

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2009 AND 2008 AND

FOR THE YEARS ENDED

DECEMBER 31, 2009, 2008 AND 2007

AND

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
NorCal Community Bancorp

We have audited the accompanying consolidated balance sheet of NorCal Community Bancorp and subsidiary as of December 31, 2009 and 2008 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NorCal Community Bancorp and subsidiary as of December 31, 2009 and 2008 and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Perry-Smith LLP

February 18, 2010

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

December 31, 2009 and 2008

| ASSETS | <u>2009</u> | <u>2008</u> |
|---|-----------------------|-----------------------------|
| Cash and due from banks | \$ 3,818,234 | \$ 4,257,366 |
| Interest bearing deposits in banks | <u>21,715,000</u> | <u> </u> |
| Total cash and cash equivalents | 25,533,234 | 4,257,366 |
| Investment securities (fair value of \$16,985,000 in 2009 and \$14,529,000 in 2008) (Notes 4 and 8) | 16,779,067 | 14,430,290 |
| Loans and leases, less allowance for loan and lease losses of \$5,392,810 in 2009 and \$6,833,365 in 2008 (Notes 5, 8 and 11) | 197,629,276 | 233,365,526 |
| Other real estate | 598,815 | 1,069,616 |
| Premises and equipment, net (Note 6) | 573,223 | 941,618 |
| Federal Home Loan Bank stock | 1,371,800 | 1,371,800 |
| Accrued interest receivable and other assets (Note 10) | <u>5,756,124</u> | <u>6,843,214</u> |
| Total assets | <u>\$ 248,241,539</u> | <u>\$ 262,279,430</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits: | | |
| Non-interest bearing | \$ 51,818,815 | \$ 47,329,457 |
| Interest bearing (Note 7) | <u>168,195,521</u> | <u>170,744,938</u> |
| Total deposits | 220,014,336 | 218,074,395 |
| Short-term borrowings (Note 8) | | 11,000,000 |
| Accrued interest payable and other liabilities | 665,485 | 867,252 |
| Subordinated debentures (Note 9) | <u>8,248,000</u> | <u>8,248,000</u> |
| Total liabilities | <u>228,927,821</u> | <u>238,189,647</u> |
| Commitments and contingencies (Note 11) | | |
| Shareholders' equity (Note 12): | | |
| Preferred stock - no par value; 10,000,000 shares authorized; No shares issued and outstanding in 2009 and 2008 | | |
| Common stock - no par value; 30,000,000 shares authorized; issued and outstanding 3,166,755 shares in 2009 and 3,172,444 shares in 2008 | 11,820,788 | 11,552,889 |
| Retained earnings | 7,472,633 | 12,501,624 |
| Accumulated other comprehensive income, net of taxes (Notes 4 and 14) | <u>20,297</u> | <u>35,270</u> |
| Total shareholders' equity | <u>19,313,718</u> | <u>24,089,783</u> |
| Total liabilities and shareholders' equity | <u>\$ 248,241,539</u> | <u>\$ 262,279,430</u> |

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

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS

For the Years Ended December 31, 2009, 2008 and 2007

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|-----------------------|-----------------------|---------------------|
| Interest income: | | | |
| Interest and fees on loans and leases | \$ 13,919,203 | \$ 17,514,523 | \$ 19,898,849 |
| Interest on interest-bearing deposits with other banks | 26,651 | | |
| Interest on Federal funds sold | 2,667 | 35,635 | 36,127 |
| Interest and dividends on investment securities: | | | |
| Taxable | 426,252 | 666,164 | 957,023 |
| Exempt from Federal income taxes | <u>110,274</u> | <u>91,247</u> | <u>36,529</u> |
| Total interest income | <u>14,485,047</u> | <u>18,307,569</u> | <u>20,928,528</u> |
| Interest expense: | | | |
| Interest on deposits (Note 7) | 1,913,941 | 3,811,297 | 4,664,846 |
| Interest on short-term borrowings (Note 8) | 178,346 | 421,695 | 754,940 |
| Interest on subordinated debentures (Note 9) | <u>261,503</u> | <u>474,289</u> | <u>638,095</u> |
| Total interest expense | <u>2,353,790</u> | <u>4,707,281</u> | <u>6,057,881</u> |
| Net interest income before provision for loan and lease losses | 12,131,257 | 13,600,288 | 14,870,647 |
| Provision for loan and lease losses (Note 5) | <u>7,350,000</u> | <u>7,821,800</u> | <u>335,000</u> |
| Net interest income after provision for loan and lease losses | <u>4,781,257</u> | <u>5,778,488</u> | <u>14,535,647</u> |
| Non-interest income: | | | |
| Service charges | 534,076 | 478,695 | 316,081 |
| Mortgage loan packaging fees | 42,159 | 31,491 | 20,350 |
| Other | <u>314,230</u> | <u>346,816</u> | <u>382,417</u> |
| Total non-interest income | <u>890,465</u> | <u>857,002</u> | <u>718,848</u> |
| Non-interest expenses: | | | |
| Salaries and employee benefits (Notes 5 and 15) | 5,073,817 | 5,845,358 | 6,072,147 |
| Occupancy and equipment (Notes 6 and 11) | 1,646,162 | 1,827,321 | 1,790,843 |
| Other expenses (Note 13) | <u>3,555,734</u> | <u>3,335,993</u> | <u>2,743,931</u> |
| Total non-interest expenses | <u>10,275,713</u> | <u>11,008,672</u> | <u>10,606,921</u> |
| (Loss) income before provision for (benefit from) income taxes | (4,603,991) | (4,373,182) | 4,647,574 |
| Provision for (benefit from) income taxes (Note 10) | <u>425,000</u> | <u>(1,969,000)</u> | <u>1,774,000</u> |
| Net (loss) income | <u>\$ (5,028,991)</u> | <u>\$ (2,404,182)</u> | <u>\$ 2,873,574</u> |
| Basic (loss) earnings per share (Note 12) | <u>\$ (1.60)</u> | <u>\$ (0.88)</u> | <u>\$ 0.96</u> |
| Diluted (loss) earnings per share (Note 12) | <u>\$ (1.60)</u> | <u>\$ (0.88)</u> | <u>\$ 0.87</u> |

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

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2009, 2008 and 2007

| | <u>Preferred Stock</u> | | <u>Common Stock</u> | | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive (Loss) Income (Net of Taxes)</u> | <u>Total Shareholders' Equity</u> | <u>Total Comprehensive Income (Loss)</u> |
|---|------------------------|---------------|---------------------|-------------------|--------------------------|---|-----------------------------------|--|
| | <u>Shares</u> | <u>Amount</u> | <u>Shares</u> | <u>Amount</u> | | | | |
| Balance, January 1, 2007 | | | 2,923,251 | \$ 9,786,010 | \$ 12,295,960 | \$ (47,613) | \$ 22,034,357 | |
| Comprehensive income (Note 14): | | | | | | | | |
| Net income | | | | | 2,873,574 | | 2,873,574 | \$ 2,873,574 |
| Other comprehensive income, net of taxes: | | | | | | | | |
| Net change in unrealized (losses) gains on available-for-sale investment securities | | | | | | 73,189 | 73,189 | <u>73,189</u> |
| Total comprehensive income | | | | | | | | <u>\$ 2,946,763</u> |
| Sale of preferred stock, net of offering costs of \$45,958 (Note 12) | 65,932 | \$ 1,008,954 | | | | | 1,008,954 | |
| Restricted common stock awarded (Note 12) | | | 9,910 | | | | | |
| Restricted common stock forfeited | | | (2,213) | | | | | |
| Restricted common stock compensation expense (Note 12) | | | | 321,412 | | | 321,412 | |
| Stock options exercised, including tax benefits (Note 12) | | | 118,077 | 516,869 | | | 516,869 | |
| Fractional shares redeemed | | | | (303) | | | (303) | |
| Repurchase of common stock under stock option plan | | | (5,234) | (84,955) | | | (84,955) | |
| Balance, December 31, 2007 | 65,932 | 1,008,954 | 3,043,791 | 10,539,033 | 15,169,534 | 25,576 | 26,743,097 | |
| Comprehensive loss (Note 14): | | | | | | | | |
| Net loss | | | | | (2,404,182) | | (2,404,182) | \$ (2,404,182) |
| Other comprehensive income, net of taxes: | | | | | | | | |
| Net change in unrealized gain on available-for-sale investment securities | | | | | | 9,694 | 9,694 | <u>9,694</u> |
| Total comprehensive loss | | | | | | | | <u>\$ (2,394,488)</u> |
| Preferred stock beneficial conversion feature (Note 12) | 16,483 | 263,728 | | | (263,728) | | | |
| Conversion of preferred stock into common stock | (82,415) | (1,272,682) | 82,415 | 1,272,682 | | | | |
| Restricted common stock compensation expense (Note 12) | | | | 341,061 | | | 341,061 | |
| Stock options exercised, including tax benefits (Note 12) | | | 107,392 | 275,181 | | | 275,181 | |
| Repurchase of common stock under stock option plan | | | (26,154) | (320,568) | | | (320,568) | |
| Repurchase of common stock (Note 12) | | | (35,000) | (554,500) | | | (554,500) | |
| Balance, December 31, 2008 | | | <u>3,172,444</u> | <u>11,552,889</u> | <u>12,501,624</u> | <u>35,270</u> | <u>24,089,783</u> | |

