PRESIDIO BANK

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006

AND FOR THE YEAR ENDED DECEMBER 31, 2007

AND FOR THE PERIOD FROM JULY 24, 2006

(DATE OPERATIONS COMMENCED)

TO DECEMBER 31, 2006

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, 2007 and 2006 and the related statements of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2007 and for the period from July 24, 2006 (date operations commenced) to December 31, 2006. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our 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, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and for the period from July 24, 2006 (date operations commenced) to December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Perry-Smith LLP

March 26, 2008

PRESIDIO BANK

BALANCE SHEET

December 31, 2007 and 2006

	2007	2006
ASSETS		
Cash and due from banks	$ 591,733	$ 418,363
Federal funds sold	19,110,000	22,300,000
Total cash and cash equivalents	19,701,733	22,718,363
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	1,049,200	1,200,000
Loans, less allowance for loan losses of $1,068,000 in 2007 and 302,000 in 2006 (Notes 4 and 9)	73,742,596	24,869,537
Bank premises and equipment, net (Note 5)	769,084	851,174
Accrued interest receivable and other assets	754,137	282,666
	$ 130,914,842	$ 49,921,740
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 12,219,402	$ 1,925,360
Interest bearing (Note 6)	83,697,486	10,274,645
Total deposits	95,916,888	12,200,005
Accrued interest payable and other liabilities	709,658	342,294
Total liabilities	96,626,546	12,542,299
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 2007 and 2006	40,922,145	40,316,463
Accumulated deficit	(6,633,849)	(2,937,022)
Total shareholders' equity	34,288,296	37,379,441
Total liabilities and shareholders' equity	$ 130,914,842	$ 49,921,740

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

PRESIDIO BANK

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2007 and for the Period from July 24, 2006 (Date Operations Commenced) to December 31, 2006

	2007	2006
Interest income:		
Interest and fees on loans	$ 3,406,396	$ 315,372
Interest on Federal Funds sold	1,777,957	785,887
Interest on interest bearing deposits	77,909	
Interest on investment securities held to maturity	605,936	
Total interest income	5,868,198	1,101,259
Interest expense:		
Interest on deposits	2,072,204	103,589
Net interest income	3,795,944	997,670
Provision for loan losses (Note 4)	766,000	302,000
Net interest income after provision for loan losses	3,029,994	695,670
Non-interest income:		
Service charges and fees	14,004	377
Dividend income	68,877	31,200
Total non-interest income	82,881	31,577
Non-interest expense:		
Salaries and employee benefits (Notes 4 and 13)	4,021,511	1,346,446
Occupancy and equipment (Notes 5 and 9)	777,473	294,016
Other	2,010,718	520,441
Total non-interest expense	6,809,702	2,160,903
Net loss	$ (3,696,827)	$ (1,433,656)
Basic loss per share	$ (0.92)	$ (0.36)
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 Year Ended December 31, 2007 and for the Period from July 24, 2006 (Date Operations Commenced) to December 31, 2006

	Common Stock			
	Shares	Amount	Accumulated Deficit	Total Shareholders' Equity
Balance, July 24, 2006 (date operations commenced) (Note 2)	4,000,000	$ 40,130,051	$ (1,503,366)	$ 38,626,685
Share-based compensation expense (Notes 1 and 10)		186,412		186,412
Net loss			(1,433,656)	(1,433,656)
Balance, December 31, 2006	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

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

PRESIDIO BANK

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2007 and for the Period from July 24, 2006 (Date Operations Commenced) to December 31, 2006

