California
Bank of Commerce

2007 Annual Report

Organizers

Our Organizers share a vision of California Bank of Commerce and they put their time, their money, and their reputations on the line to make it happen. We thank all of them for their contribution and commitment to building this Bank.

Andy and Denise Armanino	*Danville, CA*
Charles and Judith Bellig	*Danville, CA*
John and Susan Bellig	*Danville, CA*
Mike and Patrice Botto	*Moraga, CA*
Peter and Mona Branagh	*San Francisco, CA*
Joe and Jodie Brescia	*Alamo, CA*
Ray and Terry Brown	*Newport Beach, CA*
Jeff and Patty Calder	*Orinda, CA*
Sandy and Jean Colen	*Orinda, CA*
Ted and Margaret Collins	*San Francisco, CA*
Jerry Condon	*Orinda, CA*
Michael and Darcy Cookson	*Walnut Creek, CA*
Steve and Ann Cortese	*Orinda, CA*
Jack and Jackie Cullen	*Orinda, CA*
Kevin and Amy Cullen	*Lafayette, CA*
Steve and Elaine Dathe	*Orinda, CA*
Richard and Nancy Doyle	*Lafayette, CA*
Joe and Jackie Duffel	*Orinda, CA*
Doug and Lori Fowler	*Lafayette, CA*
John and Leslie French	*Orinda, CA*
Rob and Laurie Fuller	*Orinda, CA*
Claude and Jackie Gaubert	*Lafayette, CA*
Barry and Mary Gilbert	*Alameda, CA*
Mollie and Greg Gilbert	*Oakland, CA*
Stu and Sally Kahn	*Orinda, CA*
Brad and Jeanne Kisner	*Lafayette, CA*
Ken Kisner	*Lafayette, CA*
Paul and Vicki Klapper	*Hillsborough, CA*
Roxy and Steve Klein	*Lafayette, CA*
Bob and Judy Locker	*Lafayette, CA*
David and Marsha Maiero	*Belmont, CA*
John and Nancy Montgomery	*Orinda, CA*
Tom and Carol Morehouse	*Orinda, CA*
Terry and Linda Murray	*Lafayette, CA*
Guy and Maria Muzio	*San Francisco, CA*
J.P. and Jane Oosterbaan	*Mill Valley, CA*
Tom and Sue Park	*Orinda, CA*
Paul Remack	*Walnut Creek, CA*
Dave and Lori Sanson	*Walnut Creek, CA*
Hans Schroeder	*San Francisco, CA*
Dan and Denise Siri	*Orinda, CA*
Randy and Kathryn Soso	*Orinda, CA*
Bill and Sherry Stevenson	*Orinda, CA*
Mark and Kristi Swimmer	*Orinda, CA*
Steve and Trish Thomas	*Walnut Creek, CA*
Ed and Mary Traille	*Moraga, CA*
Bruce and Patti Westphal	*Oakland, CA*
Dick and Lorraine Whitehurst	*Alamo, CA*
Steve and Linda Wight	*Lafayette, CA*

Fellow Shareholders:

2007. We are pleased to report that on December 31, 2007, after a little less than six months in business, your Bank is making great progress. We will reflect first upon 2007 and then turn our attention to 2008. At December 31, 2007, the Bank reached $53.4 million in total assets. It was in a strong liquid position, with a total of $17.8 million of cash and overnight funds (fed funds) and just under $17 million in its investment portfolio. Investments consisted only of AAA Government Agency paper, with durations of no more than 4.6 years. At year-end, the loan portfolio was beginning to take shape, with total loan commitments extended of $32.1 million of which $17.9 million were drawn and outstanding and $14.2 million were not yet draw down. The Bank had no past-due or substandard loans on its books. Although positioned to make construction loans, the Bank had none on its books at year-end. All of the Bank's loans collateralized by commercial real estate were made to strong principals, with loan advance rates at or below 70% of appraised value, and all of the related properties exhibit strong debt service capability. At year-end, the Bank had no exposure to sub-prime real estate loans, either in its investment portfolio or in its loan portfolio. Total deposits at December 31, 2007 were $28.3 million, of which just under 15% were in non-interest bearing demand deposits. The Bank had no brokered CD's or other borrowings, though, to insure adequate back-up liquidity, we arranged for credit lines with several correspondent banks and were preparing applications for a credit facility at the Federal Home Loan Bank and a collateralized CD program with the State of California.