(Continued)

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Continued)
For the Years Ended December 31, 2009, 2008 and 2007

| | <u>Preferred Stock</u> | | <u>Common Stock</u> | | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive (Loss) Income (Net of Taxes)</u> | <u>Total Shareholders' Equity</u> | <u>Total Comprehensive Income (Loss)</u> |
|--|------------------------|---------------|---------------------|----------------------|--------------------------|---|-----------------------------------|--|
| | <u>Shares</u> | <u>Amount</u> | <u>Shares</u> | <u>Amount</u> | | | | |
| Balance, December 31, 2008 | | | 3,172,444 | \$ 11,552,889 | \$ 12,501,624 | \$ 35,270 | \$ 24,089,783 | |
| Comprehensive loss (Note 14): | | | | | | | | |
| Net loss | | | | | (5,028,991) | | (5,028,991) | \$ (5,028,991) |
| Other comprehensive loss, net of taxes: | | | | | | | | |
| Net change in unrealized gain on available-for-sale investment securities (Note 4) | | | | | | (14,973) | (14,973) | (14,973) |
| Total comprehensive loss | | | | | | | | <u>\$ (5,043,964)</u> |
| Restricted common stock forfeited | | | (2,775) | | | | | |
| Restricted common stock compensation expense (Note 12) | | | | 275,228 | | | 275,228 | |
| Repurchase of common stock under stock option plan | | | (2,914) | (7,329) | | | (7,329) | |
| Balance, December 31, 2009 | <u>-</u> | <u>\$ -</u> | <u>3,166,755</u> | <u>\$ 11,820,788</u> | <u>\$ 7,472,633</u> | <u>\$ 20,297</u> | <u>\$ 19,313,718</u> | |

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

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2009, 2008 and 2007

| | 2009 | 2008 | 2007 |
|--|----------------|----------------|--------------|
| Cash flows from operating activities: | | | |
| Net (loss) income | \$ (5,028,991) | \$ (2,404,182) | \$ 2,873,574 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Provision for loan and lease losses | 7,350,000 | 7,821,800 | 335,000 |
| Restricted common stock compensation expense | 275,228 | 341,061 | 321,412 |
| Tax benefit from exercise of stock options | | (67,579) | (287,359) |
| Depreciation and amortization | 560,192 | 578,849 | 485,658 |
| Federal Home Loan Bank stock dividends | | (76,800) | (53,600) |
| (Gain) loss on sales of premises and equipment | | (497) | 7,429 |
| Other real estate impairment | 236,741 | 439,397 | |
| Gain on sale of other real estate | (5,307) | | |
| (Decrease) increase in deferred loan origination fees, net | (176,051) | (225,180) | 63,080 |
| Return on investment in NorCal Community Bancorp Trusts I and II | (7,562) | (14,658) | (19,112) |
| Increase in accrued interest receivable and other assets | (1,833,941) | (1,429,294) | (42,518) |
| (Decrease) increase in accrued interest payable and other liabilities | (201,767) | (909,756) | 250,919 |
| Provision for deferred income taxes | 2,939,000 | (1,626,000) | (200,000) |
| Net cash provided by operating activities | 4,107,542 | 2,427,161 | 3,734,483 |
| Cash flows from investing activities: | | | |
| Proceeds from sales and calls of available-for-sale investment securities | 6,480,000 | 11,005,000 | 8,055,000 |
| Proceeds from matured available-for-sale investment securities | | 750,000 | 5,300,000 |
| Proceeds from called held-to-maturity investment securities | 125,000 | 1,555,000 | 150,000 |
| Proceeds from matured held-to-maturity investment securities | 110,000 | 3,920,000 | 2,035,000 |
| Purchases of available-for-sale investment securities | (9,235,104) | (6,026,923) | (13,957,740) |
| Purchases of held-to-maturity investment securities | | (6,207,147) | |
| FHLB stock redemptions (purchases), net | | 561,500 | (810,600) |
| Net decrease (increase) in loans and leases | 26,241,192 | 2,201,844 | (33,693,778) |
| Proceeds from sales of premises and equipment | | 650 | 1,500 |
| Purchases of premises and equipment | (45,849) | (196,374) | (552,883) |
| Proceeds from sale of other real estate | 2,560,475 | | |
| Net cash provided by (used in) investing activities | 26,235,714 | 7,563,550 | (33,473,501) |

(Continued)

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
(Continued)
For the Years Ended December 31, 2009, 2008 and 2007

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|----------------------|---------------------|---------------------|
| Cash flows from financing activities: | | | |
| Net increase (decrease) in demand, interest bearing and savings deposits | \$ 13,062,576 | \$ (6,736,654) | \$ (18,175,112) |
| Net (decrease) increase in time deposits | (11,122,635) | 8,351,704 | 7,629,778 |
| Net (decrease) increase in short-term borrowings | (11,000,000) | (11,000,000) | 20,000,000 |
| Proceeds from issuance of preferred stock, net of offering costs | | | 1,008,954 |
| Cash paid for fractional shares | | | (303) |
| Repurchase of common stock | (7,329) | (875,068) | (84,955) |
| Proceeds from exercise of stock options | | 207,602 | 229,510 |
| Tax benefit from exercise of stock options | | 67,579 | 287,359 |
| | <u>(9,067,388)</u> | <u>(9,984,837)</u> | <u>10,895,231</u> |
| Net cash (used in) provided by financing activities | | | |
| Increase (decrease) in cash and cash equivalents | 21,275,868 | 5,874 | (18,843,787) |
| Cash and cash equivalents, beginning of year | <u>4,257,366</u> | <u>4,251,492</u> | <u>23,095,279</u> |
| Cash and cash equivalents, end of year | <u>\$ 25,533,234</u> | <u>\$ 4,257,366</u> | <u>\$ 4,251,492</u> |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest expense | \$ 2,567,797 | \$ 4,874,055 | \$ 5,982,427 |
| Income taxes | \$ 1,600 | \$ 1,298,000 | \$ 1,710,000 |
| Non-cash investing and financing activities: | | | |
| Transfer of loans held for investment to other real estate | \$ 2,321,108 | \$ 1,509,013 | |
| Net change in unrealized gains (losses) on available-for-sale investment securities | \$ (25,109) | \$ 16,430 | \$ 123,866 |

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

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE BUSINESS OF NORCAL COMMUNITY BANCORP

General

During 2001, NorCal Community Bancorp (the "Company") was incorporated as a bank holding company for the purpose of acquiring Bank of Alameda and to provide the Company and the Bank greater flexibility for expansion and diversification. On September 22, 2003 and December 29, 2005, the Company formed NorCal Community Bancorp Trusts I and II, respectively, (the "Trusts"), for the sole purpose of issuing trust preferred securities.

The Bank operates seven offices in its primary service area of Alameda County, three branches in the city of Alameda, two commercial banking offices located in Emeryville and Oakland and administrative offices located in Walnut Creek and Alameda. The Bank's primary business is serving the commercial banking needs of small to mid-sized businesses.

The Bank is participating in the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program. Under that program, through June 30, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated.

NorCal Community Bancorp Trusts I and II are not consolidated into the Company's consolidated financial statements and, accordingly, are accounted for under the equity method. The subordinated debentures issued and guaranteed by the Company and held by the Trusts are reflected on the Company's consolidated balance sheet.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in the Federal Reserve Bank (FRB) with maturity dates of one day or less and Federal funds sold. Generally, Federal funds are sold for one day periods.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities

Investments 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 income taxes, as accumulated other comprehensive income (loss) within shareholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investment securities 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.

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. In addition, unrealized losses that are other-than-temporary are recognized in earnings for all investments.

Investment securities are evaluated for other-than-temporary impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the instruments for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary and management does not intend to sell the security or it is more likely than not that management will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a change to other comprehensive income. If management intends to sell the security or it is more likely than not that management will be required to sell the security before recovering its cost, the entire impairment loss is recognized as a charge to earnings.

Federal Home Loan Bank Stock

The investment in Federal Home Loan Bank (FHLB) stock is carried at cost and is redeemable at par with certain restrictions. Investment in FHLB stock is required to participate in FHLB programs.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Leases

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

A loan is considered impaired when, based on current information and events, it is probable that all amounts due (including both principal and interest) will not be collected 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 interest 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.

The accrual of interest on loans and leases is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed against current income unless the loan or lease is in the process of collection. Interest received on nonaccrual loans and leases is either applied against principal or reported as interest income, according to management's judgment as to the ultimate collectibility of principal. Generally, loans and leases are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

Direct financing leases are carried net of unearned income. Income from leases is recognized by a method that approximates a level yield on the outstanding net investment in the lease.

