate.

In management's judgment, a concentration of loans exists in real estate related loans with approximately 77% and 79% of the Bank's loans being real estate related at December 31, 2011 and 2010, respectively. A substantial decline in the performance of the economy in general or a continuing decline in real estate values in the Bank's primary market areas, in particular, could have an adverse impact on collectibility, increase the level of real estate related nonperforming loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on the financial condition of the Bank. Personal and business income represent the primary source of repayment for a majority of these loans.

Contingencies

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

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Those insured financial institutions elected to participate in the FDIC sponsored Transaction Account Guarantee Program under which all noninterest-bearing transaction accounts were fully guaranteed through December 31, 2010. The FDIC adopted a final rule amending its deposit insurance regulations on November 15, 2010 to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act providing for unlimited deposit insurance for non-interest bearing transaction accounts for two additional years starting December 31, 2010. Uninsured balances relating to interest bearing accounts totaled $2,750,000 at December 31, 2011.

11. SHARE-BASED EXPENSE

Stock Option Awards

A summary of option activity under the Plan for the years ended December 31, 2011 and 2010 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2011	341,682	$ 10.34	5.1 years
Granted	2,000	$ 7.00	
Cancelled	(16,000)	$ 9.29	
Outstanding at December 31, 2011	327,682	$ 10.37	4.1 years
Vested at December 31, 2011	324,682	$ 10.40	4.1 years
Outstanding and expected to be vested at December 31, 2011	327,682	$ 10.40	4.1 years

Compensation cost related to stock options was $9,000 and $29,000 for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011, the unrecognized cost related to non-vested stock option awards totaled $12,000. That cost is expected to be amortized on a straight-line basis over a weighted average period of 2.1 years and will be adjusted for subsequent changes in estimated forfeitures. At December 31, 2011, there was no intrinsic value associated with outstanding stock option awards.

During the year ended December 31, 2010, there were no stock options granted. The following information relates to stock options granted and the grant date fair value of options granted during the year ended December 31, 2011:

	2011
Weighted average grant date fair value of options	$ 2.65
Significant fair value assumptions:	
Expected life	5 years
Expected annual volatility	51.77%
Risk-free interest rate	0.90%
Expected dividend yield	N/A

11. SHARE-BASED EXPENSE (Continued)

Restricted Common Stock Awards

No restricted common stock awards were granted during the year ended December 31, 2011. During the year ended December 31, 2010, the Bank granted 6,750 shares of restricted common stock to selected employees, which had a fair market value of $3.73 per share representing the last price at which stock traded prior to the grant date. During the year ended December 31, 2011, 2,000 shares of restricted common stock were forfeited.

As of December 31, 2011, 12,538 shares of restricted common stock are outstanding, nonvested and expected to vest. Compensation cost charged against income and the total fair value of shares vested for restricted stock awards was $20,000 and $15,000 for the years ended December 31, 2011 and 2010, respectively. The tax benefit recognized in the statement of operations for restricted stock awards for the years ended December 31, 2011 and 2010 was not significant. At December 31, 2011, the total compensation cost related to nonvested restricted common stock not yet recognized was $32,000. Restricted stock compensation expense is recognized on a straight line basis over the vesting period. This cost is expected to be recognized over a weighted average remaining period of approximately two years and will be adjusted for subsequent changes in the forfeiture rate.

12. SHAREHOLDERS' EQUITY AND REGULATORY MATTERS

Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows:

For the Year Ended	Net Income Available to Common Share-holders	Weighted Average Number of Shares of Common Stock and Common Stock Equivalents Outstanding	Per Share Amount
December 31, 2011			
Basic earnings per share	$ 2,024,870	2,144,136	$ 0.94
Effect of dilutive shares	-	12,538	-
Diluted earnings per share	$ 2,024,870	2,156,674	$ 0.94

12. SHAREHOLDERS' EQUITY AND REGULATORY MATTERS (Continued)

Earnings Per Share (Continued)

For the Year Ended	Net Income Available to Common Share-holders	Weighted Average Number of Shares of Common Stock and Common Stock Equivalents Outstanding	Per Share Amount
December 31, 2010			
Basic earnings per share	$ 767,922	$ 2,142,569	$ 0.36
Effect of dilutive shares	-	12,371	-
Diluted earnings per share	$ 767,922	2,154,940	$ 0.36

Stock options for 327,682 and 341,682 shares of common stock were not considered in computing diluted earnings per share for the years ended December 31, 2011 and 2010, respectively, because they were antidilutive.

Dividends

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, without obtaining approval from the California Department of Financial Institutions, 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, 2011, no amounts were free of such restrictions.

Regulatory Capital

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

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

12. SHAREHOLDERS' EQUITY AND REGULATORY MATTERS (Continued)

Regulatory Capital (Continued)

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 below. 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 their capital adequacy requirements as of December 31, 2011 and 2010.