By the end of December, 2007, we established ourselves as a competitor to be reckoned with. Our approach continues to be straightforward. We are aggressive about bringing on experienced people who understand the high service imperative of our strategy. We seek to place advanced technology at the service of both our clients and our employees, so that we can serve the convenience needs of our clients while operating from one location and avoiding the expense and inefficiency of a branch system. We offer sophisticated treasury management services like positive pay and Digital Check Deposit, which enables our clients to electronically scan and deposit checks at their place of business. We will continue to develop products that improve our client's profitability, reduce the Bank's cost structure, and produce efficiency for clients and your Bank.

Our Business Journal based advertising campaign headlines our business client relationships by name under the tagline "***...defined by the company we keep***". We believe that in commercial banking, there can be no stronger brand than the one built on the banner of successful relationships with members of our target market. Successful people attract successful people. A sampling of some of the clients we have featured follows in later pages of this report.

2008. We enter what will be our first full year of operations against a darkening horizon, particularly in the financial arena. The Federal Reserve's dramatic actions to lower short term interest rates has slowed the pace at which we can hope to make improvements in our interest margins. When rates are forced down by the Fed, our floating rate assets re-price immediately but, in an environment when many of our competitors are scrambling for liquidity, our deposits do not.

Although margins will be a challenge in 2008, we have already taken steps to insulate ourselves from further rate cuts. We built our investment portfolio early, making numerous investments before rates dropped. We have made fixed rate commercial real estate loans and these also now insulate us against falling rates. Most important is that we have the tools in place to further adapt. Our unusually strong cadre of relationship officers, led by Tom Park and Steve Shelton are all calling upon long-standing relationships to help us grow our deposits. Several of our organizers and numerous shareholders have come forward as well. Thanks to the steady deposit flow generated by these dedicated folks, our loan to deposit ratio is low, about 56% at this writing. This ratio affords us the opportunity to continue to skew our earning asset mix in favor of loans. And, we continue to experience strong loan demand.

So, from a growth perspective, as of this writing, the promising momentum established in the third and fourth quarter of 2007 is carrying forward into 2008. As of this writing, we continue to exceed plan. The pipeline of new business relationship opportunities remains plentiful and is well diversified across many of the commercial and industrial sectors that characterize the San Francisco Bay Area. These individuals and companies appear to be adequately insulated against a downturn. Our entire team remains highly optimistic. We look forward to our First Quarter Financial Report, published in April, and to seeing you at our annual meeting on May 29.

If you have not opened an account with our Bank, please do so. You will be glad you did.

John Rossell
President and Chief Executive Officer

Edward B. Collins
Chairman of the Board

Board of Directors

Edward B. Collins
Chairman of the Board, California Bank of Commerce
Retired, Partner and Managing Director ChinaVest

John E. Rossell III
President and CEO, California Bank of Commerce

Peter W. Branagh
President, Branagh Development, Inc.

Stephen A. Cortese
Managing Partner, Cortese Investments

Kevin J. Cullen
Chief Financial Officer and co-owner, MDC Vacuum Products, LLC

Stephen R. Dathe
Vice President and General Manager, A & B Die Casting Company

Stuart J. Kahn
President, United Growth Companies

Bradley S. Kisner
President, Triangle Digital INX Company

Rochelle G. Klein
Advisory Director, Ocean Gate Capital Management

John E. Lindstedt
Chief Credit Officer, California Bank of Commerce

Thomas R. Morehouse
Retired President, Filesafe Inc.

John H. Sears
Retired, Special Counsel, Sheppard, Mullin, Richter & Hampton

Edmond E. Traille
Managing Partner, S. J. Gallina & Co., LLP

Executive Officers

John E. Rossell III
President and Chief Executive Officer

Virginia M. Robbins
Chief Administrative Officer

Randall D. Greenfield
Chief Financial Officer

John E. Lindstedt
Chief Credit Officer

Mark A. DeVincenzi
Chief Marketing Officer & Investor Relations

Thomas M. Park
Executive Vice President

Steven E. Shelton
Executive Vice President

Stephen P. Tessler
Executive Vice President

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...defined by the

GSB

AMFEC

LCB ASSOCIATES

WESTCO IRON WORKS

CONDON · JOHNSON & ASSOCIATES, INC.
CONTRACTORS AND ENGINEERS

eLLWOOD COMMERCIAL REAL ESTATE

NOR-CAL SCAFFOLDING INC. SAN LEANDRO

ELECTRICAL SERVICES COMPANY
ESC

RYAN ENGINEERING INC.
Lic. #476513
EXCAVATION · DEMOLITION
LANDFILL

AGA
Architectural Glass & Aluminum

albay

XYZ GRAPHICS

UG
UNITED GROWTH

SHIMMICK CONSTRUCTION

company we keep.