Loan Sales and Servicing

Included in the portfolio are Small Business Administration (SBA) guaranteed loans that may be sold in the secondary market. Loans held for sale are carried at the lower of cost or market value. Market value is determined by the specific identification method as of the balance sheet date or the date that the purchasers have committed to purchase the loans. At the time the loan is sold, the related right to service the loan is recorded at fair value with the Company earning future servicing income. Gains and losses are recognized at the time of sale and are calculated based on the difference between the selling price and the fair value of servicing assets or liabilities and the allocated carrying value of the loans sold. At December 31, 2009 and 2008, there were no loans designated as held for sale.

Loans held for sale subsequently transferred to the loan portfolio are transferred at the lower of cost or market value at the date of transfer. Any difference between the carrying amount of the loan and its outstanding principal balance is recognized as an adjustment to yield by the interest method.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Sales and Servicing (Continued)

SBA loans with unpaid balances of \$3,430,613 and \$3,108,115 were being serviced for others at December 31, 2009 and 2008, respectively.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold or securitized with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are recorded at the difference between the contractual servicing fees and adequate compensation for performing the servicing, and are subsequently amortized in proportion to and over the period of the related net servicing income or expense. Servicing assets are periodically evaluated for impairment. Servicing assets were not considered material for disclosure purposes.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is maintained to provide for losses related to impaired loans and leases and other losses that can be expected to occur in the normal course of business. The determination of the allowance is based on estimates made by management, to include consideration of the composition of the loan and lease portfolio, specifically identified problem loans and leases, potential losses inherent in the portfolio taken as a whole and economic conditions in the Company's service area.

Loans and leases determined to be impaired are individually evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans and leases based on management's assessment of the following for each identified loan and lease type: (1) inherent credit risk, (2) historical losses and, (3) where the Company has not experienced losses, the loss experience of peer banks. Management also computes expected loss reserves for loan commitments. These estimates are particularly susceptible to changes in the economic environment and market conditions.

The Company's Loan Committee reviews the adequacy of the allowance for loan and lease losses at least quarterly, to include consideration of the relative risks in the portfolio, current economic conditions and other factors. The allowance is adjusted based on that review if, in the judgment of the Loan Committee and management, changes are warranted.

The allowance is established through a provision for loan and lease losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan and lease growth. The allowance for loan and lease losses at December 31, 2009 and 2008, respectively, reflects management's estimate of possible losses in the portfolio. Although management believes the allowance for loan and lease losses to be adequate, ultimate losses may vary from their estimates. In addition, the FDIC and California Department of Financial Institutions (DFI), as an integral part of their examination process, review the allowance for loan and lease losses. These agencies may require additions to the allowance for loan and lease losses based on their judgment about information available at the time of their examination.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate

Other real estate is comprised of property acquired through foreclosure proceedings or acceptance of deeds-in-lieu of foreclosure. Losses recognized at the time of acquiring property in full or partial satisfaction of debt are charged against the allowance for loan and lease losses. Other real estate is recorded at the lower of the related loan balance or fair value, less estimated disposition costs. Fair value of other real estate is generally based on an independent appraisal of the property. Revenues and expenses associated with other real estate, and subsequent adjustments to the fair value of the property and to the estimated costs of disposal, are realized and reported as a component of noninterest expense when incurred.

Premises and Equipment

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 two to five years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. Management evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Income Taxes

The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for income taxes.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the financial statement and tax basis of existing assets and liabilities. 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. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

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

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings (Loss) Per Share

Basic earnings (loss) per share (EPS), which excludes dilution, is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options and restricted stock which shares in the earnings (loss) of the Company. The treasury stock method has been applied to determine the dilutive effect of stock options and restricted stock in computing diluted EPS. EPS is retroactively adjusted for stock splits for all periods presented.

Share-Based Compensation

In 1998 the Board of Directors of Bank of Alameda adopted, and in 1999 the Bank's shareholders approved, the Bank of Alameda 1998 Stock Option Plan (1998 Plan). In January 2002, following the organization of NorCal Community Bancorp as the holding company for Bank of Alameda, the 1998 Plan was restated and adopted by NorCal Community Bancorp as the successor corporation to Bank of Alameda. In 2006 the Company's shareholders approved an amendment to the Plan and the Plan was renamed the Amended and Restated 1998 Equity Incentive Plan. Outstanding options under the 1998 Plan are exercisable until their expiration; however, no new options will be granted under this Plan as the Plan expired during 2008.

To replace the 1998 Plan, the Board of Directors adopted and the shareholders approved the NorCal Community Bancorp 2008 Equity Incentive Plan (Incentive Plan). The Incentive Plan provides for the following types of awards: stock options, restricted stock awards, qualified performance-based awards and stock grants. Subject to certain adjustments, the maximum aggregate number of shares of the Company's common stock which may be issued subject to awards is 400,000. As of December 31, 2009 no stock option awards have been granted under this Plan.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-Based Compensation (Continued)

The Company is required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. Management estimates the fair value of each option award as of the date of grant using a Black-Scholes-Merton option pricing model. Expected volatility is based on the historical volatility of the Company's common stock. The expected term represents the period that the stock-based awards are expected to be outstanding. The risk free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield was not considered in the option pricing formula because the Company has not paid cash dividends historically and had no plans to do so at the grant date. In addition to these assumptions, management makes estimates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the Plan.

No options were granted during the years ended December 31, 2009, 2008 and 2007.

Restricted stock awards are grants of shares of common stock that are subject to forfeiture upon termination of employment, if not vested. Compensation expense is recognized over the vesting period based on the fair market value of the Company's common stock on the date of grant. During the period of restriction, participants holding restricted stock have the right to vote and the right to receive dividends. The restrictions lapse in accordance with a schedule or with other conditions determined by the Compensation Committee. For the year December 31, 2009 no awards have been granted under the Plan.

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.

Adoption of New Financial Accounting Standards

FASB Accounting Standards CodificationTM (ASC or Codification)

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting standards ASC 105-10 (previously SFAS No. 168), *The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles*. With the issuance of ASC 105-10, the FASB Accounting Standards Codification ("the Codification" or "ASC") becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities. This change is effective for financial statements issued for interim or annual periods ended after September 15, 2009. Accordingly, all specific references to generally accepted accounting principles (GAAP) refer to the Codification and not to the pre-Codification literature.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Financial Accounting Standards

FASB Clarifies Other-Than-Temporary Impairment

In April 2009, the FASB issued ASC No. 320-10-35 (previously FSP 115-2 and 124-2 and EITF 99-20-2), *Recognition and Presentation of Other-Than-Temporary-Impairment*. This standard (i) changes previously existing guidance for determining whether an impairment to debt securities is other than temporary and (ii) replaces the previously existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under this standard, declines in fair value below cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses for both held-to-maturity and available-for-sale securities. The amount of impairment related to other factors is recognized in other comprehensive income. These changes were effective for interim and annual periods ended after June 15, 2009. Management adopted the provisions of this standard on April 1, 2009 without a material impact on the Company's financial condition or results of operations.

FASB Clarifies Application of Fair Value Accounting

In April 2009, the FASB issued ASC 820-10 (previously FSP FAS 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This standard affirms the objective of fair value when a market is not active, clarifies and includes additional factors for determining whether there has been a significant decrease in market activity, eliminates the presumption that all transactions are distressed unless proven otherwise, and requires an entity to disclose a change in valuation technique. This standard was effective for interim and annual periods ended after June 15, 2009. Management adopted the provisions of this standard on April 1, 2009 without a material impact on the Company's financial condition or results of operations.

Measuring Liabilities at Fair Value

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (ASC Topic 820) — Measuring Liabilities at Fair Value*. This update provides amendments for the fair value measurement of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. It also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This update was effective for the first reporting period (including interim periods) beginning after August 2009. Management adopted the provisions of this update on October 1, 2009 without a material impact on the Company's financial condition or results of operations.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Financial Accounting Standards (Continued)

Business Combinations

In December 2007, the FASB issued ASC Topic 805 (previously SFAS 141(R)), *Business Combinations*. This standard broadens the guidance for business combinations and extends its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. The acquirer is no longer permitted to recognize a separate valuation allowance as of the acquisition date for loans and other assets acquired in a business combination. It also requires acquisition-related costs and restructuring costs that the acquirer expected but was not obligated to incur to be expensed separately from the business combination. It also expands on required disclosures to improve the ability of the users of the financial statements to evaluate the nature and financial effects of business combinations. Management adopted these provisions as of January 1, 2009 and had no transactions that created an impact on the Company's financial condition or results of operations.

Subsequent Events

In May 2009, the FASB issued ASC 855-10 (previously SFAS No. 165), *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of this standard on July 1, 2009 required the Company to disclose the date through which they evaluated subsequent events and had no effect on the Company's financial position or results of operations. Management reviewed all events occurring from December 31, 2009 through February 18, 2010, to the date the consolidated financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.