	2007	2006
Cash flows from operating activities:		
Net loss	$ (3,696,827)	$ (1,433,656)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	766,000	302,000
Accretion of discounts on investment securities	431,839	
Depreciation and amortization	198,256	71,171
Deferred loan origination fees, net	151,497	53,372
Share-based compensation expense	605,682	186,412
Decrease (increase) in accrued interest receivable and other assets	(320,671)	185,080
Increase (decrease) in accrued interest payable and other liabilities	367,364	(87,510)
Net cash used in operating activities	(1,496,860)	(723,131)
Cash flows from investing activities:		
Purchase of held-to-maturity investment securities	(30,329,931)	
Net increase in loans	(49,790,556)	(25,224,909)
Purchases of time deposits in other financial institutions	(5,000,000)	
Purchase of premises and equipment	(116,166)	(38,300)
Net cash used in investing activities	(85,236,653)	(25,263,209)
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	76,727,828	10,571,121
Net increase in time deposits	6,989,055	1,628,884
Repayment of organizational advances from Directors and organizers		(2,000,000)
Net cash provided by financing activities	83,716,883	10,200,005
Decrease in cash and cash equivalents	(3,016,630)	(15,786,335)
Cash and cash equivalents at date operations commenced or beginning of year	22,718,363	38,504,698
Cash and cash equivalents at end of year	$ 19,701,733	$ 22,718,363
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	$ 1,939,885	$ 98,485

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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 headquartered in San Francisco, California and has branch offices in Walnut Creek and Santa Rosa, California. The Bank also expects to open a branch office in San Rafael, California during 2008. 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.

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

The 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.

1. 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 investments in the capital stocks of the FRB and FHLB. These investments are carried at cost.

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. At December 31, 2007, all securities are classified as held-to-maturity and there were no transfers between categories during the year.

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.

1. 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.

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

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.

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

Allowance for Loan Losses (Continued)

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 $35,000 and $13,000 at December 31, 2007 and 2006, respectively, is included in accrued interest payable and other liabilities on the balance sheet.

The allowance for loan losses at December 31, 2007 and 2006 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, 2007 and 2006. 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. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

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

The Bank considers all tax positions recognized in its financial statements for the likelihood of realization. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than fifty percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above, if any, is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the statement of operations. The bank does not have a liability for unrecognized tax benefits, or uncertain tax positions, and has not accrued for any interest or penalties as of December 31, 2007.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. 107 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of Recently Issued Accounting Standards

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until fiscal years beginning after November 15, 2008. The Bank adopted SFAS No. 157 on January 1, 2008 and its adoption did not have a material impact on the Bank's financial position, results of operations or cash flows.

Fair Value Accounting

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 159 permits companies to elect to follow fair value accounting for certain financial assets and liabilities in an effort to mitigate volatility in earnings without having to apply complex hedge accounting provisions. The standard also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Bank adopted SFAS No. 159 on January 1, 2008 and management did not elect the fair value option for any of the Bank's financial instruments.

Business Combinations

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 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 is required to adopt SFAS No. 141(R) for all business combinations for which the acquisition date is on or after January 1, 2009. Earlier adoption is prohibited. This standard will change the accounting treatment for business combinations on a prospective basis.

2. PRE-OPENING ACTIVITIES

Prior to commencement of operations, the Bank was considered a development stage company and was engaged in activities designed to prepare it for opening as an FDIC-insured financial institution. The Bank received its initial funding during this period from directors and organizers in the form of interest-free loans. The initial funds were used during the development stage of the Bank to pay for salaries, legal and consulting expenses, rent, and the purchase of premises and equipment. These funds were repaid to the directors and organizers following approval by the banking regulators. In consideration for the funding during the organizational period each director and organizer received one option for each $10 loaned to the Bank. The fair value of these options, estimated based upon imputed interest associated with the interest-free loans, was $200,000, and is included in pre-opening expenses.

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

Salaries and benefits	$ 551,528
Consulting and professional fees	498,732
Share-based compensation expense	200,000
Rent	127,306
Other	423,032
Interest income	(297,232)
Net pre-opening expenses	$ 1,503,366

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

Proceeds from organizational advances from Directors and organizers	$ 2,000,000
Proceeds from sale of common stock, net of offering costs of $69,949	39,930,051
Pre-opening expenses, net	(1,503,366)
Share-based compensation expense included in pre-opening expenses	200,000
Purchase of premises and equipment	(884,045)
Purchase of Federal Reserve Bank Stock	(1,200,000)
Increase in prepaid expenses and other assets	(467,746)
Increase in accrued liabilities	429,804
Cash and cash equivalents at date operations commenced	$ 38,504,698

3. HELD-TO-MATURITY INVESTMENT SECURITIES

The amortized cost and estimated fair value of held-to-maturity investment securities at December 31, 2007 and 2006 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

The Bank held no investment securities at December 31, 2006. 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 year ended December 31, 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
Debt securities:		
Corporate securities	$ 14,875,000	$ (88,316)

The Bank held four corporate securities as of December 31, 2007. Two of these securities had been in an unrealized loss position for less than 12 months. These unrealized losses were primarily caused by changes in market interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Bank has the ability and intent to hold those investments until a recovery of fair value, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2007.

