

OFFICE OF THE COMPTROLLER OF THE CURRENCY

Washington, D.C. 20219

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **Bank of Napa, N.A.**

(Exact name of registrant as specified in its charter)

**California**

**TIN #: 20-2314309**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**2007 Redwood Road, Ste 101**

(Address of principal executive offices)

**94558**

(Zip Code)

**707 257-7777**

(Registrant's telephone number, including area code)

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(Former name, former address and former fiscal year, if changed since last report)

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 check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes  No

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.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a 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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

There were 2,288,884 shares of common stock outstanding as of March 31, 2010.

# BANK OF NAPA, N.A.

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**BANK OF NAPA, N.A.**

**CONDENSED STATEMENTS OF CONDITION**

**March 31, 2010 and December 31, 2009**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>	(unaudited)	
Cash and due from banks	\$ 8,281,190	\$ 5,260,064
Federal funds sold	7,670,000	7,080,000
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	15,951,190	12,340,064
Investment securities, available-for-sale	9,507,343	7,207,890
Loans, net of deferred costs	64,153,637	63,403,209
Allowance for loan losses	(1,068,500)	(954,000)
Loans, net	63,085,137	62,449,209
Premises and equipment, net	648,625	684,111
Correspondent bank stock, at cost	846,693	845,602
Interest receivable and other assets	807,646	739,338
<b>TOTAL ASSETS</b>	\$ 90,846,634	\$ 84,266,214
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing demand	\$ 14,307,296	\$ 12,480,904
Interest bearing demand	6,947,987	7,114,476
Money market	24,789,264	25,444,962
Savings	1,366,517	1,593,691
Time, less than \$100,000	7,831,747	7,894,284
Time, \$100,000 or more	18,993,207	12,987,719
<b>TOTAL DEPOSITS</b>	74,236,018	67,516,036
Interest payable and other liabilities	289,662	363,313
<b>TOTAL LIABILITIES</b>	74,525,680	67,879,349
Commitments and contingencies	-	-
Stockholders' Equity:		
Common stock - 30,000,000 shares authorized, \$5.00 par value, 2,288,884 issued and outstanding in 2010; 2,288,884 issued and outstanding in 2009.	11,442,233	11,442,233
Additional paid in capital	11,998,585	11,975,636
Accumulated deficit	(7,246,379)	(7,152,426)
Accumulated other comprehensive income	126,515	121,422
<b>TOTAL STOCKHOLDERS' EQUITY</b>	16,320,954	16,386,865
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ 90,846,634	\$ 84,266,214

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

**BANK OF NAPA, N.A.**

**CONDENSED STATEMENTS OF OPERATIONS**  
**For Three Months Ended March 31, 2010 and 2009**  
**(unaudited)**

	<b>2010</b>	<b>2009</b>
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 911,011	\$ 712,339
Interest on investment securities	74,311	77,571
Interest on federal funds sold	1,310	197
Other interest income	11,231	8,728
<b>TOTAL INTEREST INCOME</b>	<b>997,863</b>	<b>798,835</b>
<b>INTEREST EXPENSE</b>		
Interest on deposits	154,898	165,887
Interest on other borrowings	-	7
<b>TOTAL INTEREST EXPENSE</b>	<b>154,898</b>	<b>165,894</b>
<b>NET INTEREST INCOME</b>	<b>842,965</b>	<b>632,941</b>
Provision for loan losses	114,500	100,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>728,465</b>	<b>532,941</b>
<b>NON-INTEREST INCOME</b>		
Gain on sale of securities	4,132	111,250
Service charges and other non-interest income	60,372	33,196
<b>TOTAL NON-INTEREST INCOME</b>	<b>64,504</b>	<b>144,446</b>
<b>NON-INTEREST EXPENSE</b>		
Salaries and benefits	485,732	486,129
Occupancy	120,663	115,595
Professional services	78,816	67,545
Data processing	83,565	73,553
Marketing	6,439	17,877
Other	110,907	112,522
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>886,122</b>	<b>873,221</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(93,153)</b>	<b>(195,834)</b>
Income taxes	800	800
<b>NET LOSS</b>	<b>\$ (93,953)</b>	<b>\$ (196,634)</b>
<b>NET LOSS PER BASIC SHARE</b>	<b>\$ (0.04)</b>	<b>\$ (0.09)</b>

