

OFFICE OF THE COMPTROLLER OF THE CURRENCY
Washington, D.C. 20219
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE YEAR ENDED DECEMBER 31, 2009

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION FROM _____ to _____

Commission File Number:

Bank of Napa, N.A.

United States

TIN #: 20-2314309

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification

2007 Redwood Road, Ste 101, 94558

707 257-7777

(Address of principal executive offices) (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock

Indicate by check mark if the registrant is a well-known, seasoned issuer as defined in Rule 405 of the Securities Act. **Yes** ___ **No**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes** ___ **No**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **No** ___

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ___ **Accelerated filer** ___

Non-accelerated filer ___ **Smaller reporting company**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** ___ **No**

The aggregate market value of the voting stock held by non-affiliates of the Registrant at June 30, 2009 was approximately \$12,588,862. As of March 25, 2010, there were 2,288,884 shares of common stock outstanding.

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PART I

ITEM 1. BUSINESS

General

Bank of Napa, National Association (the “Bank”) is a national bank that engages in commercial banking activities to deliver its products and services to the public, primarily in Napa County, California.

The bank was organized on December 1, 2005 when the bank’s organizers filed Articles of Association and an Organization Certificate with the Office of the Comptroller of the Currency (the “OCC”). The Bank commenced operations on August 14, 2006. The Bank is a member of Federal Reserve System and its deposits are insured by Federal Deposit Insurance Corporation (“FDIC”), up to applicable limits.

The Bank operates through one office located at 2007 Redwood Road, Suite 101 in Napa, California. The Bank’s business banking focus is on small to medium sized businesses, professionals and not-for-profit organizations. The Bank offers a broad range of commercial and retail lending programs designed to meet the needs of its target markets. These include commercial loans and lines of credit, construction financing, consumer loans, auto loans, home improvement loans and home equity lines of credit. The Bank offers a proprietary Visa credit card combined with a rewards program to its customers, which includes a Business Visa program for business and professional customers.

The Bank offers a variety of checking and savings accounts, and a number of time deposit alternatives, including interest bearing and noninterest bearing personal and business checking accounts and time certificates of deposit. The Bank also offers direct deposit of payroll, social security and pension checks. A deposit pick-up service is available to the Bank’s professional and business clients. An automatic teller machine (ATM) is available at the office location. The Bank’s ATM network is linked to both the PLUS and EXCHANGE networks. The Bank offers its depositors 24-hour access to their accounts by telephone and to both consumer and business accounts through its internet banking products.

The Bank attracts deposit relationships from individuals, merchants, small-to-medium sized businesses, not-for-profit organizations and professionals who live and/or work in Napa County. The Bank does not directly offer international banking services, but does make such services available to its customers through other financial institutions with whom the Bank has correspondent banking relationships.

The Bank holds no patents, registered trademarks, licenses (other than licenses required by the appropriate banking regulatory agencies), franchises or concessions. However, the Bank has registered the service mark “Bank of Napa” with the California Secretary of State.

Market Area

The Bank’s market area is in Napa Valley California, renowned for producing many of the world’s finest premium wines. The Bank has no foreign or international activities or operations.

Competition

The banking business in California generally, and in the Bank’s market area specifically, is highly competitive with respect to attracting both loan and deposit relationships. The Napa County market area is dominated by two major banks, each of which have more branch offices than Bank of Napa in our defined service area. Additionally, there are several thrifts, including the major thrift institutions operating in the California market, credit unions and other independent banks.

In recent years, a large number of mergers and consolidations of both banks and savings entities have occurred in California and throughout the nation. A substantial number of the larger banks have been involved in major mergers. The result is that these institutions generally have centralized and standardized their services. Similarly, most lending functions and decisions are sent outside the area. Acquisitions by major interstate bank holding companies and other large acquirers in the Bank’s market area have resulted in numerous branch consolidations in the area. Many long-standing relationships have

been disrupted or severed, while many other customers are now subjected to less personalized and more "standardized" services.

The Bank believes that this merger and consolidation activity presents the Bank with the opportunity to attract customers who are dissatisfied with the level of service provided by larger banks, and the Bank solicits customers "displaced" by merger activity.

In order to compete with the major financial institutions in the Bank's primary service areas, the Bank uses to the fullest extent possible the contacts of its organizers, founders, advisors, directors and officers with residents and businesses in the Bank's primary service areas. The Bank emphasizes specialized services, local promotional activity and personal contacts by the Bank's officers, directors and other employees. The Bank has developed programs to specifically address the needs of small to medium-sized businesses, professional businesses, and individuals in the community. As necessary, the Bank can arrange for loans that are too large for the Bank to make by itself to be made on a participation basis with other financial institutions and intermediaries.

The Bank also helps its customers who require other services not offered by the Bank to obtain such services from its correspondent banks or other sources. In addition, the Bank has joined the STAR® and PLUS® ATM networks and also offers, among other services, a night depository, courier services, bank-by-mail services, direct deposit, and on-line Internet banking. To implement its strategy to compete effectively, the Bank has hired highly qualified, professional management and staff. By offering a professional work environment, competitive salaries and benefits and a unique opportunity to grow with a new financial institution, the Bank believes it has hired management and staff that are successfully implementing the Bank's business plan.

Employees

At December 31, 2009, the Bank employed 19 full-time equivalent (FTE) staff. Actual number of employees at year-end 2009 included three executive officers, nine other corporate officers and eight staff. None of the Bank's employees are presently represented by a union or covered by a collective bargaining agreement. The Bank believes that its employee relations are good.

Supervision and Regulation

The following discussion of statutes and regulations affecting banks is only a summary and does not purport to be complete. This is qualified in its entirety by reference to such statutes and regulations. No assurance can be given that such statutes and regulations will not change in the future. Moreover, any changes may have a material effect on the business of the Bank.

General

Banking is a complex, highly regulated industry. Consequently, the growth and earnings performance of the Bank can be affected, not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. These authorities include, but are not limited to, the Federal Reserve, the FDIC, the OCC, the Internal Revenue Service and state taxing authorities. The effect of these statutes, regulations and policies and any changes to any of them can be significant and cannot be predicted.

As a national association, the Bank is subject to regulation, supervision and periodic examination by the OCC. The Bank is a member of the Federal Reserve System, and is subject to certain regulations of the Board of Governors of the Federal Reserve System.

The regulations of the OCC govern most aspects of the Bank's business and operations. The regulations include the requirement for the maintenance of noninterest bearing reserves on deposits, limits on the nature and amount of investments and loans which may be made, rules on the issuance of securities, restrictions on the payment of dividends, directives on bank branch expansion and other bank activities. The primary goals of the Bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress has created

several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the banking industry. The system of supervision and regulation applicable to the Bank establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC's deposit insurance funds, the Bank's depositors and the public, rather than the shareholders and creditors. The following is an attempt to summarize some of the relevant laws, rules and regulations governing banks and bank holding companies, but does not purport to be a complete summary of all applicable laws, rules and regulations governing banks and bank holding companies. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

Federal Deposit Insurance and Assessments.

The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to the maximum amount permitted by law, which is currently \$250,000. In light of the current economic environment and the events of the financial markets during 2008, the Board of Directors of the FDIC adopted the Temporary Liquidity Guarantee Program (TLGP) on October 13, 2008. The TLGP has two parts: First, it guarantees newly issued senior unsecured debt of banks, thrifts, and certain holding companies, and provides full coverage of noninterest bearing deposit transaction accounts. The FDIC adopted the TLGP because of disruptions in the credit market, particularly the interbank lending market, which reduced banks' liquidity and impaired their ability to lend. The goal of the TLGP is to decrease the cost of bank funding so that bank lending to consumers and businesses will normalize. Second, under the TLGP's transaction account guarantee program, a participating institution will be able to provide customers full coverage on noninterest bearing transaction accounts, NOW accounts with interest rates of 0.5 percent or less and IOLTAs (lawyer trust accounts) for an annual fee of 10 basis points, which is paid by the Bank. The coverage will be in effect for participating institutions until June 30, 2010. After that date, unless extended by the FDIC, these accounts will be subject to the basic insurance amount. The \$250,000 insurance limit was scheduled to return to \$100,000 on January 1, 2010, but has been extended through December 31, 2013. The Bank has participated in the TLGP's transaction account guarantee program and has elected to continue participation during the extension period. The Bank has opted-out of the guarantee of newly issued unsecured debt since it does not have any debt but has opted-in to participate in providing unlimited FDIC coverage to customers with noninterest bearing transaction accounts.

In February of 2009, the FDIC revised its risk-based system for determining deposit insurance assessments. This assessment is based on the risk category of the institution. To determine the total base assessment rate, the FDIC first establishes an institution's initial base assessment rate. This initial base assessment rate ranges, depending on the risk category of the institution, from 12 to 45 basis points. The FDIC then adjusts the initial base assessment based upon an institution's levels of unsecured debt, secured liabilities, and brokered deposits. The total base assessment rate ranges from 7 to 77.5 basis points of the institution's deposits.

In May of 2009, the FDIC adopted a final rule imposing a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. As a result, the Bank's expense for deposit insurance for the fiscal year ended December 31, 2009 includes approximately \$28,000 for this emergency assessment which was levied as of June 30, 2009 and paid on September 30, 2009.

Impact of Monetary Policies.

Banking is a business that depends on rate differentials. In general, the difference between the interest rate paid by the Bank on its deposits and other borrowings and the interest rate earned by the Bank on loans, securities and other interest-earning assets comprises the major source of the Bank's earnings. These rates are highly sensitive to many factors which are beyond the control of the Bank and, accordingly, the earnings and growth of the Bank are subject to the influence of economic conditions generally, both domestic and foreign, including inflation, recession, and unemployment; and also to the influence of monetary and fiscal policies of the United States and its agencies, particularly the Board of Governors of the Federal Reserve Board (the "FRB"). The FRB implements national monetary policy,

such as seeking to curb inflation and combat recession, by its open-market dealings in United States government securities, by adjusting the required level of reserves for financial institutions subject to reserve requirements, and through adjustments to the discount rate applicable to borrowings by banks which are members of the Federal Reserve System. The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates. The nature and timing of any future changes in such policies and their impact on the Bank cannot be predicted; however, the impact on the Bank's net interest margin, whether positive or negative, depends on the degree to which the Bank's interest-earning assets and interest-bearing liabilities are rate sensitive. In addition, adverse economic conditions could make a higher provision for loan losses a prudent course and could cause higher loan charge-offs, thus adversely affecting the Bank's results of operations.

Privacy.

Under state and federal law, a bank must protect the privacy of its customers. Applicable law prohibits financial institutions from sharing or selling personally identifiable nonpublic information without obtaining a consumer's consent, as provided. It provides for a plain-language notice of the privacy rights it confers. The law requires that (1) a consumer must "opt in" before a financial institution may share personal information with an unaffiliated third party, (2) consumers be given an opportunity to "opt out" of sharing with a financial institution's financial marketing partners, and (3) consumers be given the opportunity to "opt out" of sharing with a financial institution's affiliates, with some exceptions. When an affiliate is wholly owned, in the same line of business, subject to the same functional regulator and operates under the same brand name, an institution may share its customers' personal information with the affiliate without providing an opt-out right.

Corporate Governance.

The Sarbanes-Oxley Act ("SOX") was adopted in 2002 for the stated purpose to increase corporate responsibility, enhance penalties for accounting and auditing improprieties at publicly traded companies, and protect investors by improving the accuracy and reliability of corporate disclosures. SOX amends the Securities Act of 1934 and contains far-reaching securities legislation. SOX includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules. Among its provisions, SOX subjects bonuses issued to top executives to disgorgement if a subsequent restatement of a company's financial statements was due to corporate misconduct, prohibits an officer or director from misleading or coercing an auditor, prohibits insider trades during pension fund "blackout periods," imposes new criminal penalties for fraud and other wrongful acts and extends the period during which certain securities fraud lawsuits can be brought against a company or its officers.

SOX represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees. In addition, the federal banking regulatory authorities have adopted requirements concerning the certification of financial statements by bank officials that are generally similar to requirements under SOX.

Specifically, SOX prohibits a registered public accounting firm from performing specified nonaudit services contemporaneously with a mandatory audit and vests the audit committee of an issuer with responsibility for the appointment, compensation, and oversight of any registered public accounting firm employed to perform audit services. SOX also requires each audit committee member to be a member of the board of directors of the issuer, and to be otherwise independent. SOX further requires the chief executive officer and chief financial officer of an issuer to make certain certifications as to each annual or quarterly report filed with the Securities and Exchange Commission, ("SEC"). Pursuant to the mandate in SOX, the SEC has adopted various rules, including rules to require reporting companies to adopt a code of ethics for its senior financial officers, disclosure of all material off-balance sheet transactions and relationships that may have a material effect upon the financial status of an issuer and the presentation of

pro forma financial information in a manner that is not misleading, and which is reconcilable with the financial condition of the issuer under generally accepted accounting principles.

SOX also provides for a mandated internal control report and assessment with the annual report. In 2006, the SEC delayed the implementation of this requirement for reporting companies that are nonaccelerated filers with respect to the audit of internal control assessment. The Bank performed the required control assessment for 2009 and 2008.

It is impossible to predict what effect the enactment of certain of the above-mentioned legislation will have on the Bank. Moreover, it is likely that other bills affecting the business of banks may be introduced in the future by the United States Congress or California legislature.

Restrictions on Transactions With Insiders

Sections 23A and 23B of the Federal Reserve Act regulate transactions between insured institutions and their "affiliates" and transactions by the Bank that benefit affiliates. For these purposes, an "affiliate" is a company under common control with the institution. In general, Section 23A imposes limits on the amount of such transactions, and also requires certain levels of collateral for loans to affiliates. Section 23B of the Federal Reserve Act generally requires that certain transactions between a bank and its respective affiliates be on terms substantially the same, or at least as favorable to such bank, as those prevailing at the time for comparable transactions with or involving other nonaffiliated persons. At this time the Bank does not have any "affiliates."