	2011		2010	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Community Business Bank	$ 19,806,000	12.7%	$ 18,650,000	12.8%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	$ 7,779,000	5.0%	$ 7,292,000	5.0%
Minimum regulatory requirement	$ 6,223,000	4.0%	$ 5,833,000	4.0%
Tier 1 Risk-Based Capital Ratio				
Community Business Bank	$ 19,806,000	17.2%	$ 18,650,000	16.5%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	$ 6,913,000	6.0%	$ 6,764,000	6.0%
Minimum regulatory requirement	$ 4,609,000	4.0%	$ 4,510,000	4.0%
Total Risk-Based Capital Ratio				
Community Business Bank	$ 21,256,000	18.5%	$ 20,068,000	17.8%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action provisions	$ 11,521,000	10.0%	$ 11,274,000	10.0%
Minimum regulatory requirement	$ 9,217,000	8.0%	$ 9,019,000	8.0%

Issuance of 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 it issued and sold (i) 3,976 shares of Fixed Rate Non-cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") for a purchase price of $3,976,000 and (ii) a warrant to purchase 199 shares of the Fixed Rate Non-cumulative Perpetual Preferred Stock, Series B stock, (the "Warrant Preferred") for $.01 per share. The Treasury exercised the warrant immediately upon issuance.

12. SHAREHOLDERS' EQUITY AND REGULATORY MATTERS (Continued)

Issuance of Preferred Stock (Continued)

The Series A Preferred Stock qualifies as Tier 1 capital and pays non-cumulative dividends quarterly at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Warrant Preferred pays non-cumulative dividends at a rate of 9% per annum until redemption. With approval from its regulators, the Bank paid cash dividends on preferred stock of $217,000 during each of the two years ended December 31, 2011 and 2010.

Either series may be redeemed after three years; however, the Warrant Preferred may not be redeemed until after all the Series A Preferred Stock has been redeemed. Prior to the end of three years, the Series A Preferred Stock and the Warrant Preferred may be redeemed only with proceeds from the sale of qualifying equity securities (a "Qualified Equity Offering") or upon approval by the Bank's regulators.

The Series A Preferred Stock and the Warrant Preferred 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 Preferred Stock nor the Warrant Preferred 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 the Bank to become subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act.

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

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

Until such time as the Treasury ceases to own any equity securities acquired pursuant to the Purchase Agreement, management 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 Stock and the Warrant Preferred, and the Bank agreed to not adopt any benefit plans with respect to, or which cover, 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.

12. SHAREHOLDERS' EQUITY AND REGULATORY MATTERS (Continued)

Issuance of Preferred Stock (Continued)

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

The Bank recorded a discount on the Series A Preferred Stock at approximately the liquidation preference of the Warrant Preferred, which approximates the relative fair value of the two instruments. The discount recorded on the Series A Preferred Stock will be accreted on the level-yield method over five years. The Bank accreted $40,000 of the discount during each of the years ended December 31, 2011 and 2010.

13. RELATED PARTY TRANSACTIONS

Loans

During the normal course of business, the Bank enters into transactions with related parties, including Directors, executive officers and affiliates. The following is a summary of aggregate related party borrowing arrangements at December 31, 2011:

Beginning balance	$ 2,469,605
Disbursements	852,799
Amounts repaid	(868,813)
Ending balance	$ 2,453,591
Undisbursed commitments	$ 275,000

13. RELATED PARTY TRANSACTIONS (Continued)

Deposits

At December 31, 2011, the Bank's deposits from related parties totaled approximately $1,388,000.

14. EMPLOYEE BENEFIT PLANS

In 2005, the Bank adopted the Community Business Bank 401(k) Profit Sharing Plan and Trust. All employees 21 years of age or older with one year of service are eligible to participate in the plan. Eligible employees may elect to make tax deferred contributions of their salary 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. During the years ended December 31, 2011 and 2010, the Bank contributed $77,000 and $63,000, respectively, to the Plan.

During 2007, the Bank entered into salary continuation agreements with certain executive officers which provide for certain benefits if the executive works until normal retirement age. In the event of early retirement, involuntary termination or full disability, the agreement provides for benefits of a lesser amount which equals the vested amount as of the month end preceding the separation from service. The liability accrued under these agreements is included in accrued interest payable and other liabilities on the balance sheets and is equal to the estimated present value of benefits to be paid under the agreements of $722,000 and $521,000 at December 31, 2011 and 2010, respectively.

In connection with the salary continuation agreements, the Bank invested in single premium life insurance policies with cash surrender values totaling $1,813,000 and $1,745,000 at December 31, 2011 and 2010, respectively. Income on these policies, net of related expenses, totaled $68,000 and $69,000 for the years ended December 31, 2011 and 2010, respectively, and is included in non-interest income in the statements of income.

15. OTHER NON-INTEREST EXPENSE

Other non-interest expense for the years ended December 31, 2011 and 2010 consisted of the following:

	2011	2010
Loan and other real estate related expenses	$ 1,086,250	$ 454,093
Regulatory assessments	351,328	460,686
Professional fees	247,856	188,491
Data processing	188,574	181,062
Business development	117,915	109,360
Communication and postage	108,992	95,009
Stationery and supplies	63,490	67,394
Advertising and marketing	58,381	141,450
Other	289,943	277,151
	$ 2,512,729	$ 1,974,696