Impact of New Financial Accounting Standards

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued ASC Topic 860 (previously SFAS No. 166), *Accounting for Transfers of Financial Assets, an amendment of SFAS No. 140*. This standard amends the derecognition accounting and disclosure guidance included in previously issued standards. This standard eliminates the exemption from consolidation for qualifying special-purpose entities (SPEs) and also requires a transferor to evaluate all existing qualifying SPEs to determine whether they must be consolidated in accordance with ASC Topic 810. This standard also provides more stringent requirements for derecognition of a portion of a financial asset and establishes new conditions for reporting the transfer of a portion of a financial asset as a sale. This standard is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. Management is assessing the impact this standard may have on the Company's financial condition and results of operations.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of New Financial Accounting Standards (Continued)

Transfers and Servicing

In December 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-16, *Transfers and Servicing (ASC Topic 860): Accounting for Transfers of Financial Assets*, which updates the derecognition guidance in ASC Topic 860 for previously issued SFAS No. 166. This update reflects the Board's response to issues entities have encountered when applying ASC 860, including: (1) requires that all arrangements made in connection with a transfer of financial assets be considered in the derecognition analysis, (2) clarifies when a transferred asset is considered legally isolated from the transferor, (3) modifies the requirements related to a transferee's ability to freely pledge or exchange transferred financial assets, and (4) provides guidance on when a portion of a financial asset can be derecognized. This update is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. Early adoption is prohibited. Management is assessing the impact this standard may have on the Company's financial condition and results of operations.

Improvements to Financial Reporting of Interests in Variable Interest Entities

In June 2009, the FASB issued ASC Topic 810 (previously SFAS No. 167), *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. This standard amends the consolidation guidance applicable to variable interest entities. The amendments to the consolidation guidance affect all entities currently within the scope of ASC Topic 810, as well as qualifying special-purpose entities that are currently excluded from the scope of ASC Topic 810. This standard is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. Management is currently assessing the impact of this standard on the Company's financial condition and results of operations.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

3. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

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

| | December 31, 2009 | | December 31, 2008 | |
|--|--------------------|---------------|--------------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 25,533,234 | \$ 25,533,234 | \$ 4,257,366 | \$ 4,257,366 |
| Investment securities | 16,779,067 | 16,985,000 | 14,430,290 | 14,529,000 |
| Loans and leases, net | 197,629,276 | 202,186,000 | 233,365,526 | 243,203,000 |
| Federal Home Loan Bank (FHLB) stock | 1,371,800 | 1,371,800 | 1,371,800 | 1,371,800 |
| Accrued interest receivable | 938,127 | 938,127 | 1,194,811 | 1,194,811 |
| Financial liabilities: | | | | |
| Deposits | 220,014,336 | 220,093,000 | 218,074,395 | 218,564,500 |
| Accrued interest payable | 232,359 | 232,359 | 302,292 | 302,292 |
| Short-term borrowings | | | 11,000,000 | 11,000,000 |
| Subordinated debentures | 8,248,000 | 3,099,000 | 8,248,000 | 3,065,369 |

These estimates do not reflect any premium or discount that could result from offering the Company'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, 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 Company for certificates with similar remaining maturities. The fair value of subordinated debentures is based on an indication of value provided by a third-party broker. 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.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Measurements Under ASC 820

On January 1, 2008, the Bank adopted ASC 820 (previously FASB No. 157), *Fair Value Measurements*. ASC 820 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 ASC 820, there was no cumulative effect adjustment to beginning retained earnings and no impact on the consolidated financial statements.

Fair Value Hierarchy

In accordance with ASC 820, the Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

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

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

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company'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.

Assets Recorded at Fair Value

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2009:

Recurring Basis

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

| | December 31, 2009 | | | |
|---|----------------------|-------------|----------------------|-------------|
| Description | Fair Value | Level 1 | Level 2 | Level 3 |
| Investment securities available-for-sale | <u>\$ 10,420,000</u> | <u>\$ -</u> | <u>\$ 10,420,000</u> | <u>\$ -</u> |

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Measurements Under ASC 820 (Continued)

Assets Recorded at Fair Value (Continued)

Recurring Basis (Continued)

| December 31, 2008 | | | | |
|---|--------------|---------|--------------|---------|
| Description | Fair Value | Level 1 | Level 2 | Level 3 |
| Investment securities available-for-sale | \$ 7,793,000 | \$ - | \$ 7,793,000 | \$ - |

Fair values for available-for-sale investment securities, which include debt securities of U.S. Government agencies and obligations of states and political subdivisions, are based on quoted market prices for similar securities.

Non-recurring Basis

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

| December 31, 2009 | | | | | |
|---|---------------------|-------------|-------------|---------------------|----------------------|
| Description | Fair Value | Level 1 | Level 2 | Level 3 | Total Losses |
| Impaired loans | \$14,999,323 | | | \$14,999,323 | \$(6,207,378) |
| Other real estate | 598,815 | | | 598,815 | (236,741) |
| Total assets measured at fair value on a non- recurring basis | <u>\$15,598,138</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$15,598,138</u> | <u>\$(6,444,119)</u> |

| December 31, 2008 | | | | | |
|---|---------------------|-------------|-------------|---------------------|----------------------|
| Description | Fair Value | Level 1 | Level 2 | Level 3 | Total Losses |
| Impaired loans | \$13,103,989 | | | \$13,103,989 | \$(3,304,402) |
| Other real estate | 1,069,616 | | | 1,069,619 | (1,003,866) |
| Total assets measured at fair value on a non- recurring basis | <u>\$14,173,605</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$14,173,605</u> | <u>\$(4,308,268)</u> |

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Measurements Under ASC 820 (Continued)

Assets Recorded at Fair Value (Continued)

Non-recurring Basis (Continued)

The following methods were used to estimate the fair value of each class of assets above:

Impaired Loans – The fair value of impaired loans is based on the fair value of the collateral for all collateral dependent loans. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements.

Other Real Estate – The fair value of other real estate is based on the values obtained through property appraisals, which can include observable and unobservable inputs. Other real estate fair values were categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements.

4. INVESTMENT SECURITIES

Available-for-Sale

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2009 and 2008 consisted of the following:

| | 2009 | | | |
|---|----------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Debt securities: | | | | |
| U.S. Government agencies | \$ 8,795,266 | \$ 39,104 | \$ (1,370) | \$ 8,833,000 |
| Obligations of states and political subdivisions | <u>1,590,063</u> | <u>1,857</u> | <u>(4,920)</u> | <u>1,587,000</u> |
| | <u>\$ 10,385,329</u> | <u>\$ 40,961</u> | <u>\$ (6,290)</u> | <u>\$ 10,420,000</u> |

Net unrealized gains on available-for-sale investment securities totaling \$34,671 were recorded, net of \$14,374 in tax expense, as accumulated other comprehensive income within shareholders' equity at December 31, 2009. Proceeds from sales and calls of available-for-sale investment securities for the year ended December 31, 2009 totaled \$6,480,000. There were no realized gains or losses on sales and calls of available-for-sale investment securities for the year ended December 31, 2009.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

4. INVESTMENT SECURITIES (Continued)

Available-for-Sale (Continued)

| | 2008 | | | Estimated Fair Value |
|---|---------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | |
| Debt securities: | | | | |
| U.S. Government agencies | \$ 5,963,220 | \$ 75,780 | | \$ 6,039,000 |
| Obligations of states and political subdivisions | <u>1,770,000</u> | <u>3,880</u> | <u>\$ (19,880)</u> | <u>1,754,000</u> |
| | <u>\$ 7,733,220</u> | <u>\$ 79,660</u> | <u>\$ (19,880)</u> | <u>\$ 7,793,000</u> |

Net unrealized gains on available-for-sale investment securities totaling \$59,780 were recorded, net of \$24,510 in tax expense, as accumulated other comprehensive income within shareholders' equity at December 31, 2008. Proceeds from sales and calls of available-for-sale investment securities for the year ended December 31, 2008 totaled \$11,005,000. There were no realized gains or losses on sales and calls of available-for-sale investment securities for the year ended December 31, 2008 and 2007.

Held-to-Maturity

| | 2009 | | | Estimated Fair Value |
|---|---------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | |
| Debt securities: | | | | |
| Obligations of states and political subdivisions | <u>\$ 6,359,067</u> | <u>\$ 205,933</u> | <u>\$ -</u> | <u>\$ 6,565,000</u> |

| | 2008 | | | Estimated Fair Value |
|---|---------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | |
| Debt securities: | | | | |
| Obligations of states and political subdivisions | <u>\$ 6,637,290</u> | <u>\$ 115,983</u> | <u>\$ (17,273)</u> | <u>\$ 6,736,000</u> |

Proceeds from calls and maturities of held-to-maturity securities for the year ended December 31, 2009 totaled \$235,000. There were no calls or maturities of held-to-maturity securities for the year ended December 31, 2008.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

4. INVESTMENT SECURITIES (Continued)

Obligations of States and Political Subdivisions

Management believes that the unrealized losses on the Company's investments in obligations of states and political subdivisions is caused by interest rate fluctuations and is not attributable to changes in credit quality. Additionally, the contractual cash flows of these investments are a general obligation of, and supported by specific revenues of, a state or local municipality and the Company intends to hold these investments to maturity or call. Therefore, management expects to collect all amounts due and does not consider these securities to be other-than-temporarily impaired at December 31, 2009.