The restrictions on loans to directors, executive officers, principal stockholders and their related interests (collectively referred to herein as "insiders") contained in the Federal Reserve Act and Regulation O promulgated thereunder apply to all federally insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution's total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

Risk-Based Capital Guidelines

The federal banking agencies have issued risk-based capital guidelines. The risk-based capital guidelines include a definition of capital and a framework for calculating risk weighted assets by assigning assets and off-balance sheet items to broad credit risk categories. A bank's risk-based capital ratio is calculated by dividing its qualifying total capital (the numerator of the ratio) by its risk-weighted assets (the denominator of the ratio).

A bank's qualifying total capital will consist of two types of capital components: "core capital elements" (comprising Tier 1 capital) and "supplementary capital elements" (comprising Tier 2 capital). The Tier 1 component of a bank's qualifying capital must represent at least 50% of qualifying total capital and may consist of the following items that are defined as core capital elements: (i) common stockholders' equity; (ii) qualifying noncumulative perpetual preferred stock (including related surplus); and (iii) minority interest in the equity accounts of consolidated subsidiaries. The Tier 2 component of a bank's qualifying total capital may consist of the following items: (i) allowance for loan and lease losses (subject to limitations); (ii) perpetual preferred stock and related surplus (subject to conditions); (iii) hybrid capital instruments (as defined) and mandatory convertible debt securities; and (iv) term subordinated debt and intermediate-term preferred stock, including related surplus (subject to limitations).

Assets and credit equivalent amounts of off-balance sheet items are assigned to one of several broad risk categories, according to the obligor, or, if relevant, the guarantor or the nature of collateral. The aggregate dollar value of the amount in each category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are added together, and

this sum is the bank's total risk weighted assets that comprise the denominator of the risk-based capital ratio.

A two-step process determines risk weights for all off-balance sheet items. First, the "credit equivalent amount" of off-balance sheet items is determined, in most cases by multiplying the off-balance sheet item by a credit conversion factor. Second, the credit equivalent amount is treated like any balance sheet asset and generally is assigned to the appropriate risk category according to the obligor, or, if relevant, the guarantor or the nature of the collateral.

All banks are required to meet a minimum ratio of qualifying total capital to risk weighted assets of 8%, of which at least 4% should be in the form of Tier 1 capital.

The regulatory agencies have adopted leverage requirements that apply in addition to the risk-based capital requirements. Under these requirements, banks are required to maintain core capital of at least 3% of their assets (the "Leverage Ratio"). However, an institution may be required to maintain core capital of at least 4% or 5% or possibly higher, depending upon its activities, risks, rate of growth, and other factors deemed material by regulatory authorities.

Enforcement Powers

Federal regulatory agencies have broad and strong enforcement authority reaching a wider range of persons and entities. Some of these provisions include those which: (i) establish a broad category of persons subject to enforcement under the Federal Deposit Insurance Act; (ii) establish broad authority for the issuance of cease and desist orders and provide for the issuance of temporary cease and desist orders; (iii) provide for the suspension and removal of wrongdoers on an industry-wide basis; (iv) prohibit the participation of persons suspended or removed or convicted of a crime involving dishonesty or breach of trust from serving in another insured institution; (v) require regulatory approval of new directors and senior executive officers in certain cases; (vi) provide protection from retaliation against "whistleblowers" and establishes rewards for "whistleblowers" in certain enforcement actions resulting in the recovery of money; (vii) require the regulators to publicize all final enforcement orders; (viii) require each insured financial institution to provide its independent auditor with its most recent Report of Condition ("Call Report"); (ix) permit the imposition of significant penalties for failure to file accurate and timely Call Reports; and (x) provide for the assessment of significant civil money penalties and the imposition of civil and criminal forfeiture and other civil and criminal fines and penalties.

The prompt corrective action regulations, which were promulgated to implement certain provisions of Federal Deposit Insurance Corporation's Improvement Act of 1991, ("FDICIA"), also effectively impose capital requirements on national banks, by subjecting banks with less capital to increasingly stringent supervisory actions. For purposes of the prompt corrective action regulations, a bank is "undercapitalized" if it has a total risk-based capital ratio of less than 8%; a Tier 1 risk-based capital ratio of less than 4%; or a leverage ratio of less than 4% (or less than 3% if the bank has received a composite rating of 1 in its most recent examination report and is not experiencing significant growth). A bank is "adequately capitalized" if it has a total risk-based capital ratio of 8% or higher; a Tier 1 risk-based capital ratio of 4% or higher; a leverage ratio of 4% or higher (3% or higher if the bank was rated a composite 1 in its most recent examination report and is not experiencing significant growth); and does not meet the criteria for a "well capitalized" bank. A bank is "well capitalized" if it has a total risk-based capital ratio of 10% or higher; a Tier 1 risk-based capital ratio of 6% or higher; a leverage ratio of 5% or higher; and is not subject to any written requirement to meet and maintain any higher capital level(s). There is no assurance as to what capital ratios the Bank will be able to maintain.

Under the provisions of FDICIA and the prompt corrective action regulations, for example, an "undercapitalized" bank is subject to a limit on the interest it may pay on deposits. Also, an undercapitalized bank cannot make any capital distribution, including paying a dividend (with some exceptions), or pay any management fee (other than compensation to an individual in his or her capacity as an officer or employee of the bank). Such a bank also must submit a capital restoration plan to the OCC for approval, restrict total asset growth and obtain regulatory approval prior to making any

acquisition, opening any new branch office or engaging in any new line of business. Additional broad regulatory authority is granted with respect to "significantly undercapitalized" banks, including forced mergers, ordering new elections for directors, forcing divestiture by its holding company, if any, requiring management changes, and prohibiting the payment of bonuses to senior management. Additional mandatory and discretionary regulatory actions apply to "significantly undercapitalized" and "critically undercapitalized" banks, the latter being a bank with capital at or less than 2%. The OCC may appoint a receiver or conservator for a "critically undercapitalized" bank after 90 days, even if the bank is still solvent. Failure of a bank to maintain the required capital could result in such a bank being declared insolvent and closed.

Community Reinvestment Act and Fair Lending Developments

The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and Community Reinvestment Act ("CRA") activities. The CRA generally requires the federal banking agencies to evaluate the record of financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods. In addition to substantial penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other activities.

The federal banking agencies have adopted regulations that measure a bank's compliance with its CRA obligations on a performance-based evaluation system. This system bases CRA ratings on an institution's actual lending service and investment performance rather than the extent to which the institution conducts needs assessments, documents community outreach or complies with other procedural requirements. In March 1994, the Federal Interagency Task Force on Fair Lending issued a policy statement on discrimination in lending. The policy statement describes the three methods that federal agencies will use to prove discrimination: overt evidence of discrimination, evidence of disparate treatment and evidence of disparate impact.

Allowance For Loan and Lease Losses

On December 13, 2006, the OCC and the other federal financial institution regulatory agencies issued an Interagency Policy Statement on the allowance for loan and lease losses ("ALLL"). The policy statement replaces a 1993 policy statement on the ALLL. The Policy statement has been updated to ensure consistency with generally accepted accounting principles (GAAP) and post-1993 supervisory guidance. The 1993 policy statement was intended to describe: the responsibilities of the boards of directors, management, and examiners of banks and savings associations regarding the ALLL; factors to be considered in the estimation of the ALLL; and the objectives and elements of an effective loan review system, including a sound credit grading system. The revised policy statement updates this guidance and reiterates key concepts and requirements included in GAAP and existing ALLL supervisory guidance. The ALLL represents one of the most significant estimates in an institution's financial statements and regulatory reports. Because of its significance, each institution has a responsibility for developing, maintaining and documenting a comprehensive, systematic, and consistently applied process appropriate to its size and the nature, scope, and risk of its lending activities for determining the amounts of the ALLL and the provision for loan and lease losses. To fulfill this responsibility, each institution should ensure controls are in place to consistently determine the ALLL in accordance with GAAP, the institution's stated policies and procedures, management's best judgment and relevant supervisory guidance.

Consistent with longstanding supervisory guidance, institutions must maintain an ALLL at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. Estimate of credit losses should reflect consideration of all significant factors that affect the collectibility of the portfolio as of the evaluation date. Arriving at an appropriate allowance involves a high degree of management judgment and results in a range of estimated losses.

Other Aspects of Federal and State Law

The Bank is also subject to federal and state statutory and regulatory provisions covering, among other things, security procedures, currency and foreign transactions reporting, insider and affiliated party transactions, management interlocks, truth-in-lending, electronic funds transfers, funds availability, truth-in-savings, home mortgage disclosure, and equal credit opportunity. There are also a variety of federal statutes, which restrict the acquisition of control of the Bank.

Safety and Soundness Standards

Federal banking regulators have adopted guidelines prescribing standards for safety and soundness. The guidelines create standards for a wide range of operational and managerial matters including (a) internal controls, information systems, and internal audit systems; (b) loan documentation; (c) credit underwriting; (d) interest rate exposure; (e) asset growth; (f) compensation and benefits; and (g) asset quality and earnings. Although meant to be flexible, an institution that falls short of the guidelines' standards may be requested to submit a compliance plan or be subjected to regulatory enforcement actions.

Legislation and Proposed Changes

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress and before various bank regulatory agencies.

On June 17, 2009, the Obama Administration released a proposal for reform of the system of financial regulation (the "Proposal") that could have significant impact on our business. Under the Proposal, the Administration recommends sweeping changes to the financial system, including the creation of new federal agencies and shifts in responsibilities among them. In addition, it would create new safety and soundness standards, consumer protection programs, and comprehensive oversight responsibilities and coordination requirements to eliminate supervisory gaps and "regulator-arbitrage" opportunities under the current regimes.

There is no certainty whether any of the recommendations of the Proposal will be implemented. Most of the proposed actions require legislation and it is uncertain when or if such legislation would be enacted or the form that it would take. Although the Proposal is intended to address many of the perceived causes of the current financial crisis and improve the functioning of financial markets, the consequences of adopting certain aspects of the Proposal could have adverse implications on the financial industry, the competitive environment, and our status as a bank.

Conclusion

It is impossible to predict with any certainty the competitive impact the laws and regulations described above will have on commercial banking in general and on the business of the Bank in particular, or to predict whether or when any of the proposed legislation and regulations described above will be adopted. It is anticipated that banking will continue to be a highly regulated industry. Additionally, there has been a continued lessening of the historical distinction between the services offered by financial institutions and other businesses offering financial services, and the trend toward nationwide interstate banking is expected to continue. As a result of these factors, it is anticipated banks will experience increased competition for deposits and loans and, possibly, further increases in their cost of doing business.

Available Information

The Bank makes available the following filings as soon as reasonably practicable after they are filed with the OCC: the Bank's Annual Report on Form 10-K, the Bank's quarterly reports on Form 10-Q, the Bank's current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings are available free of charge by calling the Bank's Chief Financial Officer at 707-257-7777.

ITEM 1A. RISK FACTORS

Risk Factors There are several factors that affect our business and the results of operations, some of which are beyond our control.

The economic downturn in the United States and in California in particular could hurt our profits.

The Bank's results of operations are affected by general business and economic conditions in the United States and, to a lesser extent, abroad. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, the strength of the U.S. economy and the local economies in which we operate, and natural disasters. For example, an economic downturn, an increase in unemployment, or other events that affect household and/or corporate incomes could decrease the demand for loan and non-loan products and services and increase the number of customers who fail to pay interest or principal on their loans. In recent months the domestic and foreign financial markets, securities trading markets and economies generally have experienced significant turmoil including, without limitation, government takeovers of troubled institutions, government brokered mergers of such firms to avoid bankruptcy or failures, bankruptcies of securities trading firms and insurance companies, failures of financial institutions, and declines in real property values and increases in energy prices all of which have contributed to reduced availability of credit for businesses and consumers, elevated foreclosures on residential and commercial properties, falling home prices, reduced liquidity and a lack of stability across the entire financial sector. These recent events and the corresponding uncertainty and decline in financial markets are likely to continue for the foreseeable future and the full extent of the repercussions to our nation's economy in general and our business in particular therefore are not fully known at this time. Such events may have a negative effect on (i) our ability to service our existing customers and attract new customers, (ii) the ability of our borrowers to operate their business as successfully as in the past, (iii) the financial security and net worth of our customers, and (iv) the ability of our customers to repay their loans with us in accordance with the terms thereof. Such developments could have a material negative impact on our results of operations and financial condition.

The economies of the United States and California are in a recession. Business activity across a wide range of industries and regions is greatly reduced and local governments and many businesses are in serious difficulty due to the lack of consumer spending, declines in the value of real estate and the lack of liquidity in the credit markets. Unemployment has increased significantly.

Overall, during 2009 and the first quarter of 2010, the business environment has been adverse for many households and businesses in California and the United States. There can be no assurance that these conditions will improve in the near term. Such conditions could adversely affect the credit quality of the Bank's loans, results of operations and financial condition.

The value of the Bank's real estate collateral could be affected by further declines in the real estate market in California in general and Napa County in particular, which could in turn lead to losses on non-performing loans.

Concentration of the Bank's lending activities in the California real estate sector could have the effect of intensifying the impact on the Bank of any adverse changes in the real estate market in the Bank's lending area. The value of the Bank's real estate collateral could be affected by adverse changes in the real estate market in which the Bank conducts business. Most of the properties that secure the Bank's loans are located within Napa County. As of December 31, 2009, approximately \$50 million, or 79%, of the loan portfolio of the Bank is secured by various forms of real estate, including residential and commercial real estate. A further decline in current economic conditions or rising interest rates could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans and the value of real estate and other collateral securing loans. If real estate values decline significantly, especially in California, the change could harm the financial condition of the Bank's borrowers, the collateral for its loans will provide less security and the Bank would be more likely to suffer losses on defaulted loans.

