PRESIDIO BANK

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007

AND FOR THE YEARS THEN ENDED

AND

INDEPENDENT AUDITOR'S REPORT

PERRY-SMITH LLP
ACCOUNTANTS

One Embarcadero Center, Suite 1330
San Francisco, CA 94111
www.perry-smith.com
415.576.1100

INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
Presidio Bank

We have audited the accompanying balance sheet of Presidio Bank as of December 31, 2008 and 2007 and the related statements of operations, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Presidio Bank as of December 31, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

Perry-Smith LLP

March 17, 2009

PRESIDIO BANK

BALANCE SHEET

December 31, 2008 and 2007

	2008	2007
ASSETS		
Cash and due from banks	$ 2,875,639	$ 591,733
Federal funds sold	40,470,460	19,110,000
Total cash and cash equivalents	43,346,099	19,701,733
Interest-bearing deposits in other financial institutions		5,000,000
Held-to-maturity investment securities, at amortized cost (Note 3)		29,898,092
Federal Reserve Bank stock, at cost	958,750	1,049,200
FHLB stock, at cost	1,151,500	45,100
Loans, less allowance for loan losses of $2,983,000 in 2008 and $1,068,000 in 2007 (Notes 4 and 9)	177,035,237	73,742,596
Premises and equipment, net (Note 5)	944,528	769,084
Accrued interest receivable and other assets	1,064,967	709,037
	$ 224,501,081	$ 130,914,842
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 29,446,569	$ 12,219,402
Interest bearing (Note 6)	139,022,940	83,697,486
Total deposits	168,469,509	95,916,888
Borrowings (Note 8)	24,500,000	
Accrued interest payable and other liabilities	1,284,037	709,658
Total liabilities	194,253,546	96,626,546
Commitments and contingencies (Note 9)		
Shareholders' equity (Notes 10 and 11):		
Preferred stock – no par value; 10,000,000 shares authorized; no shares issued and outstanding		
Common stock – no par value; 30,000,000 shares authorized; 4,000,000 shares issued and outstanding in 2008 and 2007	41,359,278	40,922,145
Accumulated deficit	(11,111,743)	(6,633,849)
Total shareholders' equity	30,247,535	34,288,296
Total liabilities and shareholders' equity	$ 224,501,081	$ 130,914,842

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

PRESIDIO BANK

STATEMENT OF OPERATIONS

For the Years Ended December 31, 2008 and 2007

	2008	2007
Interest and dividend income:		
Interest and fees on loans	$ 8,162,996	$ 3,406,396
Interest on Federal Funds sold	450,468	1,777,957
Interest on interest-bearing deposits in other financial institutions	238,761	77,909
Interest on investment securities held to maturity	336,571	605,936
Dividend income	80,283	68,877
Total interest income	9,269,079	5,937,075
Interest expense:		
Interest on deposits	2,721,322	2,072,204
Interest on borrowings	158,799	
Total interest expense	2,880,121	2,072,204
Net interest income	6,388,958	3,864,871
Provision for loan losses (Note 4)	1,915,000	766,000
Net interest income after provision for loan losses	4,378,958	3,098,871
Non-interest income:		
Service charges and fees	59,829	14,004
Other non-interest income	180,034	
Total non-interest income	239,863	14,004
Non-interest expense:		
Salaries and employee benefits (Notes 4 and 13)	6,109,861	4,021,511
Occupancy and equipment (Notes 5 and 9)	974,078	777,473
Other	2,107,776	2,010,718
Total non-interest expense	9,191,715	6,809,702
Net loss	$ (4,477,894)	$ (3,696,827)
Basic loss per share	$ (1.12)	$ (0.92)
Weighted average number of shares outstanding	4,000,000	4,000,000

