

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2009

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 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 **X**

(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:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

# BANK OF NAPA, N.A.

## TABLE OF CONTENTS

### PART I FINANCIAL INFORMATION

Item 1	Financial Statements	
	Condensed Statements of Condition (Unaudited)	3
	Condensed Statements of Operations (Unaudited)	4
	Condensed Statements of Changes in Stockholders' Equity and Comprehensive Loss (Unaudited)	5
	Condensed Statements of Cash Flows (Unaudited)	6
	Notes to Financial Statements (Unaudited)	7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 4	Controls and Procedures	24
PART II OTHER INFORMATION		
Item 1	Legal Proceedings	24
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 3	Defaults Upon Senior Securities	24
Item 4	Submission of Matters to a Vote of Security Holders	24
Item 5	Other Information	24
Item 6	Exhibits	24
	Signatures	25
	Exhibit Index	26
	Certifications	27-29

## BANK OF NAPA, N.A.

### CONDENSED STATEMENTS OF CONDITION

**December 31, 2008 and September 30, 2009**

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>	(unaudited)	
Cash and due from banks	\$ 2,370,931	\$ 3,678,377
Federal funds sold	8,690,000	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	11,060,931	3,678,377
Investment securities, available-for-sale	9,090,970	9,140,327
Loans, net of deferred costs	57,181,278	46,664,164
Allowance for loan loss	(795,000)	(528,000)
Loans, net	56,386,278	46,136,164
Premises and equipment, net	724,243	843,345
Correspondent bank stock, at cost	857,602	857,190
Accrued interest receivable and other assets	392,922	336,270
<b>TOTAL ASSETS</b>	\$ 78,512,946	\$ 60,991,673
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing demand	\$ 13,299,865	\$ 9,145,233
Interest bearing demand	5,463,797	4,180,555
Money market	21,564,890	16,212,990
Savings	1,559,046	1,157,375
Time, less than \$100,000	7,359,076	4,492,615
Time, \$100,000 or more	12,365,186	8,532,458
<b>TOTAL DEPOSITS</b>	61,611,860	43,721,226
Accrued interest payable and other liabilities	412,323	257,599
<b>TOTAL LIABILITIES</b>	62,024,183	43,978,825
Commitments and contingencies		
Shareholders' Equity:		
Common stock - 30,000,000 shares authorized, \$5.00 par value, 2,288,884 issued and outstanding in 2009; 2,288,884 issued and outstanding in 2008.	11,442,233	11,442,233
Additional Paid in Capital	11,933,638	11,803,598
Accumulated deficit	(7,026,840)	(6,484,614)
Accumulated other comprehensive income	139,732	251,631
<b>TOTAL STOCKHOLDERS' EQUITY</b>	16,488,763	17,012,848
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ 78,512,946	\$ 60,991,673

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

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

**CONDENSED STATEMENTS OF OPERATIONS**  
**For Three Months and Nine Months Ended September 30, 2008 and 2009**  
**(unaudited)**