Strong competition in California could hurt our profits.

Our market area is limited to Napa County. The Bank faces competition in attracting and retaining deposits, making loans and providing other financial services. Our competitors include other community banks, larger banking institutions and a range of other financial institutions such as credit unions and mutual fund companies. If the Bank is unable to compete effectively it will lose market share and income from loans and other products may be reduced. If the Bank is unable to retain its deposit base, it risks being challenged to fund its loans at competitive rates.

We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations. Regulations may prevent or impair our ability to pay dividends, engage in acquisitions or operate in other ways.

The Bank is subject to extensive federal and state governmental supervision, regulation and control with its primary regulator being the OCC. Future legislation and government regulation could adversely affect the commercial banking industry, including the Bank. Future legislative changes may also alter the structure and competitive relationship among financial institutions. Banking regulations, designed primarily for the protection of depositors, may limit our growth and the return to you, our investors, by restricting certain of our activities, such as:

- the payment of dividends to our shareholders,
- possible mergers with or acquisitions of or by other institutions,
- desired investments,
- the size of loans that we can make;
- loans and interest rates on loans,
- interest rates paid on deposits and
- the possible expansion of branch offices

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards set forth by Bank regulators. Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of the Bank's clients may be ambiguous or untested. This risk exposes the Bank to potential fines, civil money penalties, payment of damages and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential and an inability to enforce contracts.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.

Net interest income comprises the majority of the Bank's net income. As interest rates change, net income is affected. Rapid decreases in interest rates could result in interest earned on assets (securities and loans) declining more rapidly than interest paid on deposits. This scenario could result in lowered net interest income and net interest margin. In addition, loan demand generally rises and falls with the rate charged on loans. Substantially higher interest rates would reduce loan demand and may result in slower loan growth, particularly in construction lending, an important factor in the Bank's revenue growth. This relationship, known as the interest rate spread, is subject to fluctuation and is affected by the monetary policies of the Federal Reserve Board, the shape of the yield curve, the international interest rate environment, as well as by economic, regulatory and competitive factors which influence interest rates, the volume and mix of interest-earning assets and interest-bearing liabilities, and the level of nonperforming assets. Many of these factors are beyond the Bank's control. Fluctuations in interest rates may affect the demand of customers for products and services. As interest rates change, the Bank expects to periodically experience "gaps" in the interest rate sensitivities of its assets and liabilities. This means that either interest-bearing liabilities will be more sensitive to changes in market interest rates than interest-earning assets, or vice versa. In either event, changes in market interest rates may have a negative impact on the Bank's earnings.

Changes in the level of interest rates also may negatively affect the Bank's ability to originate loans, the value of these loans and the ability to realize gains from the sale of loans, all of which ultimately affect

earnings. A decline in the market value of the Bank's assets may limit its ability to borrow additional funds. As a result, the Bank could be required to sell some of its loans and investments under adverse market conditions, under terms that are not favorable, to maintain liquidity. If those sales are made at prices lower than the amortized costs of the investments, losses may be incurred.

We are exposed to risks in connection with the loans we make.

A significant source of risk for us arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans. Our earnings are significantly affected by our ability to properly originate, underwrite and service loans. We have underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that we believe to be appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying our respective loan portfolios. Such policies and procedures, however, may not prevent unexpected losses that could adversely affect our results of operations. We could sustain losses if we incorrectly assess the creditworthiness of our borrowers or fail to detect or respond to deterioration in asset quality in a timely manner.

Loan Losses May Exceed Our Allowance for Loan Losses in the Future

The Bank is subject to credit risk, which is the risk of losing principal and/or interest due to borrowers' failure to repay loans in accordance with their terms. A downturn in the economy or the real estate market in our service area or rapid change in interest rates could have a negative effect on collateral values and borrowers' ability to repay. The well-publicized downturn in the housing market and the related crisis in subprime mortgage lending have impacted the economy in many ways, including:

- slowdown in construction, both residential and commercial, including construction lending;
- slowdown in job growth;
- tightening of credit markets;
- lowering of consumer confidence and spending;
- increase in problem loans and foreclosures;

Financial institutions have been directly impacted by:

- slowdown in overall economic growth;
- write-offs of mortgage backed securities;
- tightening of credit standards for business and consumers; and
- tightening of available credit for bank holding companies and banks and other financial institutions for financing growth.

Management remains cautious of the residential and commercial real estate markets even though Napa and the immediate surrounding areas have not experienced the same downturns as had much of California and the rest of the Country. As a result, Management will continue to closely monitor the general real estate industry and use considerable caution in underwriting such loans.

Our non-cash expenses for stock options will change as the value of our common stock fluctuates.

The Bank has issued and will continue to issue stock options to its directors and employees. The Bank is required to treat stock options as a non-cash expense based on the grant date fair market value of the options. As its common stock price fluctuates, the grant date fair value of new awards is affected, which in turn will affect the Bank's results of operations and equity.

Security breaches could have a material adverse impact on our reputation and earnings.

The Bank's business requires the secure handling of sensitive client information. A breach of security or well publicized breaches of other financial institutions could significantly harm our business. The Bank cannot be certain that advances in criminal capabilities, physical system or network break-ins or inappropriate access will not compromise or breach the technology protecting our networks or proprietary client information.

Our business relies in part on third-party vendors.

The Bank depends on the accuracy and completeness of information provided by certain of its vendors, including but not limited to, the Bank's data processing vendor. The Bank's ability to operate, as well as the Bank's financial condition and results of operations, could be negatively affected in the event of an undetected error or in the event of a natural disaster whereby certain vendors are unable to maintain business continuity.

The markets in which we operate are subject to the risks of earthquake, drought and other natural disasters.

A natural disaster, such as an earthquake, flood or drought, could affect the Bank's loan portfolio by damaging properties pledged as collateral and by impairing the ability of certain borrowers to repay their loans. The ultimate impact of a natural disaster on the Bank's future financial results and condition is difficult to predict and will be affected by a number of factors, including the extent of damage to the collateral, the extent to which damaged collateral is not covered by insurance, the extent to which unemployment and other economic conditions caused by the natural disaster adversely affect the ability of borrowers to repay their loans, and the cost to the Bank of collection and foreclosure.

ITEM 2. PROPERTIES

The Bank opened for business on August 14, 2006, in its designated headquarters office located at 2007 Redwood Road, Suite 101, Napa, California. The office is leased for a period of two years with 2 four year options and 2 five year options to extend, and subject to annual rental increases which are based on increases in the Consumer Price Index ("CPI"). On November 5, 2007, the Bank exercised its first four year option. The lease was renewed on January 1, 2008 for four years ending December 31, 2011.

ITEM 3. LEGAL PROCEEDINGS

There are no pending, or to management's knowledge any threatened, material legal proceedings to which the Bank is a party, or to which any of the Bank's properties are subject. There are no material legal proceedings to which any director, any nominee for election as a director, any executive officer of the Bank, or any associate of any such director, nominee or officer is a party adverse to the Bank.

ITEM 4. RESERVED

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Market Information

Bank of Napa common stock trades on the Over the Counter Bulletin Board (the "OTCBB") market under the symbol BNNP. The high and low prices of our common stock for the last eight quarters as quoted on the OTCBB are noted in the table below. The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	High	Low
Fourth Quarter, 2009	\$5.50	\$4.27
Third Quarter, 2009	\$6.00	\$4.86
Second Quarter, 2009	\$5.95	\$4.25
First Quarter, 2009	\$6.00	\$4.35
Fourth Quarter, 2008	\$7.00	\$4.05
Third Quarter, 2008	\$7.45	\$5.00
Second Quarter, 2008	\$8.75	\$5.00
First Quarter, 2008	\$7.75	\$6.45

At December 31, 2009, 2,288,884 shares of the Bank's common stock were outstanding and held by 738 holders of record.

Payment of dividends is subject to legal restrictions. A national bank cannot pay dividends that exceed its current net profits and prior two years' retained net profits except with the consent of the OCC. The Board of Directors has no present intention to pay dividends, even if and when the Bank earns net profits.

Equity Compensation Plan Information

The information in the following table is provided as of the end of the fiscal year ended December 31, 2009, with respect to compensation plans under which equity securities are issuable:

<u>Plan category</u>	(a) Number of securities to be issued upon exercise of and rights	(b) Weighted-average	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (a))
Equity compensation plans approved by security holders	150,000	\$8.42	238,000
Equity compensation plans not approved by security holders	-	-	-
Total	150,000	\$8.42	238,000

ITEM 6. SELECTED FINANCIAL DATA

Omitted.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This discussion of financial results includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the “1933 Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “1934 Act”). Those sections of the 1933 Act and 1934 Act provide a “safe harbor” for forward-looking statements to encourage companies to provide prospective information about their financial performance so long as they provide meaningful, cautionary statements identifying important factors that could cause actual results to differ significantly from projected results.

The Bank’s forward-looking statements include descriptions of plans or objectives of management for future operations, products or services, and forecasts of its revenues, earnings or other measures of economic performance. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words “believe,” “expect,” “intend,” “estimate” or words of similar meaning, or future or conditional verbs such as “will,” “would,” “should,” “could” or “may.”

Forward-looking statements are based on management’s current expectations regarding economic, legislative and regulatory issues that may impact the Bank’s earnings in future periods. A number of factors - many of which are beyond the Bank’s control - could cause future results to vary materially from current management expectations. Such factors include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, real estate values and competition; changes in accounting principles, policies or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory and technological factors affecting the Bank’s operations, pricing, products and services.

The Bank files quarterly, annual and other current reports with the OCC under the 1934 Act. Copies of these reports are available from the Bank or on the Bank’s website at www.thebankofnapa.com at no charge. Forward-looking statements speak only as of the date they are made. The Bank does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events.

Critical Accounting Policies

This discussion should be read in conjunction with our financial statements, including the notes thereto, appearing in this document beginning on page 33. Our accounting policies are integral to understanding the results reported. Our most complex accounting policies require management’s judgment to ascertain the valuation of assets, liabilities, commitments and contingencies. We have established detailed policies and control procedures that are intended to ensure valuation methods are well controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The following is a brief description of our current accounting policies involving significant management valuation judgments relating to our allowance for loan losses and accounting for stock based compensation.

The allowance for loan losses represents management’s best estimate of losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The provision for loan losses is determined based on management’s assessment of several factors: reviews and evaluation of specific loans, changes in the nature and volume of the loan portfolio, current economic conditions and the related impact on specific borrowers and industry groups, historical loan loss experiences, the level of classified and nonperforming loans and the results of regulatory examinations. Loans are considered impaired if, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate stipulated in the loan agreement, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. In

measuring the fair value of the collateral, management uses assumptions and methodologies consistent with those that management believes would be utilized by unrelated third parties. Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses and the associated provision for loan losses.

The Bank is required to measure the cost of employee services received in exchange for an award of equity instruments. The cost is determined based on the fair value of the award on the grant date. That cost must be recognized in the income statement over the service period of the award. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U. S. Treasury yield curve in effect at the time of the grant. Bank of Napa stock has limited liquidity and limited trading activity. Volatility was calculated using peer data. Calculations derived from a historical data bank of daily stock prices updated through December 31, 2009. Financial institutions included in the Survey have had readily accessible historical “adjusted” stock prices - either traded on a recognized exchange or consistently listed over the counter.

The Bank uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (temporary differences). Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes in the period of enactment. A valuation allowance is established to the extent that it is not more likely than not, that the benefits associated with the deferred tax assets will be fully realized.

Selected Financial Data

	Twelve Months Ended, December 31,	
	2009	2008
Operating Data:		
Net interest income	\$ 2,889,622	\$ 1,920,879
Provision for loan losses	426,000	417,000
Net interest income after provision for loan losses	2,463,622	1,503,879
Non-interest income	256,871	172,104
Non-interest expense	3,387,505	3,092,459
Loss before taxes	(667,012)	(1,416,476)
Provision for income taxes	800	800
Net loss	\$ (667,812)	\$ (1,417,276)
Net loss per basic share	\$ (0.29)	\$ (0.62)
Balance Sheet Data:		
Total assets	\$ 84,266,214	\$ 60,991,673
Investments	\$ 7,207,890	\$ 9,140,327
Loans, net	\$ 62,449,209	\$ 46,136,164
Deposits	\$ 67,516,036	\$ 43,721,226
Shareholders' equity	\$ 16,386,865	\$ 17,012,848
Selected Ratios:		
Return on average assets	-0.91%	-2.59%
Return on average equity	-4.02%	-8.18%
Average equity to average assets	22.76%	31.63%
Allowance for loan losses as a percentage of gross loans	1.50%	1.13%
Non-performing loans as a percentage of gross loans	0.00%	0.00%
Net charge-offs (recoveries) as a percentage of average loans	0.00%	0.00%
Net interest margin	4.41%	3.78%
Regulatory Capital Ratios:		
Total risk-based capital	25.00%	34.00%
Tier one risk-based capital	23.60%	32.90%
Tier one leverage	20.00%	27.70%

Overview

The Bank opened for business on August 14, 2006. As is common in the community banking industry, we are incurring losses during this initial operating period. During our four and one-half months of operation in 2006 our focus was on opening our facility, training our personnel, implementing our data processing systems and establishing our policies and procedures. In 2007, 2008 and 2009 we worked on building our customer base through a comprehensive marketing and business development plan to increase the level of our asset toward that necessary to become profitable. As of December 31, 2009, we had \$63.4 million in loans, \$67.5 million in deposits and had incurred a loss of \$668,000 for the year ended December 31, 2009.