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

PRESIDIO BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2008 and 2007

	Common Stock		Accumulated	Total Shareholders'
	Shares	Amount	Deficit	Equity
Balance, January 1, 2007	4,000,000	$ 40,316,463	$ (2,937,022)	$ 37,379,441
Share-based compensation expense (Notes 1 and 10)		605,682		605,682
Net loss			(3,696,827)	(3,696,827)
Balance, December 31, 2007	4,000,000	40,922,145	(6,633,849)	34,288,296
Share-based compensation expense (Notes 1 and 10)		437,133		437,133
Net loss			(4,477,894)	(4,477,894)
Balance, December 31, 2008	4,000,000	$ 41,359,278	$ (11,111,743)	$ 30,247,535

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

PRESIDIO BANK

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Net loss	$ (4,477,894)	$ (3,696,827)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	1,915,000	766,000
Accretion of discounts on investment securities	336,571	431,839
Depreciation and amortization	248,381	198,256
Deferred loan origination fees, net	76,608	151,497
Share-based compensation expense	437,133	605,682
Increase in accrued interest receivable and other assets	(355,930)	(426,371)
Increase in accrued interest payable and other liabilities	574,379	367,364
Net cash used in operating activities	(1,245,752)	(1,602,560)
Cash flows from investing activities:		
Maturities (purchases) of held-to-maturity investment securities	29,561,521	(30,329,931)
Redemption of Federal Reserve Bank stock	90,450	150,800
Purchases of FHLB stock	(1,106,400)	(45,100)
Net increase in loans	(105,284,249)	(49,790,556)
Maturity (purchases) of interest-bearing deposits in other financial institutions	5,000,000	(5,000,000)
Purchases of premises and equipment	(423,825)	(116,166)
Net cash used in investing activities	(72,162,503)	(85,130,953)
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	50,710,277	76,727,828
Net increase in time deposits	21,842,344	6,989,055
Proceeds from FHLB advances	24,500,000	
Net cash provided by financing activities	97,052,621	83,716,883
Increase (decrease) in cash and cash equivalents	23,644,366	(3,016,630)
Cash and cash equivalents at beginning of year	19,701,733	22,718,363
Cash and cash equivalents at end of year	$ 43,346,099	$ 19,701,733
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	$ 2,553,998	$ 1,939,885

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

NOTES TO FINANCIAL STATEMENTS

1. THE BUSINESS OF PRESIDIO BANK

Presidio Bank (the "Bank") was approved as state-chartered bank on July 24, 2006 and is a member of the Federal Reserve System (the "Fed"). The Bank is subject to regulation by the Fed, the California Department of Financial Institutions (the "DFI"), and the Federal Deposit Insurance Corporation (the "FDIC"). The Bank's deposits are insured by the FDIC up to applicable legal limits.

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

The Bank is headquartered in San Francisco, California and has branch offices in Walnut Creek, San Rafael and Santa Rosa, California. The Bank provides traditional commercial banking services to its target market throughout Northern California, consisting of small to medium sized businesses, along with the owners and executives of those firms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Use of Estimates

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

Cash and Cash Equivalents

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

Interest-Bearing Deposits in Other Financial Institutions

The Bank invests in the time deposits of other financial institutions through the Promontory Network's Certificate of Deposit Account Registry Service ("CDARS") program, allowing the Bank to deposit funds in other banks while maintaining FDIC insured levels at each institution.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Reserve Bank Stock and Federal Home Loan Bank Stock

As a member of both the Federal Reserve Bank (the "FRB") and the Federal Home Loan Bank (the "FHLB"), the Bank is required to maintain a minimum level of investment in the capital stocks of the FRB and FHLB. These investments are considered restricted equity securities and are carried at par value. The Bank may request redemption at par value in excess of the amount required to be held. Stock redemptions are made at the discretion of the FRB and FHLB.

Investment Securities

Investment securities are classified into the following categories:

- Available-for-sale securities reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

- Held-to-maturity securities, which management has the positive intent and ability to hold, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. There were no transfers between categories during the years ended December 31, 2008 or 2007.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

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

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (including both principal and interest) in accordance with the contractual terms of the loan agreement. An impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective rate or, as a practical matter, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent.