All held-to-maturity investment securities mature in 2008.

4. LOANS

Outstanding loans are summarized below:

	December 31, 2007	December 31, 2006
Commercial real estate	$ 38,786,888	$ 5,919,959
Construction and land development	9,088,070	11,017,956
Commercial	17,839,584	3,604,829
Consumer and other	9,300,923	4,682,165
	75,015,465	25,224,909
Deferred loan origination fees, net	(204,869)	(53,372)
Allowance for loan losses	(1,068,000)	(302,000)
	$ 73,742,596	$ 24,869,537

For the year ended December 31, 2007 and for the period from July 24, 2006 (date operations commenced) to December 31, 2006, the Bank had no impaired loans and no loans placed on nonaccrual status. During the year ended December 31, 2007 and for the period from July 24, 2006 (date operations commenced) to December 31, 2006, the Bank recognized a provision for loan losses of $766,000 and $302,000, respectively. There have been no losses charged to the allowance for loan losses since inception of the Bank.

Salaries and employee benefits totaling $107,401 and $62,832 were deferred as loan origination costs for the year ended December 31, 2007 and for the period from July 24, 2006 (date operations commenced) to December 31, 2006.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

	December 31, 2007	December 31, 2006
Furniture, fixtures and equipment	$ 856,237	$ 740,071
Leasehold improvements	182,274	182,274
	1,038,511	922,345
Less accumulated depreciation and amortization	(269,427)	(71,171)
	$ 769,084	$ 851,174

5. BANK PREMISES AND EQUIPMENT (Continued)

Depreciation and amortization included in occupancy and equipment expense totaled $198,256 and $71,171 for the year ended December 31, 2007 and for the period from July 24, 2006 (date operations commenced) to December 31, 2006.

6. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2007	2006
Savings	$ 329,169	$ 122,898
Money market	67,589,714	5,991,516
Interest-bearing demand accounts	7,160,664	2,531,347
Time, $100,000 or more	8,180,939	1,602,384
Other time	437,000	26,500
	$ 83,697,486	$ 10,274,645

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2008	$ 7,401,162
2009	1,216,777
	$ 8,617,939

Interest expense recognized on interest-bearing deposits for the year ended December 31, 2007 and for the period from July 24, 2006 (date operations commenced) to December 31, 2006 consisted of the following:

	December 31,	
	2007	2006
Savings	$ 9,703	$ 1,397
Money market	1,683,169	82,711
Interest-bearing demand accounts	133,781	11,430
Time, $100,000 or more	243,527	7,752
Other time	2,024	299
	$ 2,072,204	$ 103,589

Deposits totaling approximately $28,880,000, or 30.1% of total deposits, were from five major depositors at December 31, 2007.

7. INCOME TAXES

Income taxes for the year ended December 31, 2007 and for the period from July 24, 2006 (date operations commenced) to December 31, 2006 consisted of the following:

2007

Deferred	$ 1,292,000
Establishment of a valuation allowance	(1,292,000)
Income tax expense	$ -

2006

Deferred	$ 1,107,000
Establishment of a valuation allowance	(1,107,000)
Income tax expense	$ -

Deferred tax assets (liabilities) at December 31, 2007 and 2006 consisted of the following:

	2007	2006
Deferred tax assets:		
Net operating losses	$ 1,473,000	$ 405,000
Organization costs	573,000	608,000
Allowance for loan losses	416,000	135,000
Stock-based compensation	155,000	18,000
Other	35,000	64,000
Deferred tax assets before valuation allowance	2,652,000	1,230,000
Valuation allowance	(2,399,000)	(1,107,000)
Total deferred tax assets	253,000	123,000
Deferred tax liabilities:		
Depreciation and amortization	(38,000)	(24,000)
Future liability of state deferred tax asset	(215,000)	(99,000)
Total deferred tax liabilities	(253,000)	(123,000)
Net deferred tax assets	$ -	$ -

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.