The amortized cost and estimated fair value of investment securities at December 31, 2009 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Available-for-Sale | | Held-to-Maturity | |
|---------------------------------------|----------------------|----------------------------|---------------------|----------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Within one year | \$ 1,400,063 | \$ 1,398,100 | \$ 416,256 | \$ 420,900 |
| After one year through five years | 8,985,266 | 9,021,900 | 5,942,811 | 6,144,100 |
| After five years through ten years | | | | |
| After ten years | | | | |
| | <u>\$ 10,385,329</u> | <u>\$ 10,420,000</u> | <u>\$ 6,359,067</u> | <u>\$ 6,565,000</u> |

Investment securities with amortized costs of \$13,971,249 and \$12,882,226 and estimated fair values of \$14,179,000 and \$13,017,000 were pledged to secure Local Agency Deposit accounts and borrowing arrangements at December 31, 2009 and 2008, respectively (see Note 8).

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

5. LOANS AND LEASES

Outstanding loans and leases are summarized below:

| | December 31, | |
|-------------------------------------|-----------------------|-----------------------|
| | 2009 | 2008 |
| Commercial | \$ 25,528,695 | \$ 25,018,486 |
| Agricultural | 9,879,428 | 20,166,328 |
| Real estate – residential | 24,924,861 | 24,856,659 |
| Real estate – commercial | 84,869,222 | 80,701,269 |
| Real estate – construction | 42,192,786 | 75,440,156 |
| Consumer | 15,778,300 | 14,083,069 |
| Leases | 319,270 | 579,451 |
| | 203,492,562 | 240,845,418 |
| Deferred loan origination fees, net | (470,476) | (646,527) |
| Allowance for loan and lease losses | (5,392,810) | (6,833,365) |
| | \$ 197,629,276 | \$ 233,365,526 |

Certain loans have been pledged to secure borrowing arrangements (see Note 8).

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

| | Year Ended December 31, | | |
|--|-------------------------|---------------------|---------------------|
| | 2009 | 2008 | 2007 |
| Balance, beginning of year | \$ 6,833,365 | \$ 3,194,523 | \$ 2,885,421 |
| Provision charged to operations | 7,350,000 | 7,821,800 | 335,000 |
| Losses charged to allowance | (9,207,743) | (4,192,434) | (27,276) |
| Recoveries of loans previously charged off | 417,188 | 9,476 | 1,378 |
| Balance, end of year | \$ 5,392,810 | \$ 6,833,365 | \$ 3,194,523 |

At December 31, 2009 and 2008, the Company had \$18,398,371 and \$12,162,153, respectively, in nonaccrual loans and leases. Interest forgone on nonaccrual loans for the years ended December 31, 2009 and 2008 was \$836,387 and \$633,908, respectively. Interest forgone for the year ended December 31, 2007 was not material. The Company had no loans accruing interest that were over 90 days past due as of December 31, 2009 and 2008.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

5. LOANS AND LEASES (Continued)

At December 31, 2009 and 2008, the recorded investment in impaired loans was \$18,786,264 and \$14,638,289, respectively. The Company had specific allowances for loan losses of \$713,081 on impaired loans of \$15,712,404 at December 31, 2009 as compared to specific allowances for loan losses of \$1,534,000 on impaired loans of \$12,152,039 at December 31, 2008. The average outstanding balance of impaired loans for the years ended December 31, 2009 and 2008 was \$14,866,990 and \$6,686,982, respectively, and no interest income was recognized on these loans.

Salaries and employee benefits totaling \$75,300, \$115,800 and \$111,200 were deferred as loan origination costs during the years ended December 31, 2009, 2008 and 2007, respectively.

6. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

| | December 31, | |
|---|--------------------|--------------------|
| | 2009 | 2008 |
| Furniture and equipment | \$ 1,937,406 | \$ 1,902,043 |
| Leasehold improvements | <u>1,125,960</u> | <u>1,128,245</u> |
| | 3,063,366 | 3,030,288 |
| Less accumulated depreciation and amortization | <u>(2,490,143)</u> | <u>(2,088,670)</u> |
| | <u>\$ 573,223</u> | <u>\$ 941,618</u> |

Depreciation and amortization included in occupancy and equipment expense totaled \$414,244, \$501,709 and \$488,262 for the years ended December 31, 2009, 2008 and 2007, respectively.

7. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

| | December 31, | |
|-------------------------|-----------------------|-----------------------|
| | 2009 | 2008 |
| Savings | \$ 5,821,537 | \$ 5,479,062 |
| Money market | 74,763,834 | 75,482,578 |
| NOW accounts | 44,031,220 | 35,081,733 |
| Time, \$100,000 or more | 22,235,574 | 24,091,277 |
| Other time | <u>21,343,356</u> | <u>30,610,288</u> |
| | <u>\$ 168,195,521</u> | <u>\$ 170,744,938</u> |

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits are as follows:

| <u>Year Ending December 31,</u> | |
|-------------------------------------|----------------------|
| 2010 | \$ 39,211,518 |
| 2011 | 3,409,444 |
| 2012 | 857,968 |
| 2013 | <u>100,000</u> |
| | <u>\$ 43,578,930</u> |

Interest expense recognized on interest-bearing deposits consisted of the following:

| | <u>Year Ended December 31,</u> | | |
|-------------------------|--------------------------------|---------------------|---------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Savings | \$ 11,535 | \$ 13,782 | \$ 28,196 |
| Money market | 833,237 | 2,029,143 | 2,555,433 |
| NOW accounts | 53,816 | 82,667 | 159,562 |
| Time, \$100,000 or more | 482,125 | 811,562 | 1,103,342 |
| Other time | <u>533,228</u> | <u>874,143</u> | <u>818,313</u> |
| | <u>\$ 1,913,941</u> | <u>\$ 3,811,297</u> | <u>\$ 4,664,846</u> |

8. BORROWING ARRANGEMENTS

The Company has \$1,500,000 in unsecured borrowing arrangement with one of its correspondent banks. There were no short-term borrowings outstanding under this arrangement at December 31, 2009 and 2008.

In addition, the Company can borrow up to the market value of securities pledged to another of its correspondent banks. At December 31, 2009, investment securities with amortized costs totaling \$4,641,000 and estimated fair values totaling \$4,700,000 were pledged to the correspondent bank under this agreement. At December 31, 2008, investment securities with amortized costs totaling \$1,000,000 and estimated fair values totaling \$1,026,000 were pledged to the correspondent bank under this agreement. At December 31, 2009 and 2008, the Company had no outstanding borrowings under this agreement.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

8. BORROWING ARRANGEMENTS (Continued)

Lastly, the Company can borrow from the Federal Home Loan Bank on either a short-term or long-term basis up to approximately \$59,172,000 and \$62,922,000 as of December 31, 2009 and 2008, respectively, based on specified percentages of the collateral pledged. Various loans totaling approximately \$138,885,000 as of December 31, 2009 and various loans and investment securities totaling approximately \$148,541,000 as of December 31, 2008, secure these borrowing arrangements. At December 31, 2009, the Company had no outstanding borrowings under this agreement. At December 31, 2008, short-term advances totaling \$11,000,000 bearing fixed rates of 0.05% to 3.07% were outstanding under this agreement and were paid in 2009.

9. SUBORDINATED DEBENTURES

The following is a summary of the subordinated debentures due to the Company's grantor trusts at December 31, 2009:

| | |
|--|---------------------|
| Subordinated debentures due to NorCal Community Bancorp Trust I with interest payable quarterly, based on 3-month LIBOR plus 3.05%, repricing quarterly (3.33% at December 31, 2009), redeemable beginning October 7, 2008, and due October 7, 2033. | \$ 4,124,000 |
| Subordinated debentures due to NorCal Community Bancorp Trust II with interest payable quarterly, based on 3-month LIBOR plus 1.40%, repricing quarterly (1.65% at December 31, 2009), redeemable beginning March 15, 2011, and due March 15, 2036. | <u>4,124,000</u> |
| | <u>\$ 8,248,000</u> |

The Trusts have the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures. At December 31, 2009 the Company elected to defer interest payments as allowed. The Trust Preferred Securities were sold and issued in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended.

Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as Tier 1 capital is limited to 25% of the Company's Tier 1 capital on a pro forma basis. In 2012, amendments to the risk-based capital guidelines will become effective and the amount of trust preferred securities that may be included in Tier 1 capital may not exceed 25% of the sum of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. At December 31, 2009, \$6,437,000 of the trust preferred securities qualified as Tier 1 capital.