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

The Bank services loans that have been participated to other financial institutions totaling approximately $21,665,000 and $5,125,000 at December 31, 2008 and 2007, respectively.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses (net of recoveries) and loan growth.

The allowance is maintained to provide for losses related to impaired loans and other losses that are inherent in the Bank's loan portfolio. The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan portfolio, specifically identified problem loans, potential losses inherent in the portfolio taken as a whole and economic conditions in the Bank's service area. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses, and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations. These estimates are particularly susceptible to changes in the economic environment and market conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

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

The Bank maintains a separate allowance for losses related to undisbursed loan commitments. Management estimates the amount of probable losses by applying a loss factor to the available portion of undisbursed lines of credit. This allowance of $87,000 and $35,000 at December 31, 2008 and 2007, respectively, is included in accrued interest payable and other liabilities on the balance sheet.

The allowance for loan losses at December 31, 2008 and 2007 reflects management's estimate of probable losses in the portfolio. The Bank's Directors' Loan Committee reviews the adequacy of the allowance for loan losses quarterly, including its reviews at December 31, 2008 and 2007. In the future, the Directors' Loan Committee will continue to review the adequacy of the allowance for loan losses at least quarterly. The allowance will be adjusted based on that review if, in the judgment of the Directors' Loan Committee and management, changes are warranted.

Bank Premises and Equipment

Bank premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures and equipment are estimated to be 3 to 7 years. Leasehold improvements are amortized over the lesser of the respective lease term (including renewal periods that are reasonably assured) or their useful lives, which are generally 7 to 10 years.

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

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

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

At December 31, 2008 and 2007, the Bank did not have any tax benefits disallowed under FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). 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. Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the statement of operations. The Bank has not accrued for any interest or penalties as of December 31, 2008 because it does not have any unrecognized tax benefits.

Earnings (Loss) Per Share

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

Share-Based Compensation

The Bank has one share-based compensation plan, the Presidio Bank 2006 Stock Option Plan (the "Plan"), which has been approved by its shareholders and permits the grant of stock options for up to 1,200,000 shares of the Bank's common stock. The Plan is designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. New shares are issued upon option exercise. 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. The Bank has issued three types of stock option awards under the plan: Organizer Options, which were granted to founders and organizers and were fully vested upon the granting of the award; Service-Based Options, which are granted to employees and Directors and that will generally vest over a five year period; and Performance-Based Options, which are granted to employees and Directors and will vest only if the Bank meets or exceeds certain pre-determined financial goals and objectives.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-Based Compensation (Continued)

The Bank accounts for share-based compensation using a fair-value based method that requires that share-based compensation expense be recorded for all stock options that are ultimately expected to vest as the requisite service is rendered.

Management estimates the fair value of each option award as of the date of grant using a Black-Scholes-Merton option pricing formula. Expected volatility is based on historical volatility of similar entities over a preceding period commensurate with the expected term of the option because the Bank's common stock has been publicly traded for a shorter period than the expected term for the options. The "simplified" method described in the Securities and Exchange Commission's Staff Accounting Bulletin No. 110 is used to determine the expected term of the Bank's options due to the lack of sufficient historical data. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield was not considered in the option pricing formula because the Bank has not paid dividends and has no current plans to do so in the future. In addition to these assumptions, management makes estimates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the Plan.

Fair Value Measurements

On January 1, 2008, the Bank adopted Financial Accounting Standards Board (FASB) Statement No. 157 (SFAS No. 157), *Fair Value Measurements.* SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurement. Upon adoption of SFAS No. 157, there was no cumulative effect adjustment to beginning retained earnings and no impact on the consolidated financial statements.

In accordance with SFAS No. 157, the Bank groups its financial assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The Bank did not carry any of its financial assets or liabilities at fair value on December 31, 2008 on either a recurring or non-recurring basis, therefore the disclosure provisions of SFAS No. 157 are not required.