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

**BANK OF NAPA, N.A.**

**CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY and  
COMPREHENSIVE LOSS**  
for the year ended December 31, 2009, (audited)  
and the Three Month Period Ending March 31, 2010, (unaudited)

Comprehensive Loss	Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
<b>Balance at December 31, 2008</b>	2,288,884	\$11,442,233	\$ 11,803,598	\$ (6,484,614)	\$ 251,631	\$ 17,012,848
Stock-Based Compensation	-		172,038			172,038
Comprehensive income:						
Net Loss	(667,812)			(667,812)		(667,812)
Other comprehensive income:						
Unrealized holding 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)
<b>Total Comprehensive Loss</b>	<b>\$ (798,021)</b>					
<b>Balance at December 31, 2009</b>	<b>2,288,884</b>	<b>\$11,442,233</b>	<b>\$ 11,975,636</b>	<b>\$ (7,152,426)</b>	<b>\$ 121,422</b>	<b>\$ 16,386,865</b>
Stock-Based Compensation	-		22,949			22,949
Comprehensive income:						
Net Loss	(93,953)			(93,953)		(93,953)
Other comprehensive income:						
Unrealized holding gain on securities available-for-sale arising during the year	9,225				9,225	9,225
Less: reclassification adjustment for gain included in net loss	(4,132)				(4,132)	(4,132)
<b>Total Comprehensive Loss</b>	<b>\$ (88,860)</b>					
<b>Balance at March 31, 2010</b>	<b>2,288,884</b>	<b>\$11,442,233</b>	<b>\$ 11,998,585</b>	<b>\$ (7,246,379)</b>	<b>\$ 126,515</b>	<b>\$ 16,320,954</b>

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

**BANK OF NAPA, N.A.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**For the Three Month Period Ending March 31, 2010 and 2009**  
**(unaudited)**

	<u>2010</u>	<u>2009</u>
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (93,953)	\$ (196,634)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	39,601	43,481
Amortization and accretion on securities	8,982	18,532
Amortization of deferred loan fees	(18,725)	3,058
Gain on sale of securities available-for-sale	(4,132)	(111,250)
Provision for loan losses	114,500	100,000
Stock based compensation expense	22,949	47,037
Net change in interest receivable and other assets	(68,309)	(36,458)
Net change in interest payable and other liabilities	(73,651)	58,923
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(72,738)</u>	<u>(73,311)</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of securities available-for-sale	(4,112,710)	(2,447,856)
Proceeds of matured, sold and called securities available-for-sale	1,813,500	4,738,205
Net change in loans	(731,702)	(5,121,005)
Purchase of premises and equipment	(4,115)	(7,678)
Purchase of correspondent bank stock	(1,091)	(1,012)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(3,036,118)</u>	<u>(2,839,346)</u>
<b>FINANCING ACTIVITIES</b>		
Net changes in demand, money market and savings	777,031	3,301,218
Net changes in time deposits	5,942,951	4,176,069
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>6,719,982</u>	<u>7,477,287</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>3,611,126</u>	<u>4,564,630</u>
Cash and cash equivalents at beginning of year	12,340,064	3,678,377
Cash and cash equivalents at end of the period	<u>\$ 15,951,190</u>	<u>\$ 8,243,007</u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 175,133	\$ 451,836
Income taxes paid	<u>\$ 800</u>	<u>\$ 800</u>
<b>Supplemental disclosure of noncash activities:</b>		
Net change in unrealized gains and losses on available-for-sale securities	<u>\$ 5,093</u>	<u>\$ (161,855)</u>

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

**BANK OF NAPA, N.A.**  
**Notes to Financial Statements - (Unaudited)**

**NOTE 1 - Organization and Summary of Significant Accounting and Reporting 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.

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.

*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.