The Company has guaranteed, on a subordinated basis, distributions and other payments due on trust preferred securities totaling \$8,000,000 issued by the grantor trusts which have identical maturity, repricing and payment terms as the subordinated debentures.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. INCOME TAXES

The provision for (benefit from) income taxes for the years ended December 31, 2009, 2008 and 2007 consisted of the following:

| | <u>Federal</u> | <u>State</u> | <u>Total</u> |
|--|-----------------------|---------------------|-----------------------|
| <u>2009</u> | | | |
| Current | \$ (2,527,000) | \$ 2,000 | \$ (2,525,000) |
| Deferred | <u>1,121,000</u> | <u>(676,000)</u> | <u>445,000</u> |
| Total | (1,406,000) | (674,000) | (2,080,000) |
| Change in valuation allowance | <u>885,000</u> | <u>1,620,000</u> | <u>2,505,000</u> |
| Provision for (benefit from) income taxes | <u>\$ (521,000)</u> | <u>\$ 946,000</u> | <u>\$ 425,000</u> |
| <u>2008</u> | | | |
| Current | \$ (238,000) | \$ (105,000) | \$ (343,000) |
| Deferred | <u>(993,000)</u> | <u>(633,000)</u> | <u>(1,626,000)</u> |
| Benefit from income taxes | <u>\$ (1,231,000)</u> | <u>\$ (738,000)</u> | <u>\$ (1,969,000)</u> |
| <u>2007</u> | | | |
| Current | \$ 1,553,000 | \$ 421,000 | \$ 1,974,000 |
| Deferred | <u>(155,000)</u> | <u>(45,000)</u> | <u>(200,000)</u> |
| Provision for income taxes | <u>\$ 1,398,000</u> | <u>\$ 376,000</u> | <u>\$ 1,774,000</u> |

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following:

| | <u>December 31,</u> | |
|---|---------------------|-----------------------------|
| | <u>2009</u> | <u>2008</u> |
| Deferred tax assets: | | |
| Allowance for loan and lease losses | \$ 1,354,000 | \$ 2,431,000 |
| Future benefit of State tax liability | 1,000 | 1,000 |
| Non-accrual interest | | 280,000 |
| Other real estate owned | 320,000 | 181,000 |
| Operating loss carryforwards | 767,000 | 122,000 |
| Bank premises and equipment | 195,000 | 147,000 |
| Other | <u>87,000</u> | <u>7,000</u> |
| Total deferred tax assets before valuation allowance | 2,724,000 | 3,169,000 |
| Valuation allowance | <u>(2,505,000)</u> | <u> </u> |
| Total deferred tax assets | <u>219,000</u> | <u>3,169,000</u> |
| Deferred tax liabilities: | | |
| FHLB dividends | (57,000) | (57,000) |
| Deferred loan costs | | (49,000) |
| Tax accounting for book accruals | (97,000) | (52,000) |
| Originated loan servicing | (51,000) | (45,000) |
| Other | | (2,000) |
| Unrealized gain on available-for-sale investment securities | <u>(14,000)</u> | <u>(25,000)</u> |
| Total deferred tax liabilities | <u>(219,000)</u> | <u>(230,000)</u> |
| Net deferred tax assets | <u>\$ -</u> | <u>\$ 2,939,000</u> |

The Company and its subsidiaries file income tax returns in the United States and California jurisdictions. With few exceptions, the Company is no longer subject to Federal examination for years ended before December 31, 2005 and State income tax examination by tax authorities for years ended before December 31, 2004. As of December 31, 2009, there were no unrecognized tax benefits or interest and penalties accrued by the Company.

The Company accounts for income taxes using the asset and liability or balance sheet method. Under this method, deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts 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.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

10. INCOME TAXES (Continued)

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Based upon an analysis of available evidence, management has determined that it is "more likely than not" that all of our deferred income tax assets as of December 31, 2009 will not be fully realized and therefore a full valuation allowance of \$2,505,000 was recorded.

The Company has recorded a tax benefit of \$2,080,000 for the year ended December 31, 2009. This benefit has been offset by a valuation allowance against the recorded tax benefit at December 31, 2009 of \$2,505,000. Prospective earnings, tax law changes or capital changes could prompt the Company to reevaluate the assumptions used to establish the valuation allowance which could result in the reversal of all or part of the valuation allowance.

At December 31, 2009, the Bank had federal and California net operating loss carryforwards (NOLs) of approximately \$7,834,000 and \$10,727,000, respectively. The 2009 federal net operating loss is expected to be carried back and fully utilized under the five year NOL carry-back provisions of the American Recovery and Reinvestment Act of 2009 resulting in a refund receivable of approximately \$2,664,000. California does not conform to the federal carry back provision as of December 31, 2009. Furthermore, California suspended utilization of net operating loss carryforwards for the 2008 and 2009 tax years. The Company is not expecting to fully utilize its California net operating loss carryforwards in the 2010 tax year. The 2008 California NOL will begin to expire in 2019 if not fully utilized.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

10. INCOME TAXES (Continued)

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rate to income before income taxes. The significant items comprising these differences for the years ended December 31, 2009, 2008 and 2007 are as follows:

| | <u>2009</u> | | <u>2008</u> | | <u>2007</u> | |
|---|-------------------|---------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u>Amount</u> | <u>Rate %</u> | <u>Amount</u> | <u>Rate %</u> | <u>Amount</u> | <u>Rate %</u> |
| Federal income tax (benefit) expense, at statutory rate | \$(1,565,357) | (34.0) | \$(1,486,882) | (34.0) | \$ 1,580,175 | 34.0 |
| State franchise tax (benefit), net of Federal tax effect | (452,479) | (9.8) | (417,595) | (9.5) | 235,017 | 5.1 |
| Interest on obligations of states and political subdivisions | (88,934) | (1.9) | (87,506) | (2.0) | (59,874) | (1.3) |
| Other | 26,770 | 0.5 | 22,983 | 0.5 | 18,682 | 0.4 |
| Valuation allowance for deferred tax assets allocated to income tax expense | <u>2,505,000</u> | <u>54.4</u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total provision for income taxes | <u>\$ 425,000</u> | <u>9.2</u> | <u>\$(1,969,000)</u> | <u>(45.0)</u> | <u>\$ 1,774,000</u> | <u>38.2</u> |

11. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases three branch offices, two commercial banking offices, an accounting department office and an administrative office under non-cancelable operating leases. The leases were originated at various times beginning in 1998 and have remaining terms of between 3 and 60 months. The leases expire at different times through 2014, with some leases containing five year renewal options.

Future minimum lease payments are as follows:

| <u>Year Ending</u> <u>December 31,</u> | |
|---|---------------------|
| 2010 | \$ 681,821 |
| 2011 | 675,470 |
| 2012 | 660,900 |
| 2013 | 474,986 |
| 2014 | <u>24,060</u> |
| | <u>\$ 2,517,237</u> |

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

11. COMMITMENTS AND CONTINGENCIES (Continued)

Operating Leases (Continued)

Rental expense included in occupancy and equipment expense totaled \$862,304, \$852,178 and \$905,103 for the years ended December 31, 2009, 2008 and 2007, respectively.

Financial Instruments With Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheet.

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

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

| | December 31, | |
|------------------------------|---------------|---------------|
| | 2009 | 2008 |
| Commitments to extend credit | \$ 33,047,000 | \$ 45,222,000 |
| Standby letters of credit | \$ 2,035,000 | \$ 522,000 |

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

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

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

11. COMMITMENTS AND CONTINGENCIES (Continued)

Financial Instruments With Off-Balance-Sheet Risk (Continued)

The fair value of the liability related to these commitments to extend credit and standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2009 and 2008. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2009, commercial loan commitments represent approximately 55% of total commitments and are generally secured by accounts receivable and inventory. Real estate loan commitments represent the remaining 45% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 75%. In addition, the majority of the Bank's loan commitments have variable interest rates.

Concentrations of Credit Risk

The Bank grants real estate mortgage, real estate construction, commercial, agricultural and consumer loans to customers in the Bank's geographic service area. Although management believes the Bank has a diversified loan portfolio, a substantial portion of its portfolio is secured by real estate.

As of December 31, 2009, in management's judgment, a concentration existed in real estate loans. At that date, approximately 75% of the loans were real estate related, with commercial real estate loans representing 42%, real estate construction loans representing 21% and residential real estate loans representing 12% of total loans.

As of December 31, 2008, in management's judgment, a concentration existed in real estate loans. At that date, approximately 75% of the loans were real estate related, with commercial real estate loans representing 34%, real estate construction loans representing 31% and residential real estate loans representing 10% of total loans.

A substantial decline in the performance of the economy in general or a continued decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on collectibility, increase the level of real estate related nonperforming loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on the financial condition of the Bank. Management intends to reduce the concentration in nonowner-occupied commercial real estate and construction/land development loans.

Federal Reserve Requirement

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The Bank's vault cash fulfilled its reserve requirement at December 31, 2009.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

11. COMMITMENTS AND CONTINGENCIES (Continued)

Correspondent Banking Agreements

The Company 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 June 30, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules.

Contingencies

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

12. SHAREHOLDERS' EQUITY

Dividend Restrictions

The Company's ability to pay cash dividends is dependent on dividends paid to it by the Bank and limited by California law. Under California law, the holders of common stock of the Company are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available, subject to certain restrictions. California General Corporation Law prohibits the Company from paying dividends on its common stock unless: (i) its retained earnings, immediately prior to the dividend payment, equals or exceeds the amount of the dividend or (ii) immediately after giving effect to the dividend, the sum of the Company's assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the Company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities. In addition, the Company's ability to pay dividends is subject to certain covenants contained in the indentures relating to the trust preferred securities issued by the grantor trusts (see Note 9).