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>INTEREST AND DIVIDEND INCOME</b>				
Interest and fees on loans	\$ 829,822	\$ 521,199	\$ 2,343,386	\$ 1,124,105
Interest on investment securities	73,312	109,729	220,110	445,636
Interest on federal funds sold	3,090	18,999	3,767	162,120
Other interest income	8,270	9,625	24,659	28,325
<b>TOTAL INTEREST AND DIVIDEND INCOME</b>	<u>914,494</u>	<u>659,552</u>	<u>2,591,922</u>	<u>1,760,186</u>
<b>INTEREST EXPENSE</b>				
Interest on deposits	176,825	138,021	514,527	416,567
Interest on other borrowings	-	-	7	-
<b>TOTAL INTEREST EXPENSE</b>	<u>176,825</u>	<u>138,021</u>	<u>514,534</u>	<u>416,567</u>
<b>NET INTEREST INCOME</b>	<u>737,669</u>	<u>521,531</u>	<u>2,077,388</u>	<u>1,343,619</u>
Provision for loan losses	103,000	112,000	267,000	273,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>634,669</u>	<u>409,531</u>	<u>1,810,388</u>	<u>1,070,619</u>
<b>NON-INTEREST INCOME</b>				
Gain on sale of securities	-	3,789	111,250	66,088
Service charges and other non-interest income	36,212	27,105	103,465	67,573
<b>TOTAL NON-INTEREST INCOME</b>	<u>36,212</u>	<u>30,894</u>	<u>214,715</u>	<u>133,661</u>
<b>NON-INTEREST EXPENSE</b>				
Salaries and benefits	473,858	423,298	1,405,405	1,269,690
Occupancy expense	120,754	114,934	354,355	346,571
Data processing expense	76,839	67,731	226,832	197,117
Professional services	56,383	62,259	184,140	181,868
Marketing	2,460	18,524	25,738	43,178
Other expenses	150,651	74,140	370,059	254,180
<b>TOTAL NON-INTEREST EXPENSE</b>	<u>880,945</u>	<u>760,886</u>	<u>2,566,529</u>	<u>2,292,604</u>
<b>LOSS BEFORE INCOME TAXES</b>	<u>(210,064)</u>	<u>(320,461)</u>	<u>(541,426)</u>	<u>(1,088,324)</u>
Income taxes	-	-	800	800
<b>NET LOSS</b>	<u>\$ (210,064)</u>	<u>\$ (320,461)</u>	<u>\$ (542,226)</u>	<u>\$ (1,089,124)</u>
<b>NET LOSS PER SHARE - BASIC</b>	<u>\$ (0.09)</u>	<u>\$ (0.14)</u>	<u>\$ (0.24)</u>	<u>\$ (0.48)</u>

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  
December 31, 2008, (audited)  
and the Nine Month Period Ending September 30, 2009, (unaudited)**

	Common Stock		Additional	Accumulated	Accumulated	Other	Total
Comprehensive	Shares	Amount	Paid In	Deficit	Comprehensive	Income	Total
Loss	Shares	Amount	Capital	Deficit	Comprehensive	Income	Total
<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	-		130,040				130,040
Comprehensive income:							
Net Loss		\$ (542,226)		(542,226)			(542,226)
Other comprehensive income:							
Unrealized holding (loss)/gain on securities available- for-sale arising during the year		(649)				(649)	(649)
Less: reclassification adjustment for gain included in net loss		(111,250)				(111,250)	(111,250)
<b>Total Comprehensive Loss</b>		<u>\$ (654,125)</u>					
<b>Balance at September 30, 2009</b>	<u>2,288,884</u>	<u>\$11,442,233</u>	<u>\$ 11,933,638</u>	<u>\$ (7,026,840)</u>	<u>\$ 139,732</u>		<u>\$ 16,488,763</u>

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

**BANK OF NAPA, N.A.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**For the Nine Month Period Ending September 30, 2008 and 2009**  
**(unaudited)**

	<b>2009</b>	<b>2008</b>
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (542,226)	\$ (1,089,124)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	120,260	130,318
Amortization and accretion on securities	33,102	115,011
Gain on sale of securities available-for-sale	(111,250)	(66,088)
Provision for loan losses	267,000	273,000
Stock based compensation expense	130,040	158,545
Net change in accrued interest receivable and other assets	(56,652)	(50,347)
Net change in accrued interest payable and other liabilities	154,724	(48,445)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(5,002)</b>	<b>(577,130)</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of securities available-for-sale	(5,222,599)	(14,502,853)
Proceeds of matured, sold and called securities available-for-sale	5,238,205	14,761,839
Net change in loans	(10,517,114)	(26,366,645)
Purchase of premises and equipment	(1,158)	(26,330)
Purchase of correspondent bank stock	(412)	(196,133)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(10,503,078)</b>	<b>(26,330,122)</b>
<b>FINANCING ACTIVITIES</b>		
Net changes in deposits	17,890,634	18,080,418
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>17,890,634</b>	<b>18,080,418</b>
	7,382,554	(8,826,834)
Cash and cash equivalents at beginning of period	3,678,377	18,514,926
Cash and cash equivalents at end of the period	\$ 11,060,931	\$ 9,688,092
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 17,817	\$ 102,147
Income taxes paid	\$ 800	\$ 800
<b>Supplemental disclosure of noncash activities:</b>		
Net change in unrealized gains and losses on available-for-sale securities	\$ (111,900)	\$ (125,130)

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 generally accepted accounting principles 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 of Napa, National Association (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.