*Interim Financial Data* - The interim financial data as of March 31, 2010 and for the three months ended March 31, 2010 and 2009 is unaudited. However, in the opinion of management, the interim data includes all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the Bank’s results for the interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

*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

## BANK OF NAPA, N.A.

### NOTE 1 - Organization and Summary of Significant Accounting and Reporting Policies - Continued

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.

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 period ended March 31, 2010 or 2009, no reserve balance was required.

*Investment Securities* - Investment securities consist of U.S. agency securities, obligations of states and political subdivisions, corporate securities 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 as of March 31, 2010 or December 31, 2009. 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

## BANK OF NAPA, N.A.

### NOTE 1 - Organization and Summary of Significant Accounting and Reporting Policies - Continued

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.

*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 March 31, 2010 and 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 March 31, 2010, 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. FHLB paid a dividend in the first quarter of 2010 at a rate of .27%. 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

## BANK OF NAPA, N.A.

### NOTE 1 - Organization and Summary of Significant Accounting and Reporting Policies - Continued

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 collectability 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 collectability 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 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.

## BANK OF NAPA, N.A.

### **NOTE 1 - Organization and Summary of Significant Accounting and Reporting Policies - Continued**

*Income taxes* – 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 periods ended March 31, 2010 and 2009 the Bank recognized no interest and penalties.

The Bank had no unrecognized tax benefits at March 31, 2010 or December 31, 2009.

*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 loss 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-***

##### ***ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements***

This ASU amends FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, to require reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The ASU also clarifies existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. The guidance in the ASU was adopted by the Company on January 1, 2010 with no material impact on its financial statements.

### **NOTE 2 – CASH AND DUE FROM BANKS**

At December 31, 2010, 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.

**BANK OF NAPA, N.A.**

**NOTE 3 - INVESTMENT SECURITIES**

All securities held by the Bank at March 31, 2010 are classified as available for sale and are stated at fair value with unrealized holding gains and losses reported as a separate component of shareholders' equity. Realized gains or losses on sales of available for sale securities are reported as part of noninterest income based on the net proceeds and the adjusted carrying amount of the securities sold. Premiums and discounts are recognized in interest income over the period to maturity unless the security is called prior to maturity. 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

As of March 31, 2010 and December 31, 2009, unrealized losses were \$15,279 and \$2,976, respectively. Management does not intend to sell the securities and more likely than not, will not be required to sell the securities before recovery of its amortized cost basis.

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.

The amortized cost and fair value of investment securities by contractual maturity at March 31, 2010 are shown below.

	<b>Amortized Cost</b>	<b>Fair Value</b>
	<i>(\$ in thousands)</i>	
Due in one year or less	\$ 3,203	\$ 3,226
Due from one year to five years	5,189	5,251
Due from five years to ten years	989	1,030
Due after ten years	-	-
	<u>\$ 9,381</u>	<u>\$ 9,507</u>

**BANK OF NAPA, N.A.**

**NOTE 3 - INVESTMENT SECURITIES - Continued**

The amortized cost and fair value of investment securities by security type at March 31, 2010 and December 31, 2009 are shown below.

March 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency securities	\$ 3,534,584	\$ 71,666	\$ (2,813)	\$ 3,603,437
Taxable Municipal Securities	4,261,156	66,536	(8,634)	4,319,058
Corporate Bonds	1,585,088	3,592	(3,832)	1,584,848
	<u>\$ 9,380,828</u>	<u>\$ 141,794</u>	<u>\$ (15,279)</u>	<u>\$ 9,507,343</u>

  

December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency securities	\$ 2,540,295	\$ 75,642	\$ -	\$ 2,615,937
Taxable Municipal Securities	4,546,173	48,756	(2,976)	4,591,953
	<u>\$ 7,086,468</u>	<u>\$ 124,398</u>	<u>\$ (2,976)</u>	<u>\$ 7,207,890</u>

During the three months ended March 31, 2010 and 2009, the Bank received proceeds in the amount of \$992,500 and \$4,738,205 and realized a gain in the amount of \$4,132 on the sale of U.S. Treasury securities and \$111,250, on the sale of U.S. Government agency securities, respectively.