Dividends from the Bank to the Company are restricted under certain federal laws and regulations governing banks. In addition, California law restricts the total dividend payments of any bank to the lesser of the bank's retained earnings or the bank's net income for the latest three fiscal years, less dividends previously paid during that period. As a result of a regulatory examination completed subsequent to December 31, 2008, the Bank must obtain approval to pay cash dividends from the FDIC and the California Department of Financial Institutions (DFI) and the Company must obtain approval from the Federal Reserve Bank (FRB). As of December 31, 2009, the Bank could not provide any dividend distributions to the Company.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

12. SHAREHOLDERS' EQUITY (Continued)

Earnings (Loss) Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings (loss) per share computations for the years ended December 31, 2009, 2008 and 2007 is shown below.

| | <u>Net (Loss) Income</u> | <u>Weighted Average Number of Shares Outstanding</u> | <u>Per Share Amount</u> |
|--|----------------------------------|--|-----------------------------|
| <u>December 31, 2009</u> | | | |
| Basic loss per share | \$ (5,028,991) | 3,133,615 | \$ (1.60) |
| Diluted loss per share | \$ (5,028,991) | 3,133,615 | \$ (1.60) |
| <u>December 31, 2008</u> | | | |
| Basic loss per share | \$ (2,404,182) | | |
| Beneficial interest from preferred stock conversion | <u>(263,728)</u> | | |
| Net loss available to common shareholders | <u>(2,667,910)</u> | <u>3,037,949</u> | <u>\$ (0.88)</u> |
| Diluted loss per share | \$ (2,667,910) | <u>3,037,949</u> | \$ (0.88) |
| <u>December 31, 2007</u> | | | |
| Basic earnings per share | \$ 2,873,574 | 3,005,677 | \$ 0.96 |
| Effect of potentially dilutive shares | | 267,269 | |
| Effect of convertible preferred stock | | <u>33,237</u> | |
| Diluted earnings per share | \$ 2,873,574 | <u>3,306,183</u> | \$ 0.87 |

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

12. SHAREHOLDERS' EQUITY (Continued)

Share-Based Compensation

Stock Options

Stock option activity for the years ended December 31, 2009, 2008 and 2007 is summarized as follows:

| | 2009 | | 2008 | | 2007 | |
|---|----------------|--|----------------|--|----------------|--|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Options outstanding, beginning of year | 160,257 | \$ 6.48 | 282,040 | \$ 5.11 | 415,830 | \$ 4.67 |
| Options exercised | | | (107,392) | \$ 3.30 | (118,077) | \$ 3.74 |
| Options forfeited | (1,125) | \$ 4.45 | (14,391) | \$ 3.35 | (15,713) | \$ 4.21 |
| Options outstanding, end of year | <u>159,132</u> | \$ 6.50 | <u>160,257</u> | \$ 6.48 | <u>282,040</u> | \$ 5.11 |
| Options exercisable, end of year | <u>159,132</u> | \$ 6.50 | <u>160,257</u> | \$ 6.48 | <u>282,040</u> | \$ 5.11 |

The total intrinsic value of options exercised during the years ended December 31, 2008 and 2007 was \$1,241,597 and \$1,755,076, respectively. There was no aggregate intrinsic value of options outstanding, in-the-money and exercisable at December 31, 2009.

A summary of options outstanding at December 31, 2009 follows:

| Range of Exercise Prices | Number of Options Outstanding December 31, 2009 | Weighted Average Remaining Contractual Life | Options Exercisable December 31, 2009 |
|--------------------------|---|---|--|
| \$ 4.45 | 46,125 | 2.7 years | 46,125 |
| \$ 5.11 | 3,375 | 1.1 years | 3,375 |
| \$ 5.37 | 10,125 | 0.4 years | 10,125 |
| \$ 5.63 | 57,882 | 0.5 years | 57,882 |
| \$ 8.22 | 21,375 | 3.8 years | 21,375 |
| \$ 12.00 | 1,500 | 4.9 years | 1,500 |
| \$ 12.67 | <u>18,750</u> | 4.5 years | <u>18,750</u> |
| | <u>159,132</u> | | <u>159,132</u> |

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. SHAREHOLDERS' EQUITY (Continued)

Share-Based Compensation (Continued)

Restricted Common Stock Awards

Restricted common stock activity for the years ended December 31, 2009, 2008 and 2007 is summarized as follows:

| | <u>2009</u> | | <u>2008</u> | | <u>2007</u> | |
|--|----------------|---|-------------------|---|----------------|---|
| | Shares | Weighted Average Grant- Date Fair Value | Shares | Weighted Average Grant- Date Fair Value | Shares | Weighted Average Grant- Date Fair Value |
| Unvested shares outstanding, beginning of year | 41,631 | \$ 18.11 | 60,685 | \$ 18.08 | 67,237 | \$ 18.57 |
| Shares awarded | | | | | 9,910 | \$ 15.55 |
| Shares vested | (15,754) | \$ 18.01 | (19,054) | \$ 18.01 | (14,249) | \$ 18.57 |
| Shares forfeited | <u>(2,775)</u> | \$ 18.03 | <u> </u> | | <u>(2,213)</u> | \$ 18.57 |
| Unvested shares outstanding, end of year | <u>23,102</u> | \$ 18.19 | <u>41,631</u> | \$ 18.11 | <u>60,685</u> | \$ 18.08 |

A summary of restricted common stock outstanding at December 31, 2009 follows:

| <u>Range of Grant-Date Fair Values</u> | <u>Number of Unvested Shares December 31, 2009</u> | <u>Weighted Average Remaining Vesting Period</u> |
|--|--|--|
| \$ 15.55 | 2,927 | 7 months |
| \$ 18.57 | <u>20,175</u> | 1.8 years |
| | <u>23,102</u> | |

The restricted common stock awards vest in equal installments over either a three or a five year period on the anniversary dates of the awards as established by the Board of Directors. Participants receiving these restricted common stock awards were granted the right to dividend payments as well as voting rights on the non-vested shares.

The compensation cost that has been charged against income for restricted common stock awards was approximately \$275,000, \$341,000 and \$321,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. SHAREHOLDERS' EQUITY (Continued)

Share-Based Compensation (Continued)

Restricted Common Stock Awards (Continued)

At December 31, 2009, the total compensation cost related to non-vested restricted common stock not yet recognized was approximately \$378,000. At December 31, 2008, the total compensation cost related to non-vested restricted common stock not yet recognized was approximately \$669,000. Restricted common stock compensation expense is recognized on a straight-line basis over the vesting period. The intrinsic value of unvested restricted common stock outstanding was approximately \$47,000 and \$241,000 as of December 31, 2009 and 2008, respectively.

Preferred Stock

In May 2007, the Company completed a private offering of series A Convertible Preferred Stock. The Company authorized 10,000,000 shares of preferred stock and 65,932 shares were issued at \$16 per share for total proceeds of \$1,054,912. The preferred stock was recorded net of \$45,958 in stock offering costs. The holders of the Series A preferred stock were not entitled to cash dividends and had no voting rights.

On September 30, 2008, the preferred stock automatically converted into a number of fully paid and nonassessable shares of common stock based on achieving the following customer deposit goal at the Oakland branch for the three month period ended September 30, 2008:

| <u>Oakland Office Customer Deposit Goal</u> | <u>Conversion Rate for One Share of Series A Preferred Stock</u> |
|---|--|
| \$20,000,000 up to \$26,000,000 | 1.25 shares of common stock |

A beneficial conversion factor of \$263,728, representing 16,483 additional shares at the original conversion price of \$16, was recorded as a reduction of retained earnings and an increase in preferred stock prior to conversion. All preferred stock was then converted to common stock on September 30, 2008.

Common Stock Repurchase Program

Effective January 2008, the Board of Directors of the Company authorized a stock repurchase program. Repurchases are limited to the lesser of 120,000 shares, four percent of outstanding common stock or the number of shares with an aggregate repurchase price of \$2,000,000. The repurchases are to be made from time to time as conditions allow. The Board of Directors has reserved the right to suspend, terminate, modify or cancel this repurchase program at any time for any reason. During 2009, no shares were repurchased under this plan as the bank was not allowed to repurchase shares without regulatory approval. During 2008, 35,000 shares were repurchased for \$554,500 under this plan.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. SHAREHOLDERS' EQUITY (Continued)

Regulatory Matters

As a result of a regulatory examination completed in March 2009, the Bank must maintain a minimum leverage ratio of 10 percent. In addition, the Bank must obtain approval to pay cash dividends from the FDIC and DFI and the Company must obtain approval from the FRB.

Regulatory Capital

The Company and the Bank are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC). Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Under capital adequacy guidelines, the Company and 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.