Results of Operation

The Bank's net loss for the year ended December 31, 2009 was \$668,000, or \$.29 per share compared to a net loss of \$1,417,000 or \$.62 per share, for the year ended December 31, 2008. The improvement was largely due to improvement in our net interest income. Net interest income improved from \$1,920,879 for the year ended December 31, 2008 to \$2,889,622 for the year ended December 31, 2009, an improvement of \$968,743. The improvement was largely due to increased volumes. We also increased our non-interest income from \$172,104 for the year ended December 31, 2008 to \$256,871 for the year ended December 31, 2009, an improvement of \$84,767. These increases were partially offset by increases in non-interest expenses. The significant components of the Bank's non-interest expenses include salary and benefits, occupancy expense, data processing costs and other expenses. These amounts totaled \$1,887,000, \$479,000, \$307,000, \$715,000, respectively, for the year ended December 31, 2009 and \$1,716,000, \$463,000, \$267,000 and \$646,000, respectively, for the year ended December 31, 2008.

Net Interest Income and Net Interest Margin

Net Interest Income

Net interest income, the difference between interest earned on loans, investment securities and Federal Funds, and the interest paid on deposits and other borrowings, is the principal component of our earnings. Net interest income for the year ended December 31, 2009 was \$2,890,000 compared to \$1,921,000 for the year ended December 31, 2008.

Interest Income

Interest income for the year ended December 31, 2009 totaled \$3,566,000 versus \$2,505,000 for the year ended December 31, 2008, the majority of which was derived from interest and fees earned from loans. Loan income was \$3,231,000 with the balance of interest income resulting from interest on securities, Federal Funds and correspondent bank money market accounts. In 2008 loan income was \$1,769,000 with the balance of interest income resulting from interest on securities and Federal Funds.

Interest Expense

Interest expense was \$676,000 in 2009, compared to \$584,000 for 2008. All interest expense in 2009 resulted from the Bank's deposit portfolio. The table, Distribution of Average Statements of Condition and Analysis of Net Interest Income follows and indicates net interest income, net interest margin and net interest spread.

The Bank's net interest margin as shown in Table 1, increased to 4.41% for the twelve months ended December 31, 2009 from 3.78% for the same period in 2008, an increase of 63 basis points (100 basis points = 1%) between the two periods. The prime rate averaged 3.25% for the twelve months ended December 31, 2009 compared to 4.69% for the comparative twelve months of 2008. For the twelve months ended December 31, 2009 the Federal Reserve discount rate did not change.

The following table sets forth, for the period ended December 31, 2009 and 2008, information related to the Bank's average balance sheet and average yields on assets and average costs of liabilities. These yields were derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances were derived from the daily balances throughout the periods indicated.

**Distribution of Average Statements of Condition and
Analysis of Net Interest Income**

Table 1

	Twelve Months Ended, December 31, 2009		
	<u>Average Balance</u>	<u>Yield / Cost</u>	<u>Income / Expense</u>
Assets			
Interest Earning Assets:			
Loans, gross	\$ 54,286,670	5.95%	\$ 3,230,886
Federal funds sold	2,590,082	0.24%	6,195
Investment securities	7,688,684	3.84%	295,419
Other interest income	975,309	3.44%	33,542
Total Interest Earning Assets	<u>65,540,745</u>	<u>5.44%</u>	<u>\$ 3,566,042</u>
Non-Interest Earning Assets:			
Cash and due from banks	6,890,788		
Other assets	630,562		
Total Assets	<u>\$ 73,062,095</u>		
Liabilities and Equity			
Interest Bearing Liabilities:			
Interest bearing demand	\$ 5,432,047	0.27%	\$ 14,601
Money market	19,294,357	1.19%	229,928
Savings	1,636,283	0.47%	7,721
Time ≥ \$100K	11,048,152	2.48%	274,520
Time < \$100K	6,697,752	2.23%	149,643
Total Interest Bearing Deposits	<u>44,108,591</u>	<u>1.53%</u>	<u>676,413</u>
Other borrowings	1,205	0.58%	7
Total Interest Bearing Liabilities	<u>44,109,796</u>	<u>1.53%</u>	<u>\$ 676,420</u>
Non-Interest Bearing Liabilities:			
Non-interest bearing demand	11,951,289		
Other liabilities	370,887		
Shareholders' equity	16,630,123		
Total Liabilities and Equity	<u>\$ 73,062,095</u>		
Net Interest Margin / Net Interest Income		4.41%	\$ 2,889,622

Distribution of Average Statements of Condition and

Analysis of Net Interest Income

	Twelve Months Ended, December 31, 2008		
	<u>Average Balance</u>	<u>Yield / Cost</u>	<u>Income / Expense</u>
Assets			
Interest Earning Assets:			
Loans, gross	\$ 28,393,157	6.23%	\$ 1,768,702
Federal funds sold	6,751,161	2.55%	172,335
Investment securities	14,937,351	3.53%	527,314
Other interest income	687,085	5.26%	36,164
Total Interest Earning Assets	<u>50,768,754</u>	<u>4.93%</u>	<u>\$ 2,504,515</u>
Non-Interest Earning Assets:			
Cash and due from banks	3,025,946		
Other assets	924,881		
Total Assets	<u><u>\$ 54,719,581</u></u>		
Liabilities and Equity			
Interest Bearing Liabilities:			
Interest bearing demand	\$ 2,939,842	0.63%	\$ 18,645
Money market	16,957,285	1.83%	309,611
Savings	881,144	0.62%	5,497
Time ≥ \$100K	4,189,711	3.53%	147,840
Time < \$100K	3,042,363	3.35%	102,043
Total Interest Bearing Deposits	<u>28,010,345</u>	<u>2.08%</u>	<u>583,636</u>
Total Interest Bearing Liabilities	<u>28,010,345</u>	<u>2.08%</u>	<u>\$ 583,636</u>
Non-Interest Bearing Liabilities:			
Non-interest bearing demand	9,247,765		
Other liabilities	153,565		
Shareholders' equity	17,307,906		
Total Liabilities and Equity	<u><u>\$ 54,719,581</u></u>		
Net Interest Margin / Net Interest Income		3.78%	\$ 1,920,879

Volume, Mix and Rate Analysis of Net Interest Income

The following table presents the extent to which changes in volume, changes in interest rates, and changes in the interest rates times the changes in volume of interest earning assets and interest bearing liabilities affected the Bank's interest income and interest expense during the periods indicated. Information is provided on changes in each category due to (1) changes attributable to changes in volume (change in volume times the prior period interest rate), (2) changes attributable to changes in interest rate (changes in rate times the prior period volume), and (3) changes attributable to changes in rate/volume (changes in interest rate times changes in volume). Changes attributable to the combined impact of volume and rate have been allocated proportionally to the changes due to volume and the changes due to rate:

Twelve Months Ended			
December 31, 2009 compared to December 31, 2008			
Increase (decrease) due to change in			
	<u>Average Volume</u>	<u>Average Rate</u>	<u>Total Change</u>
Interest income			
Loans	\$ 1,541,060	\$ (78,876)	\$ 1,462,184
Federal funds sold	(10,177)	(155,963)	(166,140)
Investment securities	(286,484)	54,589	(231,895)
Other interest earning assets	9,584	(12,206)	(2,622)
Total interest income	<u>1,253,983</u>	<u>(192,456)</u>	<u>1,061,527</u>
Interest expense			
Interest-bearing demand	6,699	(10,743)	(4,044)
Savings and money market	35,109	(112,568)	(77,459)
Time deposits \$100,000 or more	170,416	(43,736)	126,680
Time under \$100,000	81,670	(34,070)	47,600
Interest on borrowed funds	7	0	7
Total interest expense	<u>293,901</u>	<u>(201,117)</u>	<u>92,784</u>
Change in net interest income	<u>\$ 960,082</u>	<u>\$ 8,660</u>	<u>\$ 968,743</u>

December 31, 2008 compared to December 31, 2007			
Increase (decrease) due to change in			
	<u>Average Volume</u>	<u>Average Rate</u>	<u>Total Change</u>
Interest income			
Loans	\$ 474,649	\$ (19,137)	\$ 455,512
Federal funds sold	(105,561)	(216,363)	(321,924)
Investment securities	91,484	(51,376)	40,108
Other interest earning assets	2,205	7,420	9,625
Total interest income	<u>462,777</u>	<u>(279,456)</u>	<u>183,321</u>
Interest expense			
Interest-bearing demand	\$ 1,358	\$ (5,269)	\$ (3,911)
Savings and money market	50,519	(60,288)	(9,769)
Time deposits \$100,000 or more	14,204	(19,209)	(5,005)
Time under \$100,000	21,203	(9,145)	12,058
Interest on borrowed funds	(33)	0	(33)
Total interest expense	<u>87,251</u>	<u>(93,911)</u>	<u>(6,660)</u>
Change in net interest income	<u>\$ 375,526</u>	<u>\$ (185,545)</u>	<u>\$ 189,981</u>

Provision for Loan Losses

Management performs quarterly detailed reviews to identify the risks inherent in the Bank's loan portfolio, to assess the overall quality of the loan portfolio, and to determine the adequacy of the allowance for loan losses and the related provision for loan losses to be charged to expense. The systematic reviews follow the Inter-Agency Policy Statement on the allowance for loan losses issued by the OCC on December 13, 2006. The allowance for loan losses is reduced by charge-offs and increased by provisions for loan losses charged to operating expense and recoveries of previously charged-off loans.

The Bank provided \$426,000 for loan losses for the year ended December 31, 2009 compared to \$417,000 for the year ended December 31, 2008. There were no charge-offs of loans during the years 2009 or 2008. The Bank provided an additional \$5,000 to the reserve for undisbursed loan commitments for 2009 and \$5,000 for 2008, which is reflected in other liabilities on the Statement of Condition.

As of December 31, 2009 the Bank had established an allowance for loan losses of \$954,000 compared to \$528,000 at December 31, 2008. The allowance for loan losses was approximately 1.50% of total loans at December 31, 2009 and 1.13% of total loans at December 31, 2008. The Bank has also reserved \$18,000 for the undisbursed portion of the loan portfolio for 2009 compared to \$13,000 in 2008. There were no nonperforming loans as of December 31, 2009 or 2008.

Management is of the opinion that the allowance for loan losses is maintained at a level adequate for known and unidentified losses inherent in the loan portfolio. However, the Bank's loan portfolio could be adversely affected if economic conditions in California and Napa County and surrounding areas were to weaken further. The effect of such events, although uncertain at this time, could result in an increase in the level of non-performing loans and the level of the allowance for loan losses, which could adversely affect the Bank's future growth and profitability. Residential values, within Napa County have held up relatively well when compared to other areas of Northern California, however, median home prices have declined from 2008 through 2009 in much of the Bank's market area. The city of Napa has experienced a decline in single family residential median value of 20%, Yountville 9%, St. Helena 10%, and Calistoga 19%. The median value of single family residential properties in Napa County as a whole is down 30%. Commercial office vacancy rates have shown some improvement throughout 2009 with vacancy rates improving to 13.2% in the fourth quarter of 2009, down from a high of 14.3% in the first quarter of 2009. Commercial industrial vacancy rates have increased marginally from 10.1% in the first quarter 2009 to 10.8% in the fourth quarter, however, this is down from the second and third quarters of 2009 at 11.7% and 11.5%, respectively. The unemployment rate for Napa County at the end of 2009 stands at just above 8.5% which is markedly better than the rate reported by Solano county (11.5%), and Sonoma County (10%) and considerably better than the national average of approximately 10%.

Noninterest Income and Noninterest Expense

Noninterest income in 2009 was \$257,000, an increase of \$85,000 compared to noninterest income of \$172,000 in 2008. The increase was primarily the result of a gain on sale of four Federal Home Loan Bank securities for a total of \$111,000 versus gains on sales of three mortgage backed securities and two U.S. Government Agency Obligations totaling \$70,000 in 2008. The remaining increase was the result of additional volume of service charges and fees on deposits.

Noninterest expense in 2009 totaled \$3.4 million of which salaries and employee benefits totaled \$1.9 million. Occupancy expenses were \$479,000, data processing charges were \$307,000, professional services at \$242,000 and regulatory fees were \$129,000. Noninterest expense in 2008 totaled \$3.1 million of which salaries and employee benefits totaled \$1.7 million. Occupancy expenses were \$463,000 while data services expenses were \$267,000, professional services expenses were \$236,000 and marketing expenses were \$53,000. The increase in noninterest expenses was mostly due to a reduction in deferred loan costs, increased data processing charges due to volume increases and increased regulatory fees.

Income Taxes

No tax benefit was recognized in 2009 and 2008 for the net operating losses incurred, as the ultimate realization was not considered more likely than not. The Bank paid a minimum state tax of \$800 in each of 2009 and 2008.

Financial Condition

Investment Portfolio

The Bank's investment security portfolio consists of obligations of the U.S. Government agencies and municipal securities.