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.

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.

## BANK OF NAPA, N.A.

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

*Estimates* – In preparing financial statements in conformity with generally accepted accounting principles, 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. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. In connection with determining the allowance for loan losses, management obtains independent appraisals for loans with significant properties held as collateral.

#### *Recent Accounting Pronouncements*

In April, 2009, the Financial Accounting Standards Board, (FASB), issued accounting guidance which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This amendment was effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Bank has included the required disclosures in this report.

In April, 2009, the FASB issued the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This change does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The objective of an other-than-temporary impairment analysis is to determine whether the holder of an investment in a debt or equity security for which changes in fair value are not regularly recognized in earnings (such as securities classified as held-to-maturity or available-for-sale) should recognize a loss in earnings when the investment is impaired. An investment is impaired if the fair value of the investment is less than its amortized cost basis. The adoption of this guidance has not impacted the Bank.

In April, 2009, the FASB provided additional guidance for estimating fair value in accordance with *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This guidance also includes clarification on identifying circumstances that indicate a transaction is not orderly. With emphasis that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This guidance applies to all assets and liabilities within the scope of accounting pronouncements that require or permit fair value measurements, with various exceptions. This has not impacted the Bank.

## BANK OF NAPA, N.A.

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

On May 28, 2009 the Financial Accounting Standards Board (FASB) announced the issuance of the guidance for *Subsequent Events*. The objective of this guidance is to establish general standards for the accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued.

In particular, this guidance sets forth:

1. The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements.
2. The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements.
3. The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

The guidance is effective for interim or annual financial periods ending after June 15, 2009 with prospective application. The Bank has included the required disclosures in this report.

In June 2009, the FASB issued guidance that establishes the FASB Accounting Standards Codification (the “Codification” or “ASC”) as the source of authoritative U.S. generally accepted accounting principles (“U.S. GAAP”) recognized by the FASB for nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also included in the Codification as sources of authoritative U.S. GAAP for SEC registrants. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification supersedes all existing non-SEC accounting and reporting standards. Following Statement 168, instead of issuing new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts, the FASB issues Accounting Standards Updates, which serves only to: (a) update the Codification; (b) provide background information about the guidance; and (c) provide the bases for conclusions on the change(s) in the Codification. The codification is effective for interim and annual reporting periods ending after September 15, 2009. The changes related to the codification have been reflected in this report.

In August 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2009-05, Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value. This update provides clarification for circumstances in which a quoted price in an active market for the identical liability is not available. In such circumstances a reporting entity is required to measure fair value using one or more of the following techniques: technique 1; A valuation technique that uses: (a) the quoted price of the identical liability when traded as an asset; or (b) quoted prices for similar liabilities or similar liabilities when traded as assets; or technique 2 another valuation method such as an income approach or a market approach that is consistent with the principles of Topic 820. The guidance in this update will be effective for the quarter beginning October 1, 2009. This will have no impact on the Bank.

The Bank’s unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes normally included in financial statements prepared in conformity with accounting

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

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

principles generally accepted in the United States of America. Accordingly, these financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2008. The financial statements reflect all adjustments, that in the opinion of Management, are necessary for the fair presentation of interim periods. All such adjustments are of a normal recurring nature.

Results of operations for interim periods are not necessarily indicative of results for the full year.

### **NOTE 2 - 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 non-interest bearing cash reserves equal to a percentage of certain deposits. For the period ended September 30, 2009, no reserve balance was required.

### **NOTE 3 - 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 September 30, 2009 or December 31, 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 stockholders' 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 earnings 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 earnings and are derived using the specific identification method for determining the cost of securities sold.

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.

## BANK OF NAPA, N.A.

### NOTE 3 - Investment Securities – 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. 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. Both cash and stock dividends are reported as income. The FHLB did not pay any dividends for the first and second quarters of 2009 but did pay a cash dividend in the third quarter of 2009.

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

At September 30, 2009, the Bank’s investment portfolio, comprised of U.S. Government agency securities, taxable municipal bonds and California State Registered Warrants which had an amortized cost of approximately \$8,951,000. The maturity of these securities ranges from six months to twenty-eight years and the average life of the portfolio is 4.55 years.

Following is a comparison of the amortized cost and approximate fair value of securities available-for-sale as of September 30, 2009 and December 31, 2008:

	September 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government agency securities	\$ 2,546,006	\$ 86,807	\$ -	\$ 2,632,813
Municipal securities	6,219,925	58,265	(5,340)	6,272,850
State of California Warrants	185,307	-	-	185,307
	\$ 8,951,238	\$145,072	\$ (5,340)	\$ 9,090,970

  

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

During the nine months ended September, 2009 and 2008, the Bank received proceeds in the amount of \$5,238,205 and \$5,440,778 and realized a gain in the sale of U.S. Government agency securities in the amount of \$111,250 and \$66,088, respectively. There were no sales of securities during the three months ended September 30, 2009 and 2008.

As of September 30, 2009 there were no continual unrealized losses over a twelve month period.

**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 September 30, 2009 and December 31, 2008 are as follows:

	September 30, 2009		December 31, 2008	
	Amount	Percent of Total	Amount	Percent of Total
Loan category				
Agricultural Loans	\$ 577,147	1.0%	\$ 516,835	1.2%
Construction and land development	5,458,270	9.7%	3,744,944	8.0%
Commercial	13,239,500	23.2%	11,079,863	23.8%
Real Estate	37,245,949	65.3%	30,709,557	66.0%
Installment and other	476,545	0.8%	483,265	1.0%
Total Gross Loans	56,997,411	100.0%	46,534,464	100.0%
Deferred loan fees and costs, net	183,867		129,700	
Allowance for loan losses	(795,000)		(528,000)	
Net Loans	\$ 56,386,278		\$ 46,136,164	

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.

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

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

	For the Nine Months Ended	
	September 30, 2009	September 30, 2008
<b>Allowance for loan losses:</b>		
Balance at the beginning of the period	\$ 528,000	\$ 111,000
Loans charged off	-	-
Recoveries	-	-
Provisions	267,000	273,000
Balance at the end of the period	<u>\$ 795,000</u>	<u>\$ 384,000</u>

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 September 30, 2009 and September 30, 2008, the Bank did not have any impaired loans.

**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.

The estimated lives used in determining depreciation and amortization are:

Equipment	2 – 7 years
Furniture and fixtures	2 – 7 years
Leasehold improvements	10 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.

	September 30, 2009	December 31, 2008
Leasehold improvements	\$ 721,440	\$ 727,049
Furniture, fixtures, and equipment	353,558	344,202
Data Processing & Computers	170,350	172,939
	<u>1,245,348</u>	<u>1,244,190</u>
Less: Accumulated depreciation and amortization	(521,105)	(400,845)
	<u>\$ 724,243</u>	<u>\$ 843,345</u>

## BANK OF NAPA, N.A.

### 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 September 30, 2009 and December 31, 2008, the Bank has a 100% valuation allowance equal to the amount of its net deferred tax asset.

### 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.

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Net (loss)	\$ (210,064)	\$ (320,461)	\$ (542,226)	\$ (1,089,124)
Weighted average shares used in computing:				
Basic earnings per share	2,288,884	2,288,884	2,288,884	2,288,884
Effect of dilutive securities	-	-	-	-
Total average shares and equivalents	2,288,884	2,288,884	2,288,884	2,288,884
Basic EPS	\$ (0.09)	\$ (0.14)	\$ (0.24)	\$ (0.48)
Diluted EPS	\$ (0.09)	\$ (0.14)	\$ (0.24)	\$ (0.48)

### 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 and for the nine months ended September 30