7. INCOME TAXES (Continued)

At December 31, 2007, the Bank had Federal and State net operating loss carryforwards (NOLs) of approximately $3,286,000. The Federal NOLs begin to expire in 2026 and the State NOLs expire in 2016, respectively. The Bank's tax returns filed since inception continue to be open to examination by both federal and California tax authorities.

8. SHORT-TERM BORROWING ARRANGEMENTS

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. The Bank also has collateralized borrowing lines with the FHLB Lines at December 31, 2007 the Bank had borrowing capacity from the FHLB of $7,151,000 There were no borrowings outstanding under these arrangements at December 31, 2007 and 2006.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

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

Future minimum lease payments are estimated as follows:

Year Ending December 31,	Operating Leases
2008	$ 553,000
2009	586,000
2010	569,000
2011	505,000
2012	466,000
Thereafter	1,243,000
	$ 3,922,000

Rental expense included in occupancy and equipment expense totaled $512,977 and $194,521 for year ended December 31, 2007 and for the period from July 24, 2006 (date operations commenced) to December 31, 2006.

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,	
	2007	2006
Commitments to extend credit	$ 30,271,000	$ 12,584,000
Standby letters of credit	$ 1,242,000	$ 1,000,000

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, 2007. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

Commercial loan commitments represent approximately 67% 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 10% of total commitments and are generally unsecured or secured by collateral other than real estate and have variable interest rates. Real estate loan commitments represent approximately 17% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 75%. The majority of real estate commitments also have variable interest rates. Letters of credit represent 4% of total commitments. Home equity lines of credit represent the remaining 2% 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, 2007 and 2006.

In management's judgment, a concentration of loans exists in real estate related loans with approximately 67% 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.

Legal Proceedings

From time to time, the Bank may become a party to claims and legal proceedings arising in the ordinary course of business. Management evaluates the Bank's exposure to cases individually and in the aggregate and provides for potential losses on such litigation if it is probable that a loss has been incurred and it can be reasonably estimated. During 2007, the Bank settled a potential litigation matter related to assertions made by another financial institution against the Bank, one of its officers and one of its directors. The Bank believes that there are no material litigation matters at the current time. However, litigation is inherently uncertain and no assurance can be given that any current or future litigation will not result in loss which might be material to the Bank.

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. There were no uninsured deposits at December 31, 2007.

10. SHARE-BASED PAYMENTS

Stock Option Awards

Stock option activity for the year ended December 31, 2007 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	166,000	$	10.01	
Cancelled or expired	(21,000)	$	10.34	
Outstanding at December 31, 2007	1,018,250	$	9.99	8.7 years
Exercisable at December 31, 2007	304,520	$	10.00	8.6 years
Options expected to vest	417,504	$	9.99	8.7 years

There was no intrinsic value of stock options outstanding, exercisable or expected to vest at December 31, 2007.

The weighted average exercise price and weighted average remaining contractual term of these awards was as follows at December 31, 2007:

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Organizer Options	200,000	$	10.00	8.6 years
Service-Based Options	654,600	$	9.99	8.8 years
Performance-Based Options	163,650	$	9.99	8.8 years

The unrecognized compensation cost related to non-vested Service-Based Options totaled $849,000 as of December 31, 2007. That cost is expected to be amortized on an accelerated basis over a weighted average period of 3.8 years and will be adjusted for subsequent changes in estimated forfeitures. The unrecognized compensation cost related to non-vested Performance-Based Options totaled $720,000 as of December 31, 2007. 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 period July 24, 2006 (date operations commenced) to December 31, 2006 or for the year ended December 31, 2007.