**BANK OF NAPA, N.A.**

**NOTE 4 - 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.

Major classifications of loans at March 31, 2010 and December 31, 2009 are as follows:

Loan category	March 31, 2010		December 31, 2009	
	Amount	Percent of Total	Amount	Percent of Total
Agricultural Loans	\$ 576,750	0.9%	\$ 570,750	0.9%
Construction and land development	2,660,500	4.2%	2,582,419	4.1%
Commercial	17,194,272	26.9%	16,405,134	26.0%
Real Estate	42,931,281	67.2%	43,064,411	68.2%
Installment and other	484,193	0.8%	492,579	0.8%
Total Gross Loans	63,846,996	100.0%	63,115,293	100.0%
Deferred loan fees and costs, net	306,641		287,916	
Allowance for loan losses	(1,068,500)		(954,000)	
Net Loans	<u>\$ 63,085,137</u>		<u>\$ 62,449,209</u>	

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 collectability 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 collectability 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.

**BANK OF NAPA, N.A.**

**NOTE 4 - Loans and allowance for loan losses - Continued**

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
<b>Allowance for loan losses:</b>		
Balance at the beginning of the period	\$ 954,000	\$ 528,000
Loans charged off	-	-
Recoveries	-	-
Provisions	114,500	100,000
Balance at the end of the period	\$ 1,068,500	\$ 628,000

Impaired loans, as defined, 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. At March 31, 2010 and March 31, 2009, the Bank had \$104,000 and \$0, respectively, in non-accrual loans. Impaired loan balances totaled \$104,000 and \$0 at March 31, 2010 and March 31, 2009 respectively. A specific valuation allowance of \$104,000 and \$0 was made against impaired loans as of March 31, 2010 and March 31, 2009, respectively. Generally, we charge off our estimated losses to specifically-identified impaired loans as losses are identified. The charged off portion of impaired loans was \$0 for periods ending March 31, 2010 and March 31, 2009.

## BANK OF NAPA, N.A.

### NOTE 5 - Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation 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.

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.

	March 31, 2010	December 31, 2009
Leasehold improvements	\$ 721,440	\$ 721,440
Furniture, fixtures, and equipment	354,696	353,365
Data Processing and Computers	173,133	170,350
	<u>1,249,269</u>	<u>1,245,155</u>
Less: Accumulated depreciation and amortization	(600,644)	(561,044)
	<u>\$ 648,625</u>	<u>\$ 684,111</u>

### NOTE 6 – 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. As of March 31, 2010 and December 31, 2009, the Bank has a 100% valuation allowance equal to the amount of its net deferred tax asset.

**BANK OF NAPA, N.A.****NOTE 7 - 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. As of March 31, 2010 and March 31, 2009 there were 150,000 shares and 214,500 shares, respectively, outstanding in employee stock options. These shares were excluded from the earnings per share calculation because they would have been anti-dilutive to the earnings per share calculations.

	Three Months Ended March 31	
	2010	2009
Net loss	\$ (93,953)	\$ (196,634)
Weighted average shares used in computing:		
Basic earnings per share	2,288,884	2,288,884
Total average shares and equivalents	<u>2,288,884</u>	<u>2,288,884</u>
Basic EPS	\$ (0.04)	\$ (0.09)
Diluted EPS	\$ (0.04)	\$ (0.09)

**NOTE 8 – Related Party Transactions**

The Bank, in the normal course of business, makes loans to and receives deposits from its directors, officers, principal stockholders 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 March 31, 2010 is summarized below:

Aggregate amount outstanding, December 31, 2009	\$2,443,930
New loans or advances during the period	142,650
Repayments during the period	<u>72,212</u>
Aggregate amount outstanding, March 31, 2010	<u>\$2,514,368</u>
Loan commitments	\$2,869,573
Related party deposits	\$1,836,837

**BANK OF NAPA, N.A.****NOTE 9 – Fair Value of Financial Instruments**

The carrying amounts and estimated fair values of the bank's financial instruments for the period ending March 31, 2010 and December 31, 2009 are as follows:

	<b>March 31, 2010</b>	
	<u>Carrying Value</u>	<u>Fair Value</u>
<b>Financial Assets:</b>		
Cash and Due From Banks	\$ 8,281,190	\$ 8,281,190
Federal Funds Sold	7,670,000	7,670,000
Investment Securities	9,507,343	9,507,343
Loans	64,153,637	65,208,825
Correspondent bank stock, at cost	846,693	846,693
Interest receivable	325,834	325,834
<b>Financial Liabilities:</b>		
Deposits	\$ 74,236,018	\$ 74,347,213
Interest payable	111,565	111,565
	<b>December 31, 2009</b>	
	<u>Carrying Value</u>	<u>Fair Value</u>
<b>Financial Assets:</b>		
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	63,403,209	63,960,761
Correspondent bank stock, at cost	845,602	845,602
Interest receivable	292,546	292,546
<b>Financial Liabilities:</b>		
Deposits	\$ 67,516,036	\$ 67,612,520
Interest payable	166,378	166,378

## **BANK OF NAPA, N.A.**

### **NOTE 9 – Fair Value of Financial Instruments - Continued**

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

#### ***Cash and Due From Banks and Interest Receivable and Payable***

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

#### ***Securities***

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.

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 non-interest 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.

#### ***Interest Receivable***

The carrying value of interest receivable approximates fair value.

#### ***Interest Payable***

The carrying value of interest payable approximates fair value.

The following table presents information about the Bank's assets measured at fair value on a recurring basis as of March 31, 2010, 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.

## BANK OF NAPA, N.A.

### NOTE 9 – Fair Value of Financial Instruments - Continued

Description	Fair Value March 31, 2010	Fair Value Measurements at March 31, 2010, Using		
		Quoted Prices in Active Markets Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Investment securities, available-for-sale	\$ 9,507,343	\$ -
Total assets measured at fair value	\$ 9,507,343	\$ -	\$ 9,507,343	\$ -

*Investment securities* - Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available.

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

## **BANK OF NAPA, N.A.**

### **ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

Information contained herein may contain certain forward-looking statements that are based on management's current expectations regarding economic, legislative, and regulatory issues that may impact the Bank's earnings in future periods. 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." Factors that could cause future results to vary materially from current management expectations include, but are not limited to, general economic conditions, changes in interest rates, inflation 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 undertakes no obligation to release publicly the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this press release or to reflect the occurrence of unanticipated events.

#### Results of Operations

The Bank's total deposits at March 31, 2010 were \$74.2 million, an increase from the same period last year of \$23.0 million or 44.9%. Loan balances at the end of the first quarter of 2010 were \$64.2 million, an increase of \$12.4 million or 23.9% from the same period last year. The Bank had total assets of \$90.8 million at March 31, 2010, representing a \$22.6 million or 33.1% increase since March 31, 2009.

For the three months ended March 31, 2010, the Bank reported a net loss of \$94,000 or \$.04 per share compared to a loss of \$197,000 or \$.09 per share for the three months ended March 31, 2009. The improvement of 52.3% in the first quarter 2010 over the same period in 2009 is attributable mostly to the increase in the net interest income of \$210,000 or 33.2%.

#### Net Interest Income

The following table, Distribution of Average Statement of Condition and Analysis of Net Interest Income, compares income from interest earning assets with expense from interest bearing liabilities. The table also indicates net interest income, net interest margin, and net interest rate spread for each period presented. Interest income represents the interest earned by the Bank on its portfolio of loans, investment securities, and other short-term investments. Interest expense represents interest paid to the Bank's depositors and on borrowings. Net interest income is the difference between interest income and interest expense. The volume and mix of earning assets and interest bearing liabilities, as well as interest rate fluctuations caused by economic conditions, can significantly affect net interest income.