The following table summarizes the amounts and distribution of our fixed income investment securities held as of December 31, 2009 and 2008 and the weighted average yields:

December 31, 2009			
Available-for-Sale Securities	Amortized Cost	Estimated Fair Value	Weighted Average Yield
U.S. Government Agencies			
One to five years	\$ 2,540,295	\$ 2,615,937	3.10%
Taxable Municipals			
One to five years	3,558,286	3,569,883	4.38%
Five to Ten Years	987,887	1,022,070	5.04%
	<u>4,546,173</u>	<u>4,591,953</u>	<u>4.41%</u>
	<u>\$ 7,086,468</u>	<u>\$ 7,207,890</u>	<u>3.94%</u>
December 31, 2008			
Available-for-Sale Securities	Amortized Cost	Estimated Fair Value	Weighted Average Yield
U.S. Government Agencies			
One to five years	\$ 7,200,573	\$ 7,429,210	3.02%
Taxable Municipals			
One to five years	702,406	702,667	3.73%
Five to Ten Years	985,717	1,008,450	5.05%
	<u>1,688,123</u>	<u>1,711,117</u>	<u>4.51%</u>
	<u>\$ 8,888,696</u>	<u>\$ 9,140,327</u>	<u>3.31%</u>

Securities may be pledged to meet collateral requirements imposed as a condition of receipt of deposits of public funds and other purposes. At December 31, 2009 there was \$2.5 million pledged at the Federal Home Loan Bank of San Francisco and \$1.5 million pledged at the Federal Reserve Discount Window for potential borrowing needs. At December 31, 2008 there \$7.3 million pledged at the Federal Home Loan Bank of San Francisco for potential borrowing needs.

Loan Portfolio

The following table sets forth the components of total net loans outstanding in each category as of December 31, 2009 and 2008:

	December 31,	
	2009	2008
	Amount	Amount
Loan category:		
Agricultural loans	\$ 570,750	\$ 516,835
Construction and land development	2,582,419	3,744,944
Commercial	16,405,134	11,079,863
Real Estate	43,064,411	30,709,557
Installment and other	492,579	483,265
Total Gross Loans	63,115,293	46,534,464
Deferred loan fees and costs, net	287,916	129,700
Allowance for loan losses	(954,000)	(528,000)
Net Loans	\$ 62,449,209	\$ 46,136,164

The following table shows the contractual maturities of our loan portfolio at December 31, 2009 as well as the distribution of fixed rate and variable rate loans.

	Within One Year	After One Year But Within Five Years	After Five Years	Total
Installment and other	\$ 89,503	\$ 207,563	\$ 195,513	\$ 492,579
Agricultural	570,750	-	-	570,750
Construction & Land Development	2,390,635	191,784	-	2,582,419
Real Estate	229,268	2,415,603	40,419,540	43,064,411
Commercial	2,912,310	2,377,817	11,115,007	16,405,134
Total	6,192,466	\$ 5,192,767	\$ 51,730,060	\$ 63,115,293

Loans with variable (floating) interest rates:	\$ 48,934,922
Loans with predetermined (fixed) interest rates:	\$ 14,180,371

Nonperforming Assets

As of December 31, 2009 and December 31, 2008, the Bank had no nonperforming loans. The Bank had no other real estate owned at December 31, 2009 and 2008.

Allowance for Loan Losses

Management performs quarterly detailed reviews to identify the risks inherent in the Bank's loan portfolio, to assess the overall quality of the loan portfolio, and to determine the adequacy of the allowance for loan losses and the related provision for loan losses to be charged to expense. The reviews follow the guidelines set forth by the banking agencies in their December 13, 2006 *Policy Statement on Allowance for Loan and Lease Losses*.

The following table sets forth information concerning the allocation of our allowance for loan losses by loan categories. The allowance for loan losses is available for offsetting credit losses in connection with any loan, but is internally allocated to various loan categories as part of our process for evaluating the adequacy of the allowance for loan losses.

2009

	Amount	% of Total (1)
Agricultural	\$ 1,570	0.90%
Commercial	143,041	25.99%
Real Estate	698,657	72.33%
Installment and other	110,732	0.78%
Unallocated	-	-
Total	<u>\$ 954,000</u>	<u>100.00%</u>

2008

	Amount	% of Total (1)
Agricultural	\$ 3,399	1.11%
Commercial	106,748	23.81%
Real Estate	221,818	74.04%
Installment and other	196,035	1.04%
Unallocated	-	-
Total	<u>\$ 528,000</u>	<u>100.00%</u>

(1) Represents percentage of loans to total gross loans.

There were no charge-offs during 2009 or 2008.

Deposits

Deposits are the Bank's primary source of funds. At December 31, 2009, the Bank had a deposit mix of 18% in noninterest bearing demand deposits, 51% in savings, money market and NOW deposits, and 31% in time deposits,

The scheduled maturity distribution of the Bank's time deposits as of December 31, 2009, was as follows:

90 days or less	\$ 7,900,773
Over 90 days through 180 days	4,751,188
Over 180 days through one year	6,006,364
Over one year	2,223,678
Total	<u>\$ 20,882,003</u>

Borrowings

At December 31, 2009, the Bank had three unused Federal funds purchased lines of credit totaling \$10.0 million.

Liquidity and Liability Management

The objective of the Bank's asset/liability strategy is to manage liquidity and interest rate risks to ensure the safety and soundness of the Bank and its capital base, while maintaining adequate net interest margins and spreads to provide an appropriate return to the Bank's shareholders.

The Bank manages its interest rate risk exposure by limiting the amount of long-term fixed rate loans it holds for investment, increasing emphasis on shorter-term, higher yield loans for portfolio, increasing or decreasing the relative amounts of long-term and short-term borrowings and deposits.

The table below sets forth the interest rate sensitivity of the Bank's interest-earning assets and interest-bearing liabilities as of December 31, 2009, using the interest rate sensitivity gap ratio. For purposes of the following table, an asset or liability is considered rate-sensitive within a specified period when it can be repriced or matures within its contractual terms except for \$15.7 million of loans in the "After 5 Year" category. These loans are tied to the prime-rate but have a floor on the interest rate and until an increase in the prime plus the margin exceeds the current floor rate repricing will not occur:

	Within Three Months	After Three Months But Within One Year	After One Year But Within Five Years	After Five Years	Total
Interest Earning Assets:					
Interest-bearing, due from banks	\$ 2,000,000	-	-	-	\$ 2,000,000
Federal funds sold	7,080,000	-	-	-	7,080,000
Investment securities	821,079	1,199,350	4,165,391	1,022,070	7,207,890
Loans	2,806,536	3,385,930	5,192,767	51,730,060	63,115,293
Total	\$ 12,707,615	4,585,280	9,358,158	52,752,130	70,323,183
Interest Bearing Liabilities:					
Money market, savings and NOW deposits	34,153,129	-	-	-	34,153,129
Time deposits	7,900,773	10,757,552	2,223,678	-	20,882,003
Total	42,053,902	10,757,552	2,223,678	-	55,035,132
Interest Rate Sensitivity Gap	\$ (29,346,287)	\$ (6,172,272)	\$ 7,134,480	\$ 52,752,130	\$ 15,288,051
Cumulative Interest Rate Sensitivity Gap	\$ (29,346,287)	\$ (35,518,559)	\$ (28,384,079)	\$ 24,368,051	
Ratio Based on Total Assets	-34.83%	-42.15%	-33.68%	28.92%	

Liquidity refers to the Bank's ability to maintain cash flows sufficient to fund operations, and to meet obligations and other commitments in a timely and cost-effective fashion. At various times the Bank requires funds to meet short-term cash requirements brought about by loan growth or deposit outflows, the purchase of assets, or liability repayments. An integral part of the Bank's ability to manage its liquidity position appropriately is the Bank's large base of core deposits, which are generated by offering traditional banking services in its service area and which have, historically, been a stable source of funds. To manage liquidity needs properly, cash inflows must be timed to coincide with anticipated outflows or sufficient liquidity resources must be available to meet varying demands. The Bank manages liquidity to be able to meet unexpected sudden changes in levels of its assets or deposit liabilities without maintaining excessive amounts of balance sheet liquidity. Excess balance sheet liquidity can negatively impact the Bank's interest margin. In order to meet short-term liquidity needs, the Bank utilizes overnight Federal funds purchase arrangements with correspondent banks, solicits brokered deposits if deposits are not available from local sources and maintains a collateralized line of credit with the Federal Home Loan Bank (the "FHLB") of San Francisco; the Bank can also borrow from the Federal Reserve Discount Window by pledging loans or securities. In addition, the Bank can raise cash for temporary needs by selling securities under agreements to repurchase and selling securities available-for-sale.

At December 31, 2009 the Bank had approximately \$12.3 million in cash equivalents. Management

expects to be able to meet the liquidity needs of the Bank, primarily through balancing loan growth with corresponding increases in deposits and borrowings. The Bank also has unused unsecured formal lines of credit totaling \$10.0 million with its correspondent banks. On September 22, 2008, the Bank was approved for membership to the FHLB. The Bank is now eligible to obtain from the FHLB credit equal to 15 percent of its total assets, with original terms out to 84 months. As of December 31, 2009 the Bank had no outstanding borrowings.

The Bank's liquidity ratio is defined as the sum of cash and due from banks, federal funds sold, and investment securities, divided by the sum of total assets. Using this definition at December 31, 2009, the Bank's liquidity ratio was 23.2%.

The Board has determined that its funds management policies are adequate to provide appropriate liquidity for the Bank, and that as of December 31, 2009, the Bank's liquidity was adequate.

Capital Resources

The banking industry is subject to regulatory capital adequacy requirements based on risk-adjusted assets. These requirements take into consideration the risk inherent in investments, loans, and other assets for both on-balance sheet and off-balance sheet items. Under these requirements, the regulatory agencies have set minimum thresholds for Tier 1 capital, total capital and leverage ratios. At December 31, 2009, the Bank's capital exceeded all minimum regulatory requirements and the Bank was considered to be "well capitalized" as defined in the regulations issued by the OCC. The Bank's risk-based capital ratios, shown below as of December 31, 2009, have been computed in accordance with regulatory accounting policies.

	<u>Minimum Requirements</u>	<u>Bank</u>
Tier 1 Capital	4.00%	23.6%
Total Capital	8.00%	25.0%
Leverage Ratio	4.00%	20.0%

For 2009, the return on average assets was -0.91%, the return on average equity was -4.02% and the average equity to average assets was 22.76%.

Effects of Inflation

The financial statements and related financial information presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or same magnitude as the price of goods and services.

Impact of New Accounting Pronouncements

See Note 1 of the NOTES TO FINANCIAL STATEMENTS for information concerning recent accounting pronouncements. Except as discussed in Note 1, the Bank believes there are no new accounting pronouncements that will have a material impact on the Bank.

ITEM 8. Financial Statements

The financial statements and data required by Item 8 are set forth below.

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Statements of Condition, December 31, 2009 and 2008	31
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BANK OF NAPA, N.A.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Bank of Napa, N.A.

We have audited the accompanying statements of condition of Bank of Napa, N.A. (the "Bank") as of December 31, 2009 and 2008 and the related statements of operations, changes in shareholders' equity and comprehensive loss, and cash flows for the two years ended December 31, 2009. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bank of Napa, N.A. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the two years ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Stockton, California
March 30, 2010

BANK OF NAPA, N.A.

STATEMENTS OF CONDITION

December 31, 2009 and 2008

	2009	2008
ASSETS		
Cash and due from banks	\$ 5,260,064	\$ 3,678,377
Federal funds sold	7,080,000	-
TOTAL CASH AND CASH EQUIVALENTS	12,340,064	3,678,377
Investment securities, available-for-sale	7,207,890	9,140,327
Loans, net of deferred costs	63,403,209	46,664,164
Allowance for loan losses	(954,000)	(528,000)
Loans, net	62,449,209	46,136,164
Premises and equipment, net	684,111	843,345
Correspondent bank stock, at cost	845,602	857,190
Accrued interest receivable and other assets	739,338	336,270
TOTAL ASSETS	\$ 84,266,214	\$ 60,991,673
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand	\$ 12,480,904	\$ 9,145,233
Interest bearing demand	7,114,476	4,180,555
Money market	25,444,962	16,212,990
Savings	1,593,691	1,157,375
Time, less than \$100,000	7,894,284	4,492,615
Time, \$100,000 or more	12,987,719	8,532,458
TOTAL DEPOSITS	67,516,036	43,721,226
Accrued interest payable and other liabilities	363,313	257,599
TOTAL LIABILITIES	67,879,349	43,978,825
Commitments and contingencies (Notes 8 and 10)		
Shareholders' Equity:		
Common stock - 30,000,000 shares authorized, \$5.00 par value, 2,288,884 issued and outstanding in 2009 and 2008	11,442,233	11,442,233
Additional paid in capital	11,975,636	11,803,598
Accumulated deficit	(7,152,426)	(6,484,614)
Accumulated other comprehensive income	121,422	251,631
TOTAL SHAREHOLDERS' EQUITY	16,386,865	17,012,848
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 84,266,214	\$ 60,991,673

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

BANK OF NAPA, N.A.

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2009 and 2008

	2009	2008
INTEREST INCOME		
Interest and fees on loans	\$ 3,230,886	\$ 1,768,702
Interest on investment securities	295,419	527,314
Interest on federal funds sold	6,195	172,335
Other interest income	33,542	36,164
TOTAL INTEREST INCOME	3,566,042	2,504,515
INTEREST EXPENSE		
Interest on deposits	676,413	583,636
Other borrowings	7	-
TOTAL INTEREST EXPENSE	676,420	583,636
NET INTEREST INCOME	2,889,622	1,920,879
Provision for loan losses	426,000	417,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,463,622	1,503,879
NON-INTEREST INCOME		
Gain on sale of securities	111,250	70,007
Service charges and other non-interest income	145,621	102,097
TOTAL NON-INTEREST INCOME	256,871	172,104
NON-INTEREST EXPENSE		
Salaries and benefits	1,886,871	1,715,833
Occupancy expense	478,721	463,206
Professional services	241,503	235,750
Data processing expense	307,145	266,686
Marketing	38,249	53,301
Other expenses	435,016	357,683
TOTAL NON-INTEREST EXPENSE	3,387,505	3,092,459
LOSS BEFORE INCOME TAXES	(667,012)	(1,416,476)
Income taxes	800	800
NET LOSS	\$ (667,812)	\$ (1,417,276)
NET LOSS PER BASIC SHARE	\$ (0.29)	\$ (0.62)

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

BANK OF NAPA, N.A.