ARMANINO MCKENNA LLP
Certified Public Accountants & Consultants

RESOLUTION
RLG
LAW GROUP P.C.

ROMAK IRON WORKS
Structural Steel • Miscellaneous Iron • Ornamental Metals

BRANAGH
DEVELOPMENT

BAY CITIES PAVING & GRADING

MBC
METAL BUILDING COMPANY

FLEENOR PAPER COMPANY

Stacy and Witbeck, Inc.
GENERAL ENGINEERING CONTRACTORS

THE PELICAN GROUP

NETXPERTS INC.
All Net, All the Time

TAHOE ASPHALT

City Picture Frame

TaylorMade
Water Systems, Inc.

INDEPENDENT AUDITOR'S REPORT

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ACCOUNTANTS

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415.576.1100

The Shareholders and
Board of Directors
California Bank of Commerce

We have audited the accompanying balance sheet of California Bank of Commerce as of December 31, 2007 and the related statements of operations, changes in shareholders' equity and cash flows for the period from July 17, 2007 (date operations commenced) to December 31, 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Bank of Commerce as of December 31, 2007 and the results of its operations and its cash flows for the period from July 17, 2007 (date operations commenced) to December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Perry-Smith LLP

March 28, 2008

BALANCE SHEET
December 31, 2007

ASSETS

Cash and due from banks	$ 1,355,160
Federal funds sold	16,440,000
Total cash and cash equivalents	17,795,160
Investment securities (Note 3)	
Available-for-sale, at estimated fair value	9,839,952
Held to maturity, at amortized cost (fair value of $7,205,918 at December 31, 2007)	7,156,045
Loans, less allowance for loan losses of $248,000 (Notes 4, 9 and 12)	17,662,514
Bank premises and equipment, net (Note 5)	414,157
Accrued interest receivable and other assets	494,652
	$ 53,362,480

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:	
Non-interest bearing	$ 4,191,879
Interest bearing (Note 6)	24,136,944
Total deposits	28,328,823
Accrued interest payable and other liabilities (Note 13)	243,692
Total liabilities	28,572,515
Commitments and contingencies (Notes 8 and 9)	
Shareholders' equity (Notes 10 and 11):	
Preferred stock – no par value; 10,000,000 shares authorized, none outstanding	-
Common stock - no par value; 40,000,000 shares authorized; 2,750,000 shares issued and outstanding	27,821,247
Accumulated deficit (including net pre-opening expenses of $1,275,347) (Note 2)	(3,107,872)
Accumulated other comprehensive income, net of taxes (Note 3)	76,590
Total shareholders' equity	24,789,965
Total liabilities and shareholders' equity	$ 53,362,480

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

STATEMENT OF OPERATIONS
For the Period July 17, 2007 (Date Operations Commenced) to December 31, 2007

Interest income:	
Interest and fees on loans	$ 122,508
Interest on Federal funds sold	630,034
Interest on investment securities	164,125
Total interest income	916,667
Interest expense:	
Interest on deposits (Note 6)	231,533
Total interest expense	231,533
Net interest income	685,134
Provision for loan losses (Note 4)	248,000
Net interest income after provision for loan losses	437,134
Non-interest income:	
Service charges and fees	111
Net gain on sales of investment securities (Note 3)	1,122
Other	8,254
Total non-interest income	9,487
Non-interest expense:	
Salaries and employee benefits (Notes 4, 9 and 13)	1,410,347
Occupancy and equipment (Note 5)	198,659
Other (Note 14)	670,140
Total non-interest expense	2,279,146
Net loss	$ (1,832,525)
Basic loss per share	$ (0.67)
Weighted average number of shares outstanding	2,750,000

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

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY AND COMPREHENSIVE LOSS
For the Period July 17, 2007 (Date Operations Commenced) to December 31, 2007

	Common Stock			Accumulated Other	Total
	Shares	Amount	Accumulated Deficit	Comprehensive Income	Shareholders' Equity
Balance, July 17, 2007 (date operations commenced) (Note 2)	2,750,000	$ 27,499,181	$ (1,275,347)		$ 26,223,834
Share-based compensation expense (Note 10)		322,066			322,066
Net loss			(1,832,525)		(1,832,525)
Net change in unrealized gains on available-for-sale investment securities, net of taxes (Note 3)				$ 76,590	76,590
Balance, December 31, 2007	2,750,000	$ 27,821,247	$ (3,107,872)	$ 76,590	$ 24,789,965