The Fair Value Option for Financial Assets and Financial Liabilities

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

Impact of Recently Issued Accounting Standards

Business Combinations

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

3. HELD-TO-MATURITY INVESTMENT SECURITIES

The amortized cost and estimated fair value of held-to-maturity investment securities at December 31, 2007 consisted of the following:

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Corporate securities	$ 29,898,092	$ 38,224	$ (88,316)	$ 29,848,000

Held-to-maturity investment securities are recorded at amortized cost, adjusted for the amortization of premiums or accretion of discounts. There were no sales, calls or transfers of held-to-maturity investment securities for the years ended December 31, 2008 and 2007.

Investment securities with unrealized losses at December 31, 2007 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months	
	Fair Value	Unrealized Losses
2007		
Debt securities:		
Corporate securities	$ 14,875,000	$ (88,316)

The Bank held no investment securities as of December 31, 2008.

4. LOANS

Outstanding loans are summarized below:

	December 31,	
	2008	2007
Commercial real estate	$ 77,200,884	$ 38,786,888
Construction and land development	15,552,199	9,088,070
Commercial	59,723,968	17,839,584
Consumer and other	27,822,663	9,300,923
	180,299,714	75,015,465
Deferred loan origination fees, net	(281,477)	(204,869)
Allowance for loan losses	(2,983,000)	(1,068,000)
	$ 177,035,237	$ 73,742,596

4. LOANS (Continued)

For the years ended December 31, 2008 and 2007, the Bank had no impaired loans and no loans placed on nonaccrual status. During the years ended December 31, 2008 and 2007, the Bank recognized a provision for loan losses of $1,915,000 and $766,000, respectively. There have been no losses charged to the allowance for loan losses since inception of the Bank.

Salaries and employee benefits totaling $209,894 and $107,401 were deferred as loan origination costs for the years ended December 31, 2008 and 2007, respectively.

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,	
	2008	2007
Furniture, fixtures and equipment	$ 1,071,444	$ 856,237
Leasehold improvements	390,893	182,274
	1,462,337	1,038,511
Less accumulated depreciation and amortization	(517,809)	(269,427)
	$ 944,528	$ 769,084

Depreciation and amortization included in occupancy and equipment expense totaled $248,381 and $198,256 for the years ended December 31, 2008 and 2007.

6. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2008	2007
Savings	$ 245,034	$ 329,169
Money market	88,890,845	67,589,714
Interest-bearing demand accounts	19,426,778	7,160,664
Time, $100,000 or more	24,561,937	8,180,939
Other time	5,898,346	437,000
	$ 139,022,940	$ 83,697,486

6. INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2009	$ 29,335,807
2010	794,476
2013	330,000
	$ 30,460,283

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2008 and 2007 consisted of the following:

	December 31,	
	2008	2007
Savings	$ 5,763	$ 9,703
Money market	1,876,122	1,683,169
Interest-bearing demand accounts	289,503	133,781
Time, $100,000 or more	298,911	243,527
Other time	251,023	2,024
	$ 2,721,322	$ 2,072,204

Deposits totaling approximately $28,645,000, or 17% of total deposits, were from five major depositors at December 31, 2008. The loss of these deposit relationships could have a material impact on the bank's operations and liquidity. Management attempts to mitigate this risk by working directly with these depositors and by maintaining sufficient liquidity to management fluctuations in account balances within these larger relationships.

7. INCOME TAXES

Income taxes for the years ended December 31, 2008 and 2007 consisted of the following:

	Federal	State	Total
2008			
Deferred	$ (1,245,000)	$ (445,000)	$ (1,690,000)
Valuation allowance	1,245,000	445,000	1,690,000
Income tax expense	$ -	$ -	$ -
2007			
Deferred	$ (952,000)	$ (340,000)	$ (1,292,000)
Valuation allowance	952,000	340,000	1,292,000
Income tax expense	$ -	$ -	$ -

Deferred tax assets (liabilities) at December 31, 2008 and 2007 consisted of the following:

	2008	2007
Deferred tax assets:		
Net operating losses	$ 2,366,000	$ 1,352,000
Organization costs	487,000	526,000
Allowance for loan losses	1,191,000	382,000
Share-based compensation	168,000	142,000
Other	20,000	32,000
Deferred tax assets before valuation allowance	4,232,000	2,434,000
Valuation allowance	(4,089,000)	(2,399,000)
Total deferred tax assets	143,000	35,000
Deferred tax liabilities:		
Depreciation and amortization	(60,000)	(35,000)
FHLB stock dividends	(62,000)	
Accrual to cash adjustment	(21,000)	
Total deferred tax liabilities	(143,000)	(35,000)
Net deferred tax assets	$ -	$ -

7. INCOME TAXES (Continued)

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

At December 31, 2008, the Bank had Federal net operating loss carryforwards (NOLs) of approximately $5,752,000 and State NOLs of approximately $5,731,000. The Federal NOLs begin to expire in 2027 and the State NOLs expire in 2017, respectively. The Bank's tax returns filed since inception continue to be open to examination by both federal and California tax authorities.

8. BORROWING ARRANGEMENTS

Lines of Credit

The Bank has unsecured Federal funds lines of credit with two of its correspondent banks under which it can borrow up to $10,000,000. There were no borrowings outstanding under these arrangements at December 31, 2008 or 2007.

FHLB Advances

The Bank has a borrowing arrangement with FHLB under which short-term and long term advances are secured by the Bank’s loan portfolio. The Bank’s credit limit varies according to the amount and composition of loans pledged as collateral. At December 31, 2008, the amounts pledged and borrowing capacity under such limits were approximately $68,000,000 and $28,000,000, respectively. At December 31, 2007, the amounts pledged and borrowing capacity under such limits were approximately $16,000,000 and $3,000,000, respectively. There were no borrowings outstanding under these arrangements at December 31, 2007. At December 31, 2008, borrowings outstanding under these arrangements were as follows:

Interest Rate	Maturity Date	Advance Amount
0.05%	January 2, 2009	$ 7,500,000
0.68%	January 6, 2009	5,000,000
3.02%	August 21, 2009	5,000,000
3.15%	September 10, 2010	4,000,000
3.62%	October 31, 2011	3,000,000
		$ 24,500,000

8. BORROWING ARRANGEMENTS

FDIC Temporary Liquidity Guarantee Programs

The Bank is eligible to issue certain debt that is backed by the full faith and credit of the United States, up to a limit of $3,433,000, under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program. Any senior unsecured debt with a stated maturity of more than thirty days issued by the Bank up to its debt guarantee limit falls under this program. The Bank will be charged an annualized assessment from the FDIC, ranging from 50 to 100 basis points, based on the term and amount of the debt outstanding under the program. At December 31, 2008, the Bank had no borrowings under this debt guarantee program.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Bank leases its San Francisco headquarters and Walnut Creek, San Rafael and Santa Rosa branch offices under non-cancelable operating leases. The leases expire on June 1, 2016, May 1, 2011, March 1, 2013 and February 29, 2010, respectively. The leases include annual rent adjustments of approximately 2.6%, 1.6%, 3% and 3%, respectively, each year during the initial lease terms. The San Francisco lease has two five year renewal options, the Walnut Creek, San Rafael and Santa Rosa leases each have one five year renewal option.

Approximate future minimum lease payments are as follows:

Year Ending December 31,	Operating Leases
2009	$ 586,000
2010	569,000
2011	505,000
2012	466,000
2013	369,000
Thereafter	874,000
	$ 3,369,000

Rental expense included in occupancy and equipment expense totaled $629,228 and $512,977 for years ended December 31, 2008 and 2007, respectively.

9. 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 the following:

	December 31, 2008	December 31, 2007
Commitments to extend credit	$ 61,438,000	$ 30,271,000
Standby letters of credit	$ 1,294,000	$ 1,242,000

The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for loans included on the balance sheet.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.