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE LOSS**

For the Years Ended December 31, 2009 and 2008

	Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Comprehensive Loss	Shares				
Balance at December 31, 2007		2,288,884	\$ 11,442,233	\$ 11,602,314	\$ (5,067,338)	\$ 18,018,717
Stock-Based Compensation		-		201,284		201,284
Comprehensive loss:						
Net Loss	(1,417,276)			(1,417,276)		(1,417,276)
Other comprehensive income:						
Unrealized holding gain/(loss) on securities available- for-sale arising during the year	280,130				280,130	280,130
Less: reclassification adjustment for gain included in net loss	(70,007)				(70,007)	(70,007)
Total Comprehensive Loss	<u><u>\$(1,207,153)</u></u>					
Balance at December 31, 2008		2,288,884	\$ 11,442,233	\$ 11,803,598	\$ (6,484,614)	\$ 17,012,848
Stock-Based Compensation		-		172,038		172,038
Comprehensive loss:						
Net Loss	(667,812)			(667,812)		(667,812)
Other comprehensive income:						
Unrealized holding gain/(loss) on securities available- for-sale arising during the year	(18,959)				(18,959)	(18,959)
Less: reclassification adjustment for gain included in net loss	(111,250)				(111,250)	(111,250)
Total Comprehensive Loss	<u><u>\$ (798,021)</u></u>					
Balance at December 31, 2009		<u>2,288,884</u>	<u>\$ 11,442,233</u>	<u>\$ 11,975,636</u>	<u>\$ (7,152,426)</u>	<u>\$ 16,386,865</u>

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

BANK OF NAPA, N.A.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009 and 2008

	2009	2008
OPERATING ACTIVITIES		
Net loss	\$ (667,812)	\$ (1,417,276)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	160,198	173,727
Amortization and accretion on securities	37,628	144,047
Amortization of deferred loan fees	(158,216)	(129,700)
Provision for loan losses	426,000	417,000
Stock based compensation expense	172,038	201,284
Gain on sales of available-for-sale securities	(111,250)	(70,007)
Net change in accrued interest receivable and other assets	(403,068)	(112,120)
Net change in accrued interest payable and other liabilities	105,714	(9,455)
NET CASH USED BY OPERATING ACTIVITIES	(438,768)	(802,500)
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(5,222,663)	(14,502,853)
Proceeds from sales, matured and called securities available-for-sale	7,098,513	16,805,838
Net change in loans	(16,580,829)	(34,337,251)
Purchase of premises and equipment	(964)	(27,241)
Sale (Purchase) of correspondent bank stock	11,588	(169,933)
NET CASH USED BY INVESTING ACTIVITIES	(14,694,355)	(32,231,440)
FINANCING ACTIVITIES		
Net changes in demand, money market and savings	15,937,880	10,005,400
Net changes in time deposits	7,856,930	8,191,991
NET CASH PROVIDED BY FINANCING ACTIVITIES	23,794,810	18,197,391
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,661,687	(14,836,549)
Cash and cash equivalents at beginning of year	3,678,377	18,514,926
Cash and cash equivalents at end of the year	\$ 12,340,064	\$ 3,678,377
Supplemental disclosures of cash flow information:		
Interest paid	\$ 639,761	\$ 535,533
Income taxes paid	\$ 800	\$ 800
Supplemental disclosure of noncash investing and financing activities:		
Net change in unrealized gains and losses on available-for-sale securities	\$ (130,209)	\$ 210,123

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

BANK OF NAPA, N.A.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Bank of Napa, N.A. (the "Bank") conform to accounting principles generally accepted in the United States of America (GAAP) and general practices within the banking industry. A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

On May 21, 2005 an Application for Authority to Organize the Bank was filed with the Office of the Comptroller of the Currency ("OCC"). The OCC approved the application on November 7, 2005, and the Bank's Articles of Association and Organization Certificate were adopted by the Bank's organizing group on December 1, 2005, and filed with the OCC thereby establishing the Bank's corporate existence.

The Bank commenced operations on August 14, 2006. Prior to August 14, 2006 the Bank obtained a final Certificate of Approval from the OCC, received deposit insurance from the Federal Deposit Insurance Corporation, became a member of the Federal Reserve System, and sold 2,288,634 shares of its common stock. The Bank engages in commercial banking activities to deliver its products and services to the public through one branch located in Napa County, California.

The Bank was in the organizational stage from December 3, 2003 to August 14, 2006, the date the operations commenced. During this period activities consisted primarily of the organizational and pre-opening activities necessary to obtain regulatory approvals, preparing for the common stock offering to capitalize the bank, acquiring facilities, and preparing to commence business as a financial institution.

To capitalize the Bank, its organizers sold 2,288,634 shares of the common stock of the Bank at \$10 per share. A warrant to purchase one share of common stock for \$12.50 was issued for every five shares of common stock a purchaser acquired in the initial offering. The organizers and directors of the Bank purchased 325,477 shares of common stock in the offering.

In addition to the common stock and warrants purchased in the offering, the Bank issued the organizers an additional 159,000 warrants to purchase common stock at the offering price.

The Bank adopted an Equity Incentive Plan to grant both incentive and non-qualified stock options to its organizers, directors, consultants, executive officers and employees. The bank has reserved 388,000 shares of common stock for issuance under the Equity Incentive Plan.

Estimates – In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

Allowance for loan losses - The allowance for loan losses is the most significant accounting estimate reflected in the Bank's financial statements. The allowance for loan losses includes charges to reduce the recorded balances of loans receivable to their estimated net realizable value. The allowance is based on estimates, and ultimate losses may vary from current estimates. The Bank provides for estimated losses on loans receivable. These estimates for losses are based on individual assets and their related cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. Although management of the Bank believes the estimates underlying the calculation of specific allowances are reasonable, there can be no assurance that the Bank could ultimately realize these values. In addition to providing valuation allowances on specific assets where a decline in value has been identified, the Bank establishes general valuation allowances for losses based on the overall portfolio composition, general market conditions, concentrations, and prior loss experience.

BANK OF NAPA, N.A.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

Other significant management judgments and accounting estimates reflected in the Bank's financial statements include:

- Decisions regarding the timing and placement of loans on non-accrual;
- Determination, recognition, and measurement of impaired loan;
- Determination and evaluation of deferred tax assets and liabilities;
- Determination of the fair value of stock option awards; and
- Determination of fair values of financial instruments and fair value measurements.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, amounts due from banks, money market funds, and federal funds sold. Generally, federal funds are sold for one-day periods. The Bank maintains the minimum required amount of funds on deposit with other federally insured financial institutions under correspondent banking agreements. Generally, banks are required to maintain noninterest bearing cash reserves equal to a percentage of certain deposits. For the year ended December 31, 2009 or 2008, no reserve balance was required.

Investment Securities - Investment securities consist of U.S. agency securities and obligations of states and political subdivisions and other securities. At the time of purchase of a security, the Bank designates the security as held-to-maturity or available-for-sale, based on its investment objectives, operational needs, and intent to hold. The Bank does not purchase securities with the intent to engage in trading activity. Held-to-maturity securities are recorded at amortized cost, adjusted for amortization of premiums or accretion of discounts. The Bank did not have any investments in the held-to-maturity portfolio at December 31, 2009 or 2008. Securities available-for-sale are recorded at fair value with unrealized holding gains or losses, net of the related tax effect, reported as a separate component of shareholders' equity until realized. A decline in the market value of any security available-for-sale or held-to-maturity below cost that is deemed other than temporary results in a charge to results of operations and the corresponding establishment of a new cost basis for the security. Amortization of premiums and accretion of discounts on debt securities are included in interest income over the life of the related security held-to-maturity or available-for-sale using the effective interest method. Dividend and interest income are recognized when earned. Realized gains and losses for securities classified as available-for-sale and held-to-maturity are included in results of operations and are derived using the specific identification method for determining the cost of securities sold.

Other Than Temporary Impairment - Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed interest rate investments, from rising interest rates. At each financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other than temporary. This assessment includes a determination of whether the Bank intends to sell the security, or if it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis. For debt securities that are considered other than temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the amount of impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in results of operations and is calculated as the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of the future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive loss.

BANK OF NAPA, N.A.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") Stock - The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. As of, December 31, 2009, we held stock in the FHLB totaling \$294,400. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long term investment, impairment is based on ultimate recovery of par value. As of December 31, 2009, we did not recognize an impairment charge related to our FHLB stock holdings; however, future negative changes to the financial condition of the FHLB may require us to recognize an impairment charge with respect to such stock holdings. Both cash and stock dividends are reported as income. The FHLB announced that it will not pay any dividends for the fourth quarter of 2008. FHLB paid a dividend in the second quarter of 2009 at a rate of .84%, but did not pay dividends in quarters one, three or four in 2009.

The Bank is also member of the FRB. FRB stock is carried at cost, classified as a restricted security, and cash dividends are reported as income.

FHLB and FRB stock is included in Correspondent bank stock on the statement of condition.

Loans and allowance for loan losses – Loans are reported at the principal amount outstanding, net of deferred loan fees and costs, and the allowance for loan losses. Interest on loans is calculated by using the simple interest method on the daily balance of the principal amount outstanding. Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full and timely collection of interest or principal or when a loan becomes contractually past due by ninety days or more with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible. A loan that is more than 90 days delinquent may continue to accrue interest if the loan is well collateralized and in process of collection or renegotiation.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans, based on evaluations of collectibility and prior loss experience of loans. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

Impaired loans are measured based on the present value of expected future cash flows discounted at the respective loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. The Bank considers a loan impaired when it is probable that all amounts of principal and interest due, according to the contractual terms of the loan agreement, will not be collected, which is the same criteria used for the transfer of loans to non-accrual status. Interest income is recognized on impaired loans in the same manner as non-accrual loans.

Premises and equipment – Premises and equipment are stated at cost less accumulated depreciation

BANK OF NAPA, N.A.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

The estimated lives used in determining depreciation and amortization are:

Furniture, fixtures and equipment	2 – 7 years
Data processing and computers	2 – 7 years

Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease. The straight-line method of depreciation is followed for all assets for financial reporting purposes, but accelerated methods are used for tax purposes.

Income taxes – The Bank uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (temporary differences). Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes in the period of enactment. A valuation allowance is established to the extent that it is not more likely than not, that the benefits associated with the deferred tax assets will be fully realized.

The Bank files income tax returns in the U.S. federal jurisdiction, and California.

The Bank is not subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2006.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2009 and 2008 the Bank recognized no interest and penalties.

The Bank had no unrecognized tax benefits at December 31, 2009 or December 31, 2008.

Net Loss Per Common Share- Basic loss per common share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share are not presented when a loss occurs because the conversion of common stock equivalents to potential common stock is anti-dilutive.

Recent Accounting Pronouncements-

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

BANK OF NAPA, N.A.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

FASB ASC Topic 320 Investments - Debt and Equity Securities. - New authoritative accounting guidance under ASC Topic 320, "Investments - Debt and Equity Securities," (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the 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 ASC Topic 320, declines in the fair value of held-to-maturity and available-for-sale securities below their 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. The amount of the impairment related to other factors is recognized in other comprehensive income. The Bank adopted the provisions of the new authoritative accounting guidance under ASC Topic 320 during the first quarter of 2009. Adoption of the new guidance did not significantly impact the Bank's financial statements.

ASC Topic 805 Business Combinations – On January 1, 2009, new authoritative accounting guidance under ASC Topic 805, "Business Combinations," became applicable to the Company's accounting for business combinations closing on or after January 1, 2009. ASC Topic 805 applies to all transactions and other events in which one entity obtains control over one or more other businesses. ASC Topic 805 requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under previous accounting guidance whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. ASC Topic 805 requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under prior accounting guidance. Assets acquired and liabilities assumed in a business combination that arise from contingencies are to be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with ASC Topic 450, "Contingencies." Under ASC Topic 805, the requirements of ASC Topic 420, "Exit or Disposal Cost Obligations," would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of ASC Topic 450, "Contingencies." Adoption of the new guidance did not significantly impact the Bank's financial statements.

ASC Topic 820 Fair Value Measurements and Disclosures - New authoritative accounting guidance under ASC Topic 820, "Fair Value Measurements and Disclosures," affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. ASC Topic 820 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. The new accounting guidance amended prior guidance to expand certain disclosure requirements. The Bank adopted the new authoritative accounting guidance under ASC Topic 820 during the first quarter of 2009. Adoption of the new guidance did not significantly impact the Bank's financial statements.

BANK OF NAPA, N.A.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Further new authoritative accounting guidance (Accounting Standards Update No. 2009-5) under ASC Topic 820 provides guidance for measuring the fair value of a liability in circumstances in which a quoted price in an active market for the identical liability is not available. In such instances, a reporting entity is required to measure fair value utilizing a valuation technique that uses (i) the quoted price of the identical liability when traded as an asset, (ii) quoted prices for similar liabilities or similar liabilities when traded as assets, or (iii) another valuation technique that is consistent with the existing principles of ASC Topic 820, such as an income approach or market approach. The new authoritative accounting guidance 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. The forgoing new authoritative accounting guidance under ASC Topic 820 became effective for the Bank's financial statements beginning October 1, 2009 and had no impact on the Bank's financial statements.

FASB ASC Topic 825 Financial Instruments - New authoritative accounting guidance under ASC Topic 825, "Financial Instruments," requires an entity to provide disclosures about the fair value of financial instruments in interim financial information and amends prior guidance to require those disclosures in summarized financial information at interim reporting periods. Adoption of the new guidance did not significantly impact the Bank's financial statements.