10. SHARE-BASED PAYMENTS (Continued)

Stock Option Awards (Continued)

The following stock option information is for the year ended December 31, 2007 and for the period July 24, 2006 (date operations commenced) to December 31, 2006:

	2007	2006
Weighted average grant date fair value per share of options granted	$3.09	$3.20
Significant fair value assumptions:		
Expected term in years	6.5 years	6.5 years
Expected annual volatility	17.59%	17.75%
Expected annual dividend yield	0%	0%
Risk-free interest rate	4.5%	4.8%
Total compensation cost (included in operating expenses)	$605,682	$186,412

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, 2007, no amounts were free of such restrictions.

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by the Fed and 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 and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Bank meets all its capital adequacy requirements as of December 31, 2007.

11. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (Continued)

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.

	2007		2006	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Presidio Bank	$ 34,288,000	27.62%	$ 37,379,000	78.2%
Minimum requirement for "Well-Capitalized" institution	$ 6,206,000	5.0%	$ 2,391,000	5.0%
Minimum regulatory requirement	$ 4,965,000	4.0%	$ 1,912,000	4.0%
Minimum leverage ratio for de novo institution	$ 11,172,000	9.0%	$ 4,303,000	9.0%
Tier 1 Risk-Based Capital Ratio				
Presidio Bank	$ 34,288,000	27.83%	$ 37,379,000	109.9%
Minimum requirement for "Well-Capitalized" institution	$ 7,393,000	6.0%	$ 2,042,000	6.0%
Minimum regulatory requirement	$ 4,929,000	4.0%	$ 1,361,000	4.0%
Total Risk-Based Capital Ratio				
Presidio Bank	$ 35,391,000	28.72%	$ 37,682,000	110.7%
Minimum requirement for "Well-Capitalized" institution	$ 12,322,000	10.0%	$ 3,403,000	10.0%
Minimum regulatory requirement	$ 9,858,000	8.0%	$ 2,722,000	8.0%

12. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank may enter into transactions with related parties, including Directors, executive officers and affiliates. These transactions could include borrowings from the Bank with substantially the same terms, including rates and collateral, as loans to unrelated parties. The Bank had disbursed and outstanding loans to related parties totaling approximately $161,000 at December 31, 2007. Undisbursed commitments to related parties totaled approximately $2,669,000 at December 31, 2007. The Bank had no activity involving related party borrowers for the period from July 24, 2006 (date operations commenced) to December 31, 2006.

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 $86,000 and $24,000 for the year ended December 31, 2007 and for the period from July 24, 2006 (date operations commenced) to December 31, 2006, respectively.

14. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. 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.

Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following methods and assumptions were used by the Bank to estimate the fair value of its financial instruments at December 31, 2007 and 2006:

Cash and due from banks, Federal funds sold and interest-bearing deposits in other financial institutions: For cash and due from banks, Federal funds sold and interest-bearing deposits in other financial institutions, the carrying amount is estimated to be fair value.

Federal Reserve Bank stock: The stock may be redeemed at par by the issuer. Accordingly, the carrying amount is a reasonable estimate of fair value.

Loans: For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates offered for loans with similar terms to borrowers of comparable creditworthiness. The fair value of loans is adjusted for the allowance for loan losses. The carrying amount of accrued interest receivable approximates its fair value.

14. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates offered by the Bank for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Commitments to fund loans/standby letters of credit: Off-balance-sheet commitments to extend credit are primarily for adjustable rate loans and letters of credit. The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The differences between the carrying value of commitments to fund loans or standby letters of credit and their fair value are not significant and, therefore, are not included in the following table.

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

	December 31, 2007		December 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 591,733	$ 591,733	$ 418,363	$ 418,363
Federal funds sold	19,110,000	19,110,000	22,300,000	22,300,000
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 stock	1,049,200	1,049,200	1,200,000	1,200,000
Loans, net	73,742,596	74,827,391	24,869,537	24,840,000
Accrued interest receivable	301,233	301,233	101,044	101,044
Financial liabilities:				
Deposits	$ 95,916,888	$ 94,746,896	$ 12,200,005	$ 11,856,000
Accrued interest payable	137,423	137,423	5,104	5,104