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

Commercial loan commitments represent approximately 63.2% of total commitments and are generally unsecured or secured by collateral other than real estate and have variable interest rates. Consumer loan commitments represent approximately 14.9% of total commitments and are generally unsecured or secured by collateral other than real estate and have variable interest rates. Real estate loan commitments represent approximately 10.4% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 75%. The majority of real estate commitments also have variable interest rates. Letters of credit represent 2.1% of total commitments. Home equity lines of credit represent the remaining 9.4% of total commitments and are generally secured by residential real estate and have both variable and fixed interest rates.

9. COMMITMENTS AND CONTINGENCIES (Continued)

Concentrations of Credit Risk

The Bank grants real estate mortgage, real estate construction and commercial loans to customers in San Francisco and surrounding counties. A substantial portion of its portfolio is secured by commercial and residential real estate at December 31, 2008 and 2007.

In management's judgment, a concentration of loans exists in real estate related loans with approximately 61% of the Bank's loans being real estate related. Although management believes the loans within this concentration have no more than the normal risk of collectibility, a substantial decline in the performance of the economy in general or a decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on the collectibility of these loans. Personal and business income represent the primary source of repayment for a majority of these loans.

Correspondent Banking Agreements

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

10. SHARE-BASED PAYMENTS

Stock Option Awards

Stock option activity for the year ended December 31, 2008 is summarized as follows:

	Number of Stock Options Outstanding		Weighted Average Exercise Prices	Weighted Average Remaining Contractual Life
Granted and outstanding at January 1, 2007	873,250	$	10.01	
Granted	168,000	$	9.92	
Cancelled or expired	(21,000)	$	10.34	
Outstanding at December 31, 2007	1,020,250	$	9.99	8.7 years
Granted	142,250	$	9.54	
Cancelled or expired	(192,040)	$	9.90	
Outstanding at December 31, 2008	970,460	$	9.94	7.9 years
Exercisable at December 31, 2008	410,080	$	10.00	7.6 years
Additional Options expected to vest	399,648	$	9.94	7.9 years

There was no intrinsic value of stock options outstanding, exercisable or expected to vest at December 31, 2008.

The weighted average exercise price and weighted average remaining contractual term of these awards was as follows at December 31, 2008:

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Organizer Options	200,000	$	10.00	7.6 years
Service-Based Options	624,360	$	9.93	8.0 years
Performance-Based Options	146,100	$	9.93	8.0 years

10. SHARE-BASED PAYMENTS (Continued)

Stock Option Awards (Continued)

The unrecognized compensation cost related to non-vested Service-Based Options totaled $517,078 as of December 31, 2008. That cost is expected to be amortized on an accelerated basis over a weighted average period of 3.1 years and will be adjusted for subsequent changes in estimated forfeitures. The unrecognized compensation cost related to non-vested Performance-Based Options totaled approximately $616,000 as of December 31, 2008. That cost will be amortized for awards that are expected to vest when and if it becomes probable that the performance measures will be achieved. These performance measures are principally related to asset and deposit size and return on average assets for the twelve months ended June 30, 2011. In management's opinion, it is not probable at the present time that the Bank will achieve these targets by June 30, 2011 and, therefore, no compensation expense has been recorded for the Performance-Based Options for the years ended December 31, 2008 and 2007.

The following stock option information is for the years ended December 31, 2008 and 2007:

	2008	2007
Weighted average grant date fair value per share of options granted	$1.19	$3.09
Significant fair value assumptions:		
Expected term in years	6.5 years	6.5 years
Expected annual volatility	19.60%	17.59%
Expected annual dividend yield	0%	0%
Risk-free interest rate	3.7%	4.5%
Total compensation cost (included in operating expenses)	$437,133	$605,682

11. SHAREHOLDERS' EQUITY

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 to the lesser of (1) the bank's retained earnings or (2) the Bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2008, no amounts were free of such restrictions.

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by the FRB and 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.

11. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (Continued)

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

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

Under terms of its charter approval, the Bank is required to maintain a minimum leverage ratio of 9% during its first three years of operation. In addition, to be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below.