Through March 31, 2010, the Bank's net interest income before provision for loan losses was \$843,000 compared to \$633,000 for the same period in 2009. The increase in interest income from 2009 to 2010 was largely generated from an increase in loan volume. Interest income on loans increased from \$712,000 for the period ended March 31, 2009 compared to \$911,000 for the period ended March 31, 2010. The Bank's interest expense decreased from \$166,000 to \$155,000. Interest expense decreased even

## BANK OF NAPA, N.A.

though interest bearing deposits grew \$19.2 million. The reduction in interest expense was due to a reduction in the cost of deposits for the three months ended March 31, 2010.

The Bank's net interest margin as shown in Table 1 was 4.44% for the three months ended March 31, 2010. The net interest margin was also 4.44% for the three months ended March 31, 2009. The net interest margin held steady despite a decrease in the yield on loans primarily due to loan growth and the bank's reduced cost of funds.

Table 1. Distribution of Average Statement of Condition and Analysis of Net Interest Income for the Three Months Ended:

	March 31, 2010			March 31, 2009		
	Average Balance	Yield / Cost	Income / Expense	Average Balance	Yield / Cost	Income / Expense
<b>Assets</b>						
<b>Interest Earning Assets:</b>						
Loans, gross	\$ 63,463,967	5.82%	\$ 911,011	\$ 48,317,357	5.98%	\$ 712,339
Federal Funds Sold	2,277,500	0.23%	1,310	293,667	0.27%	197
Investment Securities (1)	8,413,407	3.53%	74,311	8,605,272	3.61%	77,571
Other Interest Income (1)	2,846,756	1.58%	11,231	566,954	6.16%	8,728
<b>Total Interest Earning Assets</b>	<u>77,001,630</u>	<u>5.18%</u>	<u>997,863</u>	<u>57,783,250</u>	<u>5.61%</u>	<u>798,835</u>
<b>Non-Interest Earning Assets:</b>						
Cash and Due From Banks	9,906,970			5,808,204		
All Other Assets	451,244			1,131,532		
<b>Total Assets</b>	<u>\$ 87,359,844</u>			<u>\$ 64,722,986</u>		
<b>Liabilities and Equity</b>						
<b>Interest Bearing Liabilities:</b>						
Interest-bearing demand	7,279,207	0.17%	3,090	4,690,483	0.38%	4,391
Money Market	24,370,843	0.75%	45,348	16,954,940	1.49%	62,224
Savings	1,337,543	0.10%	345	1,237,772	0.42%	1,294
CDs < \$100K	7,933,747	1.73%	33,891	5,101,941	2.61%	32,844
CDs ≥ \$100K	16,358,960	1.79%	72,224	9,181,384	2.88%	65,134
<b>Total Interest Bearing Deposits</b>	<u>57,280,300</u>	<u>1.10%</u>	<u>154,898</u>	<u>37,166,520</u>	<u>1.81%</u>	<u>165,887</u>
Other Borrowings (1)	-	-	-	4,444	0.63%	7
<b>Total Interest Bearing Liabilities</b>	<u>57,280,300</u>	<u>1.10%</u>	<u>154,898</u>	<u>37,170,964</u>	<u>1.81%</u>	<u>165,894</u>
<b>Non-Interest Bearing Liabilities:</b>						
Non-Interest Bearing Demand	13,367,706			10,351,970		
Other Liabilities	348,001			309,643		
Stockholders' Equity	16,363,837			16,890,409		
<b>Total Liabilities and Equity</b>	<u>\$ 87,359,844</u>			<u>\$ 64,722,986</u>		
<b>Net Interest Margin / Net Interest Income</b>		4.44%	842,965		4.44%	632,941

Yields are calculated by dividing the actual number of days in the quarter by the actual number of days in the year, except as noted below.

(1) Yields are calculated by dividing the actual number of days in the quarter by 360 days to more accurately reflect how income is earned.