Comprehensive loss:	
Net loss	$ (1,832,525)
Other comprehensive income, net of taxes:	
Unrealized holding gains on available-for-sale investment securities arising during the period	76,590
Total comprehensive loss	$ (1,755,935)

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

STATEMENT OF CASH FLOWS
For the Period July 17, 2007 (Date Operations Commenced) to December 31, 2007

Cash flows from operating activities:	
Net loss	$ (1,832,525)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for loan losses	248,000
Depreciation	28,426
Deferred loan origination costs, net	(106,800)
Change in amortization (accretion) of investment security premiums (discounts), net	(15,607)
Share-based compensation expense	322,066
Gain on sale of investment securities, net	(1,122)
Increase in accrued interest receivable and other assets	(204,526)
Decrease in accrued interest payable and other liabilities	(76,764)
Net cash used in operating activities	(1,638,852)
Cash flows from investing activities:	
Purchase of available-for-sale investment securities	(12,881,570)
Sales of available-for-sale investment securities	2,967,335
Purchase of held-to-maturity investment securities	(7,222,729)
Proceeds from principal payments on available-for-sale investment securities	220,054
Proceeds from principal payments on held-to-maturity investment securities	67,456
Purchase of The Independent Banker's Bank stock	(50,419)
Net increase in loans	(17,803,714)
Purchase of premises and equipment	(312,906)
Net cash used in investing activities	(35,016,493)
Cash flows from financing activities:	
Increase in demand, interest bearing and savings deposits	23,911,841
Increase in time deposits	4,416,982
Repayment of pre-opening advances from organizers	(1,530,000)
Net cash provided by financing activities	26,798,823
Decrease in cash and cash equivalents	(9,856,522)
Cash and cash equivalents at date operations commenced	27,651,682
Cash and cash equivalents at end of period	$ 17,795,160
Supplemental disclosure of cash flow information:	
Cash paid during the period for interest expense	$ 231,533
Non-cash investing activities – unrealized holding gains on available-for-sale investment securities	$ 129,814

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Bank was approved as a state-chartered non-member bank on May 11, 2007 and is subject to regulation by the California Department of Financial Institutions (the "DFI") and the Federal Deposit Insurance Corporation (the "FDIC"). The Bank's deposits are insured by the FDIC up to applicable legal limits. The Bank is headquartered in Lafayette, California and provides products and services to customers who are predominately small to middle-market businesses, professionals and not-for-profit organizations located in Contra Costa and surrounding counties.

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Investment Securities

Investment securities are classified into the following categories:

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. During the period from July 17, 2007 (date operations commenced) to December 31, 2007 there were no transfers between categories.

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

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

Loans

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

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

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

The Bank services loans that have been participated with other financial institutions totaling approximately $1,925,541 as of December 31, 2007. The participated balances of these loans were sold without recourse and are not included on the Bank's balance sheet.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses (net of recoveries) and loan growth. The allowance for loan losses at December 31, 2007 reflects management's estimate of probable losses in the portfolio.

The allowance is maintained to provide for losses related to impaired loans 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 character of the loan portfolio, specifically identified problem loans, potential losses inherent in the portfolio taken as a whole and economic conditions in the Bank's service area.

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

The Bank maintains a separate allowance for losses related to undisbursed loan commitments. Management estimates the amount of probable losses by applying a loss factor to the available portion of undisbursed lines of credit. This allowance of $12,000 is included in accrued interest payable and other liabilities on the balance sheet.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

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

The Bank's Directors' Loan Committee reviewed the adequacy of the allowance for loan losses at December 31, 2007. In the future, the Directors' Loan Committee will review the adequacy of the allowance for loan losses at least quarterly. The allowance will be adjusted based on that review if, in the judgment of the Directors' Loan Committee and management, changes are warranted.

Bank Premises and Equipment

Bank premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures and equipment are estimated to be 3 to 5 years. Leasehold improvements are amortized over the lesser of the respective lease term (including renewal periods that are reasonably assured) or their useful lives, which are generally 7 to 14 years.

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

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Income Taxes

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Uncertainly in Income Taxes

The Bank accounts for uncertain income tax positions under the guidance of Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for uncertainly in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainly about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold area measured as the largest amount of the tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest expense and penalties associated with unrecognized tax benefits are classified as income tax expense in the statement of operations.