FASB ASC Topic 860 Transfers and Servicing - New authoritative accounting guidance under ASC Topic 860, "Transfers and Servicing," amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC Topic 860 will be effective January 1, 2010 and is not expected to have a significant impact on the Bank's financial statements.

NOTE 2 – CASH AND DUE FROM BANKS

At December 31, 2009, the Bank had cash deposits at other financial institutions in excess of the FDIC insured limits. However, as the Bank places these deposits with major well-capitalized financial institutions and management monitors these institutions on a quarterly basis and believes the risk of loss to be minimal.

NOTE 3 – INVESTMENT SECURITIES

Management evaluates securities for other-than-temporary impairment on a monthly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or until maturity. The Bank does not have the intent to sell the investments that are temporarily impaired, and it is more likely than not that the Bank will not be required to sell those investments before recovery of the amortized cost basis.

BANK OF NAPA, N.A.

NOTE 3 – INVESTMENT SECURITIES – Continued

As of December 31, 2009 and 2008, unrealized losses were \$2,976 and \$0. Management does not intend to sell the securities and more likely than will not be required to sell the securities before recovery of its amortized cost basis.

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2009 are shown below. Under certain interest rate environments, some, or all of these securities may be called for redemption by their issuers prior to scheduled maturities. None of the securities in an unrealized loss position have been in that position for twelve consecutive months or more.

December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency securities	\$ 2,540,295	\$ 75,643	\$ -	\$ 2,615,938
Taxable Municipal Securities	4,546,173	48,756	(2,976)	4,591,953
	\$ 7,086,468	\$ 124,398	\$ (2,976)	\$ 7,207,890

December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency securities	\$ 7,200,573	\$ 228,637	\$ -	\$ 7,429,210
Taxable Municipal Securities	1,688,123	22,994	-	1,711,117
	\$ 8,888,696	\$ 251,631	\$ -	\$ 9,140,327

BANK OF NAPA, N.A.

NOTE 3 – INVESTMENT SECURITIES – Continued

The amortized cost and fair value of securities is reflected below along with the scheduled maturity schedule.

	December 31, 2009	
	Securities Available-for-Sale	
	Amortized	Fair
	Cost	Value
Due in one year or less	\$ 2,023,349	\$ 2,020,429
Due in one to three year	4,075,232	4,165,391
Due in five to ten years	987,887	1,022,070
	<u>\$ 7,086,468</u>	<u>\$ 7,207,890</u>

Securities may be pledged to meet collateral requirements imposed as a condition of receipt of deposits of public funds and other purposes. At December 31, 2009, the total market value of securities pledged was \$2.6 million at the Federal Home Loan Bank of San Francisco and \$1.5 million at the Federal Reserve Bank of San Francisco to provide for any future borrowing needs. At December 31, 2008, there were no securities pledged.

During the twelve months ended December 31, 2009, the Bank received proceeds in the amount of \$4,727,880 from the sale of four U.S. Government Agency Obligations and realized gains on the sales in the amount of \$111,250.

During the twelve months ended December 31, 2008, the Bank received proceeds in the amount of \$5,440,778 and \$4,090,278 from the sale of three mortgage-back securities and two U.S. Government Agency Obligations, respectively, and realized gains on the sales in the amount of \$70,007.

BANK OF NAPA, N.A.

NOTE 4 — LOANS

Major categories of loans at December 31, 2009 and 2008 are as follows:

	December 31,	
	2009	2008
	Amount	Amount
Loan category:		
Agricultural loans	\$ 570,750	\$ 516,835
Construction and land development	2,582,419	3,744,944
Commercial	16,405,134	11,079,863
Real Estate	43,064,411	30,709,557
Installment and other	492,579	483,265
Total Gross Loans	<u>63,115,293</u>	<u>46,534,464</u>
Deferred loan fees and costs, net	287,916	129,700
Allowance for loan losses	(954,000)	(528,000)
Net Loans	<u>\$ 62,449,209</u>	<u>\$ 46,136,164</u>

Changes in the allowance for loan losses for the periods ended December 31, 2009 and 2008 are as follows:

	December 31,	
	2009	2008
Allowance for loan losses:		
Balance at the beginning of the period	\$ 528,000	\$ 111,000
Loans charged off	-	-
Recoveries	-	-
Provisions	426,000	417,000
Balance at the end of the period	<u>\$ 954,000</u>	<u>\$ 528,000</u>

Ratios:

Allowance to loans at period end	1.50%	1.13%
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There were no impaired loans during 2009 and 2008. In addition, no loans were placed on non-accrual status and no loans were past due greater than 90 days and still accruing interest during 2009 and 2008.

NOTE 5 –PREMISES AND EQUIPMENT

The Bank entered into a lease agreement in January 2006 on its permanent facility for a term of two years, with two four and two five year options. On November 5, 2007, the Bank exercised its first four year option. The lease was renewed on January 1, 2008 for four years ending December 31, 2011. Under the lease agreement, the Bank will pay \$23,650 a month adjusted annually based on the Consumer Price Index.

BANK OF NAPA, N.A.

NOTE 5 –PREMISES AND EQUIPMENT - Continued

Bank Premises and Equipment consist of leasehold improvements, furniture, fixtures and equipment and are stated at cost, less accumulated depreciation and amortization, which are calculated on a straight-line basis over the estimated useful life of the property or the term of the lease (if less).

A summary of premises and equipment as of December 31 follows:

	<u>2009</u>	<u>2008</u>
Leasehold improvements	\$ 721,440	\$ 727,049
Furniture, fixtures, and equipment	353,365	344,202
Data processing and computers	170,350	172,939
	<u>1,245,155</u>	<u>1,244,190</u>
Less: Accumulated depreciation and amortization	(561,043)	(400,845)
	<u>\$ 684,111</u>	<u>\$ 843,345</u>

Depreciation and amortization expense totaled \$160,198 and \$173,727 and for the year ended December 31, 2009 and 2008 respectively.

NOTE 6 – DEPOSITS

Interest expense, net of early withdrawal penalty, recognized on interest bearing deposits for the period ended December 31, 2009 and 2008 consisted of the following:

Interest Expense	<u>2009</u>	<u>2008</u>
Interest bearing checking	\$ 14,602	\$ 18,645
Savings	7,721	5,497
Money Market	229,928	309,611
Time, less than \$100,000	149,642	102,043
Time, \$100,000 or more	274,520	147,840
Total Interest Expense on Deposits	<u>\$ 676,413</u>	<u>\$ 583,636</u>

BANK OF NAPA, N.A.

NOTE 6 – DEPOSITS – Continued

Maturities of Time Deposits at December 31, 2009 are as follows:

90 days or less	\$ 7,900,773
Over 90 days through 180 days	4,751,188
Over 180 days through one year	6,006,364
Over one year	<u>2,223,678</u>
Total	<u>\$ 20,882,003</u>

NOTE 7 - INCOME TAXES

The provision for income taxes for each of the years ended December 31, 2009, and 2008 consisted of \$800 related to minimum California state tax.

Deferred tax assets and liabilities as of December 31, 2009, and 2008 consisted of the following:

	2009	2008
Deferred tax assets:		
Pre-opening expenses	\$ 651,000	\$ 708,000
Net operating loss carryforwards	2,029,000	1,838,000
Allowance for loan loss	377,000	194,000
Deferred Loan costs	(140,000)	101,000
Deferred Tax Assets	<u>2,917,000</u>	<u>2,841,000</u>
Deferred tax liabilities:		
Unrealized gains on available for sale securities	(50,000)	(104,000)
Accumulated depreciation	(76,000)	(92,000)
Accrual to cash	(30,000)	(38,000)
Other	(35,000)	(15,000)
Deferred tax liabilities	<u>(191,000)</u>	<u>(249,000)</u>
Deferred income tax asset	2,726,000	2,592,000
Valuation allowance	<u>(2,726,000)</u>	<u>(2,592,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2009 and 2008, the Bank has federal net operating loss carryforwards totaling approximately \$5.0 million and \$4.7 million, respectively. Additionally, at December 31, 2009 and 2008, the Bank has state net operating loss carryforwards totaling approximately \$4.8 million and \$4.6 million, respectively. These net operating loss carryforwards will begin to expire in 2026 for federal tax purposes and in 2016 for state income tax purposes, if not previously utilized.

The valuation allowance was increased by approximately \$134,000 and \$593,000 during the years ended December 31, 2009 and 2008, respectively.

BANK OF NAPA, N.A.

NOTE 7 - INCOME TAXES - Continued

The provision (benefit) for income taxes consists of the following for the years ending:

	December 31,	
	2009	2008
Current:		
Federal	\$ -	\$ -
State	800	800
	800	800
Deferred:		
Federal	(56,000)	(503,000)
State	(23,000)	(177,000)
	(79,000)	(680,000)
Valuation Allowance	79,000	680,000
	-	-
Provision for income taxes	\$ 800	\$ 800

The following summarizes the difference between the provision for income taxes for financial statement purposes and the federal statutory rate of 34% for the years ending December 31, 2009 and 2008:

	2009	2008
Federal Statutory rate	-34.00%	-34.00%
State Franchise tax, net of federal benefit	-7.00%	-7.00%
Valuation allowance	41.00%	41.00%
Provison for income taxes	0.00%	0.00%

NOTE 8 – FINANCIAL INSTRUMENTS

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument 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 conditional obligations as it does for on-balance-sheet instruments.

Financial instruments whose contract amount represents credit risk:

Undisbursed loan commitments at December 31, 2009	\$14,098,397
Undisbursed loan commitments at December 31, 2008	\$12,818,292

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 many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future

BANK OF NAPA, N.A.

NOTE 8 – FINANCIAL INSTRUMENTS - Continued

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. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. For the years ended December 31, 2009 and 2008, there were reserves against off balance sheet commitments of \$18,000 and \$13,000 respectively.

NOTE 9 - RELATED-PARTY TRANSACTIONS

The Bank, in the normal course of business, makes loans to and receives deposits from its directors, officers, principal shareholders and their associates. In management's opinion, these transactions are on substantially the same terms as comparable transactions with other customers of the Bank. The Bank's related party loan and deposit activity at December 31, 2009 and 2008 is summarized below:

	<u>2009</u>	<u>2008</u>
Beginning Balance	\$ 2,178,802	\$ 1,156,342
New loans or advances during the period	1,557,893	1,809,280
Repayments during the period	<u>1,292,765</u>	<u>786,820</u>
Aggregate amount outstanding	<u>\$ 2,443,930</u>	<u>\$ 2,178,802</u>
Loan commitments	\$ 2,877,407	\$ 2,847,103
Related party deposits	\$ 1,913,117	\$ 1,225,196

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Bank is obligated for a rental payment under a certain operating lease agreement, which contains renewal options and an escalation clause that provide for increased rent. Total rental expense for the years ended December 31, 2009 and 2008 was \$286,212 and \$281,981, respectively.

As of December 31, 2009, the future estimated minimum rental payment under the non-cancellable operating lease is as follows:

<u>Year</u>	<u>Amount</u>
2010	308,705
2011	<u>328,779</u>
	<u>\$ 637,484</u>

The Bank has three unsecured Federal funds borrowing lines totaling ten million dollars with its correspondent banks. On September 22, 2008 the Bank was approved for membership to the Federal Home Loan Bank of San Francisco (FHLB). The Bank is now eligible to obtain credit equal to 15 percent of its total assets, with original terms out to 84 months. The Bank was also approved to borrow from the Federal Reserve Bank Discount Window. There were no amounts outstanding under these facilities at December 31, 2009 or 2008.

BANK OF NAPA, N.A.

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values for financial instruments are managements estimates of the values at which instruments could be exchanged in a transaction between willing parties. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. Further, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of these estimates. The following table presents estimated fair values of the Bank’s financial instruments as of December 31, 2009 and 2008.

	2009	
	Carrying Value	Fair Value
Financial Assets:		
Cash and Due From Banks	\$ 5,260,064	\$ 5,260,064
Federal Funds Sold	7,080,000	7,080,000
Investment Securities	7,207,890	7,207,890
Loans, gross	63,403,209	63,960,761
Correspondent bank stock, at cost	845,602	845,602
Accrued interest receivable	292,546	292,546
Financial Liabilities:		
Deposits	\$ 67,516,036	\$ 67,612,520
Accrued interest payable	166,378	166,378
2008		
	Carrying Value	Fair Value
Financial Assets:		
Cash and Due From Banks	\$ 3,678,377	\$ 3,678,377
Investment Securities	9,140,327	9,140,327
Loans, gross	46,664,164	47,301,151
Correspondent bank stock, at cost	857,190	857,190
Accrued interest receivable	273,596	273,596
Financial Liabilities:		
Deposits	\$ 43,721,226	\$ 43,820,849
Accrued interest payable	129,718	129,718

The following methods and assumptions were used to estimate the fair value in the table, above and below:

Cash and Due From Banks and Accrued Interest Receivable and Payable

The carrying amount approximates fair value because of the short maturities of these instruments.

Investment Securities and Correspondent Bank Stock

Security fair values are based on market prices or dealer quotes and, if no such information is available, on the rate and term of the security and information about the issuer. It was not practical to determine the fair value of FHLB and FRB stock due to the restrictions placed on transferability.

Loans

Loans with similar financial characteristics are grouped together for purposes of estimating their fair value. Loans are segregated by type such as commercial, term real estate, residential construction, and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms.

BANK OF NAPA, N.A.

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The fair value of performing, fixed rate loans is calculated by discounting scheduled future cash flows using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. The fair value of variable rate loans approximates the carrying amount as these loans generally reprice within 90 days.