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Table 2. Rate and Volume Analysis

### Volume / Rate Analysis as of March 31, 2010

	<b>March 31, 2010 compared to March 31, 2009</b>		
	<b>Increase (decrease) due to change in</b>		
	Average Volume	Average Rate	Total Change
Interest income			
Loans	\$ 211,528	\$ (12,856)	\$ 198,672
Federal funds sold	1,139	(26)	1,113
Investment securities	(2,547)	(713)	(3,260)
Other interest earning assets	8,898	(6,395)	2,503
Total interest income	<u>219,018</u>	<u>(19,990)</u>	<u>199,028</u>
Interest expense			
Interest-bearing demand	\$ 1,063	\$ (2,363)	\$ (1,300)
Savings and money market	12,832	(30,658)	(17,826)
Time under \$100,000	11,825	(10,778)	1,047
Time deposits \$100,000 or more	31,149	(24,059)	7,090
Interest on other borrowings	(7)	0	(7)
Total interest expense	<u>56,862</u>	<u>(67,858)</u>	<u>(10,996)</u>
Change in net interest income	<u>\$ 162,156</u>	<u>\$ 47,868</u>	<u>\$ 210,024</u>

Since December 31, 2009 through March 31, 2010, the total deposits of the Bank increased to \$74.2 million while earning assets (the combination of federal funds sold, interest earning correspondent bank balances, securities and loans) totaled \$84.2 million, an increase of \$3.8 million or 4.7%.

For the three months ended March 31, 2010, net interest income (total interest income less total interest expense) increased approximately \$210,000 or 33.2% compared to the three month period ended March 31, 2009. Earning asset volumes increased in loans, federal funds sold and other interest earning assets while volumes decreased in investment securities. The average rate earned on total average earning assets decreased by 35 basis points. For the three months ended March 31, 2010, total interest income increased approximately \$199,000 or 24.9% compared to the three month period ended March 31, 2009. Total interest expense decreased approximately \$11,000 due to decreases in the cost of deposits.

#### *Allowance for Loan Losses*

Provisions for loan losses are determined on the basis of management's periodic credit review of the loan portfolio. Based on the condition of the loan portfolio, management believes the allowance for loan losses is sufficient to cover risk elements in the loan portfolio. For the three months ended March 31, 2010, the provision added to the allowance for loan losses amounted to \$114,500 compared to \$100,000 for the three months ended March 31, 2009. The amount added to the allowance for loan losses during the first three months brought the allowance to 1.67% of net outstanding balances at March 31, 2010, compared to 1.50% of net loans outstanding at December 31, 2009.

## **BANK OF NAPA, N.A.**

As of March 31, 2010 and March 31, 2009 the Bank held \$4,894,000 and \$0 in fully guaranteed SBA loans in the loan portfolio. The Bank is not required to, and does not reserve against these loans due to the governmental guarantee. When eliminating the SBA loans from total outstanding loans the Bank's reserve against loan loss was 1.80% and 1.50%, as of March 31, 2010 and 2009 respectively. Additionally, there are no loans which have been charged-off for the three months ended March 31, 2010 or 2009. There is one loan for \$104,000 on non-accrual status for the three months ended March 31, 2010 and there were no loans on non-accrual status for the three months ended March 31, 2009.

### *Noninterest Income*

Noninterest income for the quarter ending March 31, 2010 decreased by \$80,000 or 55.3% over the same period in 2009. The decrease in 2010 from 2009 was due to a lower amount on the gain on sale of securities of \$4,000 in 2010 versus \$111,000 in 2009. The reduction on the gain on sale of securities was partially offset by an increase in deposit account service charges. Deposit account service charges increased to \$60,000 in 2010 compared to \$33,000 in 2009 an 81.8% increase.

### *Noninterest Expense*

The Bank recognized stock-based compensation expense of \$23,000 and \$47,000 for the quarters ended March 31, 2010 and 2009, respectively. This expense is included in non-interest expense under salaries and employee benefits.

The significant components of other expense include supplies, insurance and regulatory fees which were approximately \$14,000, \$15,000 and \$39,000 respectively, in 2010, and \$10,000, \$15,000 and \$18,000 for the three months ended March 31, 2009. The increase in regulatory fees was primarily due to the significant increase in FDIC deposit insurance premiums which increased to approximately \$29,000 as of March 31, 2010 compared to \$9,000 as of March 31, 2009. The slight increase in insurance expense during the three months is attributable to normal growth of the Bank.