Earnings (Loss) Per Share

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-Based Payments

The Bank has one share-based compensation plan, the California Bank of Commerce 2007 Equity Incentive Plan (the "Plan"), which has been approved by its shareholders and permits the grant of stock options and restricted stock for up to 825,000 shares of the Bank's common stock. The Plan is designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. New shares are issued upon option exercise or restricted share grants. The Plan does not provide for the settlement of awards in cash. The Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised.

Restricted stock awards are grants of shares of common stock that are subject to forfeiture until specific conditions or goals are met. Conditions may be based on continuing employment or achieving specified performance goals. During the period of restriction, participants holding restricted stock may have full voting and dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors. No awards of restricted stock were made during the period from July 17, 2007 (date operations commenced) to December 31, 2007.

The Bank accounts for share-based compensation under Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment*. SFAS No. 123(R) generally requires that such transactions be accounted for using a fair-value based method and requires that share-based compensation expense be recorded for all stock options that are ultimately expected to vest as the requisite service is rendered.

Management estimates the fair value of each option award as of the date of grant using a Black-Scholes-Merton option pricing formula. Expected volatility is based on historical volatility of similar entities over a preceding period commensurate with the expected term of the option because the Bank's common stock has been publicly traded for a shorter period than the expected term for the options. The "simplified" method described in SEC Staff Accounting Bulletin No. 107 is used to determine the expected term of our options due to the lack of sufficient historical data. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield was not considered in the option pricing formula since we have not paid dividends and have no current plans to do so in the future. In addition to these assumptions, management makes estimates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the Plan.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income (Loss)

Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income or loss that historically has not been recognized in the calculation of net income or loss. Sources of other comprehensive income or loss include unrealized gains and losses on available-for-sale investment securities. Total comprehensive income (loss) and components of accumulated other comprehensive income (loss) are presented in the statement of changes in shareholders' equity and comprehensive loss.

Impact of Recently Issued Accounting Standards

Fair Value Measurements

In September 2006, the FASB issued Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The provisions should be applied prospectively, except for certain specifically identified financial instruments. The Bank adopted SFAS 157 on January 1, 2008 and its adoption did not have a material impact on the Bank's financial position or results of operations.

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued Statement No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* This standard permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. The entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option (a) many be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method, (b) is irrevocable (unless a new election date occurs), and (c) is applied only to entire instruments and not to portions of instruments. The Bank adopted SFAS 159 on January 1, 2008 and management did not elect the fair value option for any of its financial instruments.

2. PRE-OPENING ACTIVITIES

Prior to commencement of operations, the Bank was considered a development stage company and was engaged in activities designed to prepare it for opening as an FDIC-insured financial institution. The Bank received its initial funding during this period from directors and organizers in the form of interest free loans. The initial funds were used during the development stage of the Bank to pay for salaries, legal and consulting expenses, rent, and the purchase and build-out of leasehold improvements and to purchase furniture and equipment. These funds were repaid to the directors and organizers following approval by the banking regulators. In consideration for the funding, each director and organizer received the lesser of (a) one option for each $20 of funding or, (b) one option with every share purchased. The estimated fair value of these options was $222,224 and is included as share-based expense as part of pre-opening expenses.

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

Consulting and professional fees	$ 1,045,959
Share-based compensation expense	222,224
Rent	31,404
Other	63,718
Interest income	(87,958)
Net pre-opening expenses	$ 1,275,347

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

Proceeds from organizational advances from Directors and organizers	$ 1,530,000
Proceeds from sale of common stock	27,500,000
Stock offering costs	(223,042)
Pre-opening expenses, net of interest income of $87,958	(1,275,347)
Share-based compensation expense	222,224
Purchase of property and equipment	(129,677)
Prepaid expenses and other assets	(239,708)
Accrued liabilities	267,232
Cash and cash equivalents at date operations commenced	$ 27,651,682

Transactions during the pre-opening period with related parties included the rental and use of office space in a building in which a director has a financial interest and, execution of a lease for space in a newly constructed retail/office building to house the Bank's permanent headquarters office with a Company in which a different Director has a financial interest.

3. INVESTMENT SECURITIES

Available-for-sale:

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2007 consisted of the following:

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. government agencies	$ 2,971,251	$ 51,243	$	$ 3,022,494
Mortgage-backed securities	6,738,888	78,570		6,817,458
	$ 9,710,139	$ 129,813	$	$ 9,839,952

Net unrealized gains on available-for-sale investment securities totaling $129,813 were recorded, net of $53,223 in tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2007. Proceeds and gross realized gains from the sale of available-for-sale investment securities for the period from July 17, 2007 (date operations commenced) to December 31, 2007 totaled $2,967,335 and $1,122, respectively.