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

	2008		2007	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Presidio Bank	$ 30,248,000	13.5%	$ 34,288,000	27.6%
Minimum requirement for "Well-Capitalized" institution	$ 11,203,000	5.0%	$ 6,206,000	5.0%
Minimum regulatory requirement	$ 8,962,000	4.0%	$ 4,965,000	4.0%
Minimum leverage ratio for de novo institution	$ 20,165,000	9.0%	$ 11,172,000	9.0%
Tier 1 Risk-Based Capital Ratio				
Presidio Bank	$ 30,248,000	14.2%	$ 34,288,000	27.8%
Minimum requirement for "Well-Capitalized" institution	$ 12,781,000	6.0%	$ 7,393,000	6.0%
Minimum regulatory requirement	$ 8,521,000	4.0%	$ 4,929,000	4.0%
Total Risk-Based Capital Ratio				
Presidio Bank	$ 33,231,000	15.6%	$ 35,391,000	28.7%
Minimum requirement for "Well-Capitalized" institution	$ 21,302,000	10.0%	$ 12,322,000	10.0%
Minimum regulatory requirement	$ 17,042,000	8.0%	$ 9,858,000	8.0%

12. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including Directors, executive officers and affiliates. These transactions include borrowings from the Bank with substantially the same terms, including rates and collateral, as loans to unrelated parties. The following is a summary of the aggregate activity involving related party borrowers during the years ended December 31, 2008 and 2007:

	2008	2007
Beginning balance	$ 161,000	$ -
Disbursements	3,054,000	161,000
Amounts repaid	(2,072,000)	-
Ending balance	$ 1,143,000	$ 161,000
Undisbursed commitments to related parties	$ 1,527,000	$ 2,669,000

13. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

In 2006, the Bank adopted the Presidio Bank 401(k) Profit Sharing Plan and Trust. All employees 21 years of age or older are eligible to participate in the plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. The Bank may make additional contributions to the plan at the discretion of the Board of Directors. Bank contributions vest at a rate of 20% annually for all employees. The Bank made contributions to the Plan totaling approximately $160,000 and $86,000 for the years ended December 31, 2008 and 2007, respectively.

Deferred Compensation Plan

During 2006 the Bank adopted the Presidio Bank Deferred Compensation Plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. The Bank may make additional contributions to the plan at the discretion of the Board of Directors. Bank contributions vest at a rate of 20% annually for all employees. The Bank has made no contributions to the plan since inception.

14. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

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

	December 31, 2008		December 31, 2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 2,875,639	$ 2,875,639	$ 591,733	$ 591,733
Federal funds sold	40,470,460	40,470,460	19,110,000	19,110,000
Interest-bearing deposits in other financial institutions			5,000,000	5,000,000
Held-to-maturity investment securities			29,898,092	29,848,000
Federal Reserve Bank and FHLB stock	2,110,250	2,110,250	1,049,200	1,049,200
Loans, net	177,035,237	182,530,000	73,742,596	74,827,000
Accrued interest receivable	600,810	600,810	301,233	301,233
Financial liabilities:				
Deposits	$ 168,469,509	$ 166,898,000	$ 95,916,888	$ 94,747,000
Borrowings	24,500,000	24,838,000		
Accrued interest payable	188,700	188,700	137,423	137,423

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

The following methods and assumptions were used to estimate the fair value of financial instruments. For cash and cash equivalents, variable-rate loans and leases, accrued interest receivable and payable, Federal Reserve Bank and FHLB stock, demand deposits and short-term borrowings, the carrying amount is estimated to be fair value. For investment securities, fair values are based on quoted market prices, quoted market prices for similar securities and indications of value provided by brokers. The fair values for fixed-rate loans and leases are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. Fair values for fixed-rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Bank for certificates with similar remaining maturities. The fair value of long term borrowings are estimated using discounted cash flow analyses using interest rates offered at each reporting date by FHLB for advances with similar remaining maturities. The fair values of commitments are estimated using the fees currently charged to enter into similar agreements and are not significant and, therefore, not included in the above table.