Deposits

The fair value of deposits with no stated maturity, such as noninterest bearing demand deposits, savings, and money market accounts, approximates the amount payable on demand. The carrying amount approximates the fair value of time deposits with a remaining maturity of less than 90 days. The fair value of all other time deposits is calculated based on discounting the future cash flows using rates currently offered by the Bank for time deposits with similar remaining maturities.

The following table presents information about the Bank’s assets measured at fair value on a recurring basis as of December 31, 2009 and 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Bank to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Bank’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Description	Fair Value Measurements at December 31, 2009, Using			
	Fair Value	Quoted Prices in	Other	Significant
	December 31, 2009	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Investment securities, available-for-sale	\$ 7,207,890	\$ -	\$ 7,207,890	
Total assets measured at fair value on a recurring basis	\$ 7,207,890	\$ -	\$ 7,207,890	\$ -

Description	Fair Value Measurements at December 31, 2008, Using			
	Fair Value	Quoted Prices in	Other	Significant
	December 31, 2008	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Investment securities, available-for-sale	\$ 9,140,327	\$ -	\$ 9,140,327	
Total assets measured at fair value on a recurring basis	\$ 9,140,327	\$ -	\$ 9,140,327	\$ -

BANK OF NAPA, N.A.

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

The Bank did not have any assets measured at fair value on a nonrecurring basis as of December 31, 2009 and 2008.

NOTE 12 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet 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 (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are presented in the following table.

	Actual		Amount of Capital Required			
			To Be Adequately Capitalized		To Be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2009						
Total capital to risk-weighted assets	\$ 17,220	25.0%	\$ 5,508	8.0%	\$ 6,885	10.0%
Tier 1 capital to risk-weighted assets	\$ 16,266	23.6%	\$ 2,754	4.0%	\$ 4,131	6.0%
Tier 1 capital to average assets	\$ 16,266	20.0%	\$ 3,254	4.0%	\$ 4,067	5.0%
As of December 31, 2008						
Total capital to risk-weighted assets	\$ 17,289	34.0%	\$ 4,072	8.0%	\$ 5,090	10.0%
Tier 1 capital to risk-weighted assets	\$ 16,761	32.9%	\$ 2,036	4.0%	\$ 3,054	6.0%
Tier 1 capital to average assets	\$ 16,761	27.7%	\$ 2,419	4.0%	\$ 3,023	5.0%

Payment of dividends is subject to legal restrictions. A national bank cannot pay dividends that exceed its current net profits and prior two years' retained net profits except with the consent of the OCC. The Board of Directors has no present intention to pay dividends, even if and when the Bank earns net profits.

NOTE 13 - STOCK OPTION PLAN

During 2006, the Bank's Board of Directors approved a stock option plan (the Plan) under which incentive and non-qualified stock options may be granted to key employees and directors, respectively, to purchase up to 388,000 shares of the authorized and un-issued common stock of the Bank at a price equal to the fair market value on the date of grant. The Plan provides that the incentive options are

BANK OF NAPA, N.A.

NOTE 13 - STOCK OPTION PLAN – Continued

exercisable in equal increments over a three year period from the date of grant or over any other schedule approved by the Board of Directors. In addition, the Plan provides that all non-qualified stock options issued to the Bank's Directors are fully vested upon issuance. All incentive and non-qualified stock options expire no later than 10 years from the date of grant. The Plan was ratified by the shareholders at the Bank's annual meeting in August 2006.

The fair value of each option grant is estimated on the date of grant using a Black-Scholes options-pricing model with the following weighted-average assumptions used for grants of incentive stock options in 2009: expected volatility of 31.69%; risk-free interest rates of 3.3%; expected life of 6.5 years and no dividend yield and in 2008: expected volatility of 31.69%; risk-free interest rates of 2.8%; expected life of 6.5 years and no dividend yield. There were no grants of non-qualified stock options in 2009 and 32,361 in 2008. Expected volatility is based on the expected volatility of similar entities. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of options is based upon Management's best estimate as to the period of time that options granted are expected to be outstanding.

A summary of the status of the Bank's stock option plan and changes during the periods ending:

	December 31, 2009			December 31, 2008		
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at beginning of period	209,000	\$ 9.12	\$ -	119,500	\$ 9.72	\$ -
Granted	11,000	5.40	-	89,500	8.30	-
Exercised	-	0.00	-	-	0.00	-
Forfeited	(70,000)	10.01	-	-	0.00	-
Outstanding at end of period	150,000	\$ 8.42	\$ -	209,000	\$ 9.12	\$ -
Options exercisable at end of period	\$ 82,667	\$ 8.93	\$ -	\$ 97,832	\$ 9.73	\$ -
Weighted average fair value of options granted during the period		\$ 3.08			\$ 3.14	

In 2009 and 2008, the weighted-average remaining contractual life of the outstanding stock options was approximately 8.03 years and 8.59 years, respectively.

In 2009 and 2008, stock option compensation expense charged against income was approximately \$172,000 and \$201,000, respectively. As of December 31, 2009, there was approximately \$125,000 of total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a period of 3 years.

NOTE 14 -EMPLOYEE BENEFIT PLANS

The Bank implemented a Safe Harbor 401k plan in October of 2006, which is available to all employees. Under the plan employees can defer a portion of their base compensation. The Bank will match 100% of the first 3% of salary deferral. Additionally, the Bank will match 50% on the next 2% of salary deferral, up to a maximum of 5% of each participant's base compensation. Employer contributions in 2009 and 2008 were \$45,000 and \$41,000, respectively.

BANK OF NAPA, N.A.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in or disagreements with accountants regarding financial disclosure

ITEM 9A (T). Controls and Procedures

Management evaluated, with the participation of the Bank's Chief Executive Officer and Chief Financial Officer, the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) or 15(d)-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Bank's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Bank in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Bank. The Bank's internal control over financial reporting is a process designed under the supervision of the Bank's CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Bank's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Management has made a comprehensive review, evaluation and assessment of the Bank's internal control over financial reporting as of December 31, 2009. In making its assessment of internal control over financial reporting, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. In accordance with Section 404 of the Sarbanes-Oxley Act of 2002, management makes the following assertions:

Management has implemented a process to monitor and assess both the design and operating effectiveness of internal control over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Bank's management assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2009. In making this assessment, it used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on that assessment, the CEO and CFO concluded that, as of December 31, 2009, the Bank's internal control over financial reporting is effective based on those criteria. No change in the Bank's internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934, as amended) occurred during the quarter ended December 31, 2009 that has materially affected or is reasonable likely to materially affect, the Bank's internal control over financial reporting.

There were no changes in the Bank's internal control over financial reporting identified in connection with the evaluation describe above that occurred during the fourth quarter of 2009 that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

BANK OF NAPA, N.A.

This annual report does not include an attestation report of the Bank's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bank's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Bank to provide only management's report in this annual report.

ITEM 9B. Other Information

Not Applicable

PART III

Item 10. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act.

We have adopted a Code of Ethics that applies to all of our employees and directors, and complies with the SEC's requirements for a code of ethics applicable to senior executive officers. It is filed as an exhibit to this report. All other information required by this Item is incorporated herein by reference from the Bank's Proxy Statement for the 2010 annual meeting of which will be filed on Schedule 14A.

Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference from the Bank's Proxy Statement for the 2010 annual meeting of shareholders, which will be filed on Schedule 14A.

Item 12. Security Ownership of Certain Beneficial Owners and Management, and Related Stockholder Matters.

The information required by this Item is incorporated herein by reference from the Bank's Proxy Statement for the 2010 annual meeting of shareholders, which will be filed on Schedule 14A.

Item 13. Certain Relationships and Related Transactions.

The information required by this Item is incorporated herein by reference from the Bank's Proxy Statement for the 2010 annual meeting of shareholders, which will be filed on Schedule 14A.

Item 14. Principal Accountant Fees and Services.

The information required by this Item is incorporated herein by reference from the Bank's Proxy Statement for the 2010 annual meeting of shareholders, which will be filed on Schedule 14A.

PART IV

Item 15. Exhibits

Exhibits required to be attached by Item 601 of Regulation S-K are listed in the Index to Exhibits on page 53 of this Form 10-K, and are incorporated herein by this reference.

BANK OF NAPA, N.A.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Bank of Napa, N.A.

Dated: March 30, 2010

/s/ M. Thomas LeMasters
M. Thomas LeMasters
President and Chief Executive Officer

Power of attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints M. Thomas LeMasters his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Office of the Comptroller of the Currency, granting unto attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: March 30, 2010

M. Thomas LeMasters, Director
President & Chief Executive Officer
(Principal Executive Officer)

Dated: March 30, 2010

Michael Lundstrom
Vice President & Chief Financial
Officer (Principal Financial and
Accounting Officer)

Dated: March 30, 2010

Richard N. Anderson, Director

Dated: March 30, 2010

Greg A. Bennett, Director

Dated: March 30, 2010

Jeffrey R. Gerlomes, Director

Dated: March 30, 2010

Malcolm A. Mackenzie, Director

Dated: March 30, 2010

BANK OF NAPA, N.A.

Joseph F. Malato, Director

Dated: March 30, 2010

LeRoy Moore, MD, Director

Dated: March 30, 2010

John Meras, Director

Dated: March 30, 2010

Harold Moskowitz, Director

Dated: March 30, 2010

Stephen A. Orndorf, Director

Dated: March 30, 2010

Lisa Paul, Director

Dated: March 30, 2010

Ernest A. Rota, Director

Dated: March 30, 2010

Anthony Torres, Director

BANK OF NAPA, N.A.

INDEX TO EXHIBITS

- 3.1 Articles of Association [incorporated by reference to Exhibit 3.1 to the registrant's Registration Statement on Form SB-2, as amended by Amendment No. 1 and Amendment No. 2, declared effective by the OCC on February 13, 2006.]
 - 3.2 By-Laws [incorporated by reference to Exhibit 3.2 to the Registration Statement on Form SB-2, as amended by Amendment No. 1 and Amendment No. 2, declared effective by the OCC on February 13, 2006]
 - 4.1 Form of Stock Certificate for common stock [incorporated by reference to Exhibit 4.3 to the Registration Statement on Form 8-A filed with the OCC on April 12, 2007.]
 - 4.2 Warrant Agreement between the Bank and Registrar and Transfer Company dated August 14, 2006 [incorporated by reference to Exhibit 4.1 to the Registration Statement on Form 8-A filed with the OCC on May 25, 2007.]
 - 4.3 Specimen Shareholder Warrant Certificate [incorporated by reference to Exhibit 4.2 to the Registration Statement on Form 8-A filed with the OCC on May 25, 2007.]
 - 4.4 Specimen Organizer Warrant Certificate [incorporated by reference to Exhibit 4.3 to the Registration Statement on Form 8-A filed with the OCC on May 25, 2007.]
 - 10.1 Bank of Napa, N.A. 2006 Equity Incentive Plan [incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 filed with the OCC on November 14, 2006]*.
 - 10.2 Form of Incentive Stock Option Award Pursuant to Bank of Napa, N.A. 2006 Equity Incentive Plan [incorporated by reference to Exhibit 10.13 to the Registration Statement on Form SB-2, as amended by Amendment No. 1 and Amendment No. 2, declared effective by the OCC on February 13, 2006]*.
 - 10.3 Form of Non-Qualified Stock Option Award Pursuant to Bank of Napa, N.A. 2006 Equity Incentive Plan [incorporated by reference to Exhibit 10.13 to the Registration Statement on Form SB-2, as amended by Amendment No. 1 and Amendment No. 2, declared effective by the OCC on February 13, 2006]*.
 - 10.4 Form of Restricted Stock Award Pursuant to Bank of Napa, N.A. 2006 Equity Incentive Plan [incorporated by reference to Exhibit 4.4 to the Registration Statement on Form S-8 filed with the OCC on November 14, 2006]*.
 - 10.5 Redwood Plaza Shopping Center Lease between Bank of Napa and DeMatei & Co., Inc. [incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-8 filed with the OCC on November 14, 2006].
 - 10.6 Employment Agreement between Bank of Napa and M. Thomas LeMasters* [incorporated by reference to Exhibit 10.15 to the Registration Statement on Form SB-2, as amended by Amendment No. 1 and Amendment No. 2, declared effective by the OCC on February 13, 2006]*.
 - 14.1 Whistle Blower Policy [incorporated by reference to Exhibit 14.2 to the Bank's Form 10-KSB for the year ended December 31, 2006]
 - 14.2 Code of Ethics
 - 23.1 Consent of Moss Adams LLP
 - 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer
 - 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer
 - 32.1 Section 1350 Certification.
- * Management contract or compensatory plan or agreement.

BANK OF NAPA, N.A.

BANK OF NAPA, N.A.

EXHIBIT 31.1

Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.

I, M. Thomas LeMasters, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Bank of Napa, N.A. (the Registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Dated: March 30, 2010

/s/ M. Thomas LeMasters
M. Thomas LeMasters
President and Chief Executive Officer

BANK OF NAPA, N.A.

BANK OF NAPA, N.A.

EXHIBIT 31.2

Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.

I, Michael Lundstrom, Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Bank of Napa, N.A. (the Registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Dated: March 30, 2010

/s/ Michael Lundstrom
Michael Lundstrom
Vice President & Chief Financial Officer

BANK OF NAPA, N.A.

EXHIBIT 32.1

Certification pursuant to 18 U.S.C. §1350

In connection with the annual report on Form 10-K of Bank of Napa, N.A. (the Registrant) for the year ended December 31, 2009, as filed with the Office of the Comptroller of the Currency, the undersigned hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- 1) such Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 30, 2010

/s/ M. Thomas LeMasters
M. Thomas LeMasters
President and Chief Executive Officer

Dated: March 30, 2010

/s/ Michael Lundstrom
Michael Lundstrom
Vice President & Chief Financial Officer