Held-to-Maturity:

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

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	$ 7,156,045	$ 49,873	$	$ 7,205,918
	$ 7,156,045	$ 49,873	$	$ 7,205,918

There were no sales or transfers of held-to-maturity investment securities for the period from July 17, 2007 (date operations commenced) to December 31, 2007.

3. INVESTMENT SECURITIES (Continued)

The amortized cost and estimated fair value of investment securities at December 31, 2007 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
Less than one year	$ 971,251	$ 975,306	$ -	$ -
After one year through five years	2,000,000	2,047,188	-	-
	2,971,251	3,022,494		
Investment securities not due at a single maturity date:				
Mortgage-backed securities	6,738,888	6,817,458	7,156,045	7,205,918
	$ 9,710,139	$ 9,839,952	$ 7,156,045	$ 7,205,918

4. LOANS

Outstanding loans at December 31, 2007 are summarized below:

Commercial	$ 9,935,144
Real estate – commercial	6,695,186
Consumer and other	1,173,384
	17,803,714
Deferred loan origination costs, net	106,800
Allowance for loan losses	(248,000)
	$ 17,662,514

For the period from July 17, 2007 (date operations commenced) to December 31, 2007, the Bank had no impaired loans or loans placed on nonaccrual status. During the same period, the Bank recognized a provision for loan losses of $248,000 and no losses were charged to the allowance.

Salaries and employee benefits totaling $190,195 were deferred as loan origination costs for the period from July 17, 2007 (date operations commenced) to December 31, 2007.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following at December 31, 2007:

Furniture, fixtures and equipment	$ 322,453
Leasehold improvements	120,130
	442,583
Less accumulated depreciation and amortization	(28,426)
	$ 414,157

Depreciation and amortization included in occupancy and equipment expense totaled $28,426 for the period from July 17, 2007 (date operations commenced) to December 31, 2007.

6. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following at December 31, 2007:

Savings	$ 55,978
Money market	19,315,634
Interest-bearing demand accounts	348,350
Time, $100,000 or more	4,205,787
Other time	211,195
	$ 24,136,944

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2008	$ 4,265,817
2009	-
2010	-
2011	-
2012	151,165
	$ 4,416,982

6. INTEREST-BEARING DEPOSITS (Continued)

Interest expense recognized on interest-bearing deposits for the period from July 17, 2007 (date operations commenced) to December 31, 2007 consisted of the following:

Savings	$ 245
Money market	175,719
Interest-bearing demand accounts	1,643
Time, $100,000 or more	52,778
Other time	1,148
	$ 231,533

At December 31, 2007, the Bank had deposits from four customers in excess of 5% of the Bank's total deposits. Deposits from these customers totaled $13,570,090, or 47.9% of total deposits at December 31, 2007.

7. INCOME TAXES

Income taxes for the period from July 17, 2007 (date operations commenced) to December 31, 2007 consisted of the following:

Current	$ -
Deferred	(711,823)
Establishment of a valuation allowance	711,823
Income tax expense	$ -

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

Deferred tax assets:	
Net operating losses	$ 789,261
Share-based compensation	37,169
Organization costs	586,434
Allowance for loan losses	98,211
Other	291
Deferred tax assets before valuation allowance	1,511,365
Valuation allowance	(1,317,012)
Total deferred tax assets	194,353

7. INCOME TAXES (Continued)

Deferred tax liabilities:	
Accrual to cash conversion	(41,839)
Future liability of state deferred tax asset	(63,748)
Deferred loan costs	(75,258)
Premises and equipment	(13,508)
Unrealized gain on available-for-sale investment securities	(53,223)
Total deferred tax liabilities	(247,576)
Net deferred tax liability	$ (53,223)

A valuation allowance is provided to reduce deferred tax assets to a level which, more likely than not, will be realized. Due to the losses recognized during the organizational period and since operations commenced, a valuation allowance has been recorded for substantially all of the Bank's net deferred tax assets. The need for this valuation allowance will be periodically reviewed and benefits will be recognized when they are determined to be realizable.

At December 31, 2007, the Bank had Federal and State net operating loss carryforwards (NOLs) of $1,760,000. The Federal NOLs expire in 2027 and the State NOLs expire in 2017, respectively.

The Bank files income tax returns in the U.S federal and California jurisdictions. There are currently no pending U.S. federal or state income tax or non-U.S. income tax examinations by tax authorities.

The Bank is subject to tax examinations by U.S. Federal and state taxing authorities for all tax returns filed since its inception.