Management believes that the Company and the Bank met all their capital adequacy requirements as of December 31, 2009 and 2008.

| | December 31, | | | |
|--|---------------|--------------|---------------|--------------|
| | 2009 | | 2008 | |
| | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> |
| <u>Leverage Ratio</u> | | | | |
| NorCal Community Bancorp and Subsidiary | \$ 25,717,000 | 9.8% | \$ 32,038,000 | 11.6% |
| Minimum regulatory requirement | \$ 10,528,000 | 4.0% | \$ 11,062,000 | 4.0% |
| Bank of Alameda | \$ 26,360,000 | 10.1% | \$ 29,895,000 | 10.8% |
| Minimum requirement under the Informal Agreement | \$ 26,215,000 | 10.0% | | |
| Minimum requirement for "Well-Capitalized" institution | \$ 13,107,000 | 5.0% | \$ 13,791,000 | 5.0% |
| Minimum regulatory requirement | \$ 10,486,000 | 4.0% | \$ 11,033,000 | 4.0% |

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

12. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (Continued)

| | December 31, | | | |
|--|---------------|-------|---------------|-------|
| | 2009 | | 2008 | |
| | Amount | Ratio | Amount | Ratio |
| <u>Tier 1 Risk-Based Capital Ratio</u> | | | | |
| NorCal Community Bancorp and Subsidiary | \$ 25,717,000 | 12.5% | \$ 32,038,000 | 13.2% |
| Minimum regulatory requirement | \$ 8,241,000 | 4.0% | \$ 9,711,000 | 4.0% |
| Bank of Alameda | \$ 26,360,000 | 12.8% | \$ 29,895,000 | 12.4% |
| Minimum requirement for "Well-Capitalized" institution | \$ 12,297,000 | 6.0% | \$ 14,517,000 | 6.0% |
| Minimum regulatory requirement | \$ 8,198,000 | 4.0% | \$ 9,678,000 | 4.0% |
| <u>Total Risk-Based Capital Ratio</u> | | | | |
| NorCal Community Bancorp and Subsidiary | \$ 29,302,000 | 14.2% | \$ 35,120,000 | 14.5% |
| Minimum regulatory requirement | \$ 16,482,000 | 8.0% | \$ 19,421,000 | 8.0% |
| Bank of Alameda | \$ 28,985,000 | 14.1% | \$ 32,967,000 | 13.6% |
| Minimum requirement for "Well-Capitalized" institution | \$ 20,495,000 | 10.0% | \$ 24,194,000 | 10.0% |
| Minimum regulatory requirement | \$ 16,396,000 | 8.0% | \$ 19,355,000 | 8.0% |

13. OTHER EXPENSES

Other expenses for the years ended December 31, 2009, 2008 and 2007 consisted of the following:

| | 2009 | 2008 | 2007 |
|--|---------------------|---------------------|---------------------|
| Regulatory fees | \$ 705,443 | \$ 195,526 | \$ 131,868 |
| Professional fees | 646,350 | 379,380 | 373,798 |
| Data processing | 618,582 | 701,053 | 718,022 |
| Other real estate impairment and loss on sale | 270,572 | 439,397 | |
| Insurance | 176,449 | 151,375 | 135,831 |
| Prepayment penalty FHLB advances | 144,074 | | |
| Director fees | 136,064 | 216,155 | 231,650 |
| Advertising and promotion | 51,203 | 164,775 | 223,779 |
| Other operating expenses | 806,997 | 1,088,332 | 928,983 |
| | <u>\$ 3,555,734</u> | <u>\$ 3,335,993</u> | <u>\$ 2,743,931</u> |

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

14. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is reported in addition to net income (loss) for all periods presented. Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income (loss). Unrealized holding gains and losses on the Company's available-for-sale investment securities are included in other comprehensive income (loss). Total comprehensive income (loss) and the components of accumulated other comprehensive income (loss) are presented in the statement of changes in shareholders' equity.

For the years ended December 31, 2009, 2008 and 2007, the Company held securities classified as available-for-sale which had unrealized holding gains (losses) as follows:

| | Before Tax | Tax (Expense) Benefit | After Tax |
|---|---------------|-----------------------------|--------------|
| <u>For the Year Ended December 31, 2009</u> | | | |
| Other comprehensive loss: | | | |
| Unrealized holding losses | \$ (25,109) | \$ 10,136 | \$ (14,973) |
| <u>For the Year Ended December 31, 2008</u> | | | |
| Other comprehensive income: | | | |
| Unrealized holding gains | \$ 16,430 | \$ (6,736) | \$ 9,694 |
| <u>For the Year Ended December 31, 2007</u> | | | |
| Other comprehensive income: | | | |
| Unrealized holding gains | \$ 123,866 | \$ (50,677) | \$ 73,189 |

15. EMPLOYEE RETIREMENT PLAN

During 1998, the Board of Directors adopted a Salary Deferral 401(k) Plan. The plan is available to employees meeting certain age and length of service requirements. Under the plan, employees can defer a selected portion of their annual compensation and the Company may match each employee contribution in an amount to be determined annually under a formula established by the Company. The Company made contributions of \$10,307, \$140,530 and \$130,081 for the years ended December 31, 2009, 2008 and 2007, respectively.

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

16. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEET

December 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash and due from banks | \$ 204,251 | \$ 1,660,447 |
| Investment in Bank subsidiary | 26,394,394 | 29,947,275 |
| Intercompany receivable – eliminated in consolidation | 728,043 | 495,482 |
| Accrued interest receivable and other assets | <u>326,163</u> | <u>318,601</u> |
| Total assets | <u>\$27,652,851</u> | <u>\$32,421,805</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Accrued interest payable and other liabilities | \$ 91,133 | \$ 84,022 |
| Subordinated debentures | <u>8,248,000</u> | <u>8,248,000</u> |
| Total liabilities | <u>8,339,133</u> | <u>8,332,022</u> |
| Shareholders' equity: | | |
| Common stock | 11,820,788 | 11,552,889 |
| Retained earnings | 7,472,633 | 12,501,624 |
| Accumulated other comprehensive income, net of taxes | <u>20,297</u> | <u>35,270</u> |
| Total shareholders' equity | <u>19,313,718</u> | <u>24,089,783</u> |
| Total liabilities and shareholders' equity | <u>\$27,652,851</u> | <u>\$32,421,805</u> |

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

16. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENT OF OPERATIONS

For the Years Ended December 31, 2009, 2008 and 2007

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|-----------------------|-----------------------|---------------------|
| Income: | | | |
| Earnings from investments in statutory trusts | \$ <u>7,562</u> | \$ <u>14,658</u> | \$ <u>19,112</u> |
| Total income | <u>7,562</u> | <u>14,658</u> | <u>19,112</u> |
| Expenses: | | | |
| Interest expense | 261,503 | 474,289 | 638,095 |
| Salaries and benefits | 383,221 | 448,384 | 423,951 |
| Other expenses | <u>105,685</u> | <u>129,306</u> | <u>126,817</u> |
| Total expenses | <u>750,409</u> | <u>1,051,979</u> | <u>1,188,863</u> |
| Loss before equity in undistributed (loss) income of Bank subsidiary | (742,847) | (1,037,321) | (1,169,751) |
| Equity in undistributed (loss) income of Bank subsidiary | <u>(4,537,912)</u> | <u>(1,793,764)</u> | <u>3,561,920</u> |
| (Loss) income before provision for income tax benefit | (5,280,759) | (2,831,085) | 2,392,169 |
| Provision for income tax benefit | <u>251,768</u> | <u>426,903</u> | <u>481,405</u> |
| Net (loss) income | <u>\$ (5,028,991)</u> | <u>\$ (2,404,182)</u> | <u>\$ 2,873,574</u> |

NORCAL COMMUNITY BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

16. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2009, 2008 and 2007

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|--------------------|---------------------|---------------------|
| Cash flows from operating activities: | | | |
| Net (loss) income | \$ (5,028,991) | \$ (2,404,182) | \$ 2,873,574 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | | |
| Undistributed net loss (income) of Bank subsidiary | 4,537,912 | 1,793,764 | (3,561,920) |
| Restricted common stock compensation expense | 275,228 | 341,061 | 321,412 |
| Tax benefit from exercise of stock options | | (67,579) | (287,359) |
| (Increase) decrease in intercompany receivable | (232,561) | 284,510 | 1,172,552 |
| Increase in other assets | (7,562) | (1,660) | (3,415) |
| Increase (decrease) in accrued interest payable and other liabilities | <u>7,107</u> | <u>(8,834)</u> | <u>(57,240)</u> |
| Net cash (used in) provided by operating activities | <u>(448,867)</u> | <u>(62,920)</u> | <u>457,604</u> |
| Cash flows used in investing activities: | | | |
| Capital contributed to Bank subsidiary | <u>(1,000,000)</u> | <u>(2,000,000)</u> | |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of preferred stock, net of stock issuance costs | | | 1,008,954 |
| Cash paid for fractional shares | | | (303) |
| Repurchase of common stock | (7,329) | (875,068) | (84,955) |
| Proceeds from exercise of stock options | | 207,602 | 229,510 |
| Tax benefit from exercise of stock options | | <u>67,579</u> | <u>287,359</u> |
| Net cash (used in) provided by financing activities | <u>(7,329)</u> | <u>(599,887)</u> | <u>1,440,565</u> |
| (Decrease) increase in cash and cash equivalents | (1,456,196) | (2,662,807) | 1,898,169 |
| Cash and cash equivalents at beginning of year | <u>1,660,447</u> | <u>4,323,254</u> | <u>2,425,085</u> |
| Cash and cash equivalents at end of year | <u>\$ 204,251</u> | <u>\$ 1,660,447</u> | <u>\$ 4,323,254</u> |