Data processing fees increased by \$10,000 for the first quarter-end 2010 compared to the same period in 2009, an increase of 13.7% which is attributable to volume increase in the number of accounts for the Bank.

### *Capital Adequacy*

The Bank's capital adequacy ratios at March 31, 2010 and December 31, 2009 are presented in the following table. The ratios at March 31, 2010 as compared to December 31, 2009, declined, which is typical of de novo institutions. This was primarily due to the net loss the Bank incurred in the first quarter of 2010.

Capital ratios are reviewed by Management on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet the Bank's anticipated future needs. All ratios are in excess of the regulatory definition of "well capitalized".

## BANK OF NAPA, N.A.

	Amount of Capital Required					
	Actual		To Be Adequately Capitalized		To Be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of March 31, 2010</b>						
Total capital to risk-weighted assets	\$ 17,263	25.7%	\$ 5,374	8.0%	\$ 6,718	10.0%
Tier 1 capital to risk-weighted assets	\$ 16,194	24.1%	\$ 2,687	4.0%	\$ 4,031	6.0%
Tier 1 capital to average assets	\$ 16,194	18.5%	\$ 3,494	4.0%	\$ 4,368	5.0%
<b>As of December 31, 2009</b>						
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%	\$ 3,257	4.0%	\$ 4,072	5.0%

### *Liquidity*

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 is now eligible to obtain credit equal to 15 percent of its total assets, with original terms out to 84 months. The Bank is also approved to borrow from the Federal Reserve Bank (the "FRB") Discount Window. In addition, the Bank can raise cash for temporary needs by selling securities under agreements to repurchase and selling securities available-for-sale.

At March 31, 2010 the Bank had approximately \$16.0 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. The Bank had no borrowings outstanding with the FHLB, FRB or correspondent banks.

### *Financial Instruments with Off-Balance Sheet Risk*

The Bank makes commitments to extend credit 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. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis. As of March 31, 2010 the Bank had

**BANK OF NAPA, N.A.**

undisbursed loan commitments of \$14.8 million compared to \$13.4 million as of March 31, 2009. These commitments, to the extent used, are expected to be funded through repayment of existing loans and normal deposit growth.

**BANK OF NAPA, N.A.**

**ITEM 4 CONTROLS AND PROCEDURES**

The Bank maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed, is accumulated and communicated to management in a timely manner. Management has reviewed this system of disclosure controls and procedures as of the end of the period covered by this report and believes that the system is operating effectively to ensure appropriate disclosure. No significant changes were made in the Bank's internal controls over financial reporting during the quarter that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1 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.

**Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3 Defaults Upon Senior Securities**

None.

**Item 4 RESERVED**

**Item 5 Other Information**

**Item 6 Exhibits**

The exhibit index following the signature page is incorporated by reference.

**BANK OF NAPA, N.A.**  
**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Bank of Napa, National Association

Date: May 7, 2010

/s/M. Thomas LeMasters

M. Thomas LeMasters, President and CEO

Date: May 7, 2010

/s/Michael L. Lundstrom

Michael L. Lundstrom, VP/Chief Financial  
Officer

## **BANK OF NAPA, N.A.**

### Exhibit Index

No.	Exhibit	Page
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	30
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	31
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## 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, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank of Napa, N.A.;
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 (or persons performing similar functions):

(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: May 7, 2010

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

**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 L. Lundstrom, VP/Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank of Napa, N.A.;
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 (or persons performing similar functions):

(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: May 7, 2010

*/s/ Michael L. Lundstrom*  
Michael L. Lundstrom  
VP/Chief Financial Officer

**BANK OF NAPA, N.A.**

Exhibit 32

**Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report on Form 10-Q of the Bank of Napa, N.A. for the quarter ended March 31, 2010, as filed with the Office of 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-Q 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-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ M. Thomas LeMasters

M. Thomas LeMasters  
President and Chief Executive Officer

Date: May 7, 2010

/s/ Michael L. Lundstrom

Michael L. Lundstrom  
VP/Chief Financial Officer

This certification accompanies each report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of §18 of the Securities Exchange Act of 1934, as amended.