As of December 31, 2007, there were no unrecognized tax benefits or interest and penalties accrued by the Bank.

8. SHORT-TERM BORROWING ARRANGEMENTS

The Bank has unsecured Federal funds line of credit with two of its correspondent banks under which it can borrow up to $8,000,000. In a separate agreement, the Bank can borrow up to $8,000,000, or the total market value of securities pledged to a correspondent bank under a repurchase agreement. At December 31, 2007, there were no investment securities pledged to the correspondent bank under this agreement. There were no borrowings outstanding under these arrangements at December 31, 2007.

9. COMMITMENTS AND CONTINGENCIES

Operating Lease

The Bank leases its headquarters facility in Lafayette, California from an affiliated party under a non-cancelable operating lease. The lease expires on May 30, 2015 and has one 7 and 1/2 year renewal option. The lease includes annual rent adjustments during the initial lease term and increases to the then current fair-market rent commencing the first year of the option. It is management's intention to exercise the renewal options.

Future minimum lease payments are as follows:

Year Ending	December 31,
2008	$ 378,000
2009	386,640
2010	395,280
2011	405,000
2012	414,180
Thereafter	1,080,000
	$ 3,059,100

Rental expense included in occupancy and equipment expense totaled $97,747 for the period from July 17, 2007 (date operations commenced) to December 31, 2007.

Financial Instruments With Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of the following:

	December 31, 2007
Commitments to extend credit	$ 14,233,694

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

9. COMMITMENTS AND CONTINGENCIES (Continued)

Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.

Commercial loan commitments represent approximately 91% of total commitments and are generally unsecured or secured by collateral other than real estate and have variable interest rates. Real estate loan commitments represent approximately 5% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 70%. The majority of real estate commitments also have variable interest rates. Home equity lines of credit represent the remaining 4% of total commitments and are generally secured by residential real estate and have both variable and fixed interest rates.

Concentrations of Credit Risk

The Bank grants real estate mortgage, real estate construction and commercial loans to customers in Contra Costa and surrounding counties. Although the Bank intends to have a diversified loan portfolio, a substantial portion of its portfolio is secured by commercial and residential real estate at December 31, 2007.

In management's judgment, a concentration of loans exists in real estate related loans with approximately 42% of the Bank's loans being real estate related. Although management believes the loans within this concentration have no more than the normal risk of collectibility, a substantial decline in the performance of the economy in general or a decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on the collectibility of these loans. Personal and business income represent the primary source of repayment for a majority of these loans.

Contingencies

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

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits were not significant at December 31, 2007.

10. SHARE-BASED PAYMENT

Stock Option Awards

The California Bank of Commerce 2007 Equity Incentive Plan (the "Plan") permits the grant of stock options to directors, organizers and employees of the Bank. Grants of options to the organizers during the start up phase of the Bank and to the Directors are considered Non-Qualified Stock Option Awards. All other option grants are considered Incentive Stock Option Awards. All of the options granted under the Plan have a 10 year term and have been issued with exercise prices at the fair market value of the underlying shares at the date of grant. The Non-Qualified stock option awards to the organizers vested 100% immediately, whereas the Stock Option Awards to directors and employees vest over a three year period from the date the options were granted. The share-based compensation expense related to awards granted to organizers is included in pre-opening expenses.

A summary of option activity under the Plan for the period July 17, 2007 (date operations commenced) to December 31, 2007 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Granted	592,250	$ 10.00	9.58	$ 888,300
Outstanding at December 31, 2007	592,250	$ 10.00	9.58	$ 888,300
Vested or expected to vest at December 31, 2007	578,588	$ 10.00	9.58	$ 867,882
Exercisable at December 31, 2007	60,250	$ 10.00	9.55	$ 90,375

As of December 31, 2007, the unrecognized compensation cost related to non-vested stock option awards totaled $1,763,795. That cost is expected to be amortized on a straight-line basis over a weighted average period of 2.59 years and will be adjusted for subsequent changes in estimated forfeitures.

The following stock option information is for the period July 17, 2007 (date operations commenced) to December 31, 2007:

Weighted average grant date fair value per share of options granted	$ 4.09
Significant fair value assumptions:	
Expected term in years	6 years
Expected annual volatility	32.58%
Expected annual dividend yield	0%
Risk-free interest rate	4.93%
Total share-based compensation costs included in operating expenses	$ 322,066
Total share-based compensation costs included in pre-opening expenses	$ 222,224

11. SHAREHOLDERS' EQUITY

Dividends

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2007, no amounts were free of such restrictions.

Regulatory Capital

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

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

During its first three years, the Bank is required to maintain a minimum leverage ratio of 8%. In addition, to be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below.

	Amount	Ratio
Leverage Ratio		
California Bank of Commerce	$ 24,713,000	53.0%
Minimum requirement for "Well-Capitalized" institution	$ 2,333,150	5.0%
Minimum regulatory requirement	$ 1,866,520	4.0%
Minimum leverage ratio for de novo institution	$ 3,733,040	8.0%
Tier 1 Risk-Based Capital Ratio		
California Bank of Commerce	$ 24,713,000	76.3%
Minimum requirement for "Well-Capitalized" institution	$ 1,942,740	6.0%
Minimum regulatory requirement	$ 1,295,160	4.0%
Total Risk-Based Capital Ratio		
California Bank of Commerce	$ 24,973,000	77.1%
Minimum requirement for "Well-Capitalized" institution	$ 3,237,900	10.0%
Minimum regulatory requirement	$ 2,590,320	8.0%

12. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including Directors, executive officers and affiliates. These transactions include borrowings from the Bank with substantially the same terms, including rates and collateral, as loans to unrelated parties.

The following is a summary of the aggregate activity involving related party borrowers during the period from July 17, 2007 (date operations commenced) to December 31, 2007:

Disbursements	$ 5,217,410
Amounts repaid	-
Balance, December 31, 2007	$ 5,217,410
Undisbursed commitments to related parties, December 31, 2007	$ 542,950

At December 31, 2007, the Bank's deposits from related parties totaled $1,672,839.

The Bank also leases its office from a company owned by a member of the Board of Directors. Rental payments under this agreement totaled $42,824 for the period from July 17, 2007 (date operations commenced) to December 31, 2007.

13. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

In 2007, the Bank adopted the California Bank of Commerce Profit Sharing 401(k) Plan. All full-time employees 21 years of age or older with 3 months of service are eligible to participate in the plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. The Bank may make additional contributions to the plan at the discretion of the Board of Directors. Bank contributions vest at a rate of 20% annually for all employees. The Bank did not make a contribution to the Plan during the period from July 17, 2007 (date operations commenced) to December 31, 2007.

Salary Continuation and Retirement Plan

The Board of Directors approved a salary continuation plan for the Chief Executive Officer (CEO) during 2007. Under the Plan, once the CEO reaches age 65, the Bank is obligated to provide the CEO with annual benefits for twenty years after retirement. The estimated present value of these future benefits is accrued from the effective date of the plan until the CEO's expected retirement date based on a discount rate of 6.5%. The expense recognized under this plan for the period from July 17, 2007 (date operations commenced) to December 31, 2007 totaled $32,592. Accrued compensation payable under the salary continuation plan totaled $32,592 at December 31, 2007.

14. OTHER EXPENSES

Other expenses for the period from July 17, 2007 (date operations commenced) to December 31, 2007 consisted of the following:

Professional fees	$ 284,644
Director's stock-based compensation	82,892
Data processing	61,572
Business development	27,128
Stationery and supplies	24,628
Insurance	17,602
Advertising and marketing	14,065
Provision for losses on unfunded commitments	12,000
Telephone	10,768
Correspondent bank service charges	4,453
Other	130,388
	$ 670,140

15. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

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

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

<u>Cash and due from banks and Federal funds sold</u>: For cash and due from banks and Federal funds sold, the carrying amount is estimated to be fair value.

<u>Investment securities</u>: For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers.

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

Investment in the Independent Banker's Bank stock: The stock may be redeemed at 90% of the current book-value. Accordingly, 90% of book-value is used as a reasonable estimate of fair value.

Loans: For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates offered at December 31, 2007 for loans with similar terms to borrowers of comparable creditworthiness. The fair value of loans is adjusted for the allowance for loan losses. The carrying amount of accrued interest receivable approximates its fair value.

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at December 31, 2007 represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates offered at December 31, 2007 by the Bank for certificates with similar remaining maturities.

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

The estimated fair values of the Bank's financial instruments at December 31, 2007 are as follows:

	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash and due from banks	$ 1,355,160	$ 1,355,160
Federal funds sold	16,440,000	16,440,000
Investment securities	16,995,997	17,045,870
Loans, net	17,662,514	17,791,120
The Independent Banker's Bank stock	50,419	50,419
Accrued interest receivable	150,572	150,572
Financial liabilities:		
Deposits	$ 28,328,823	$ 28,312,729

California
Bank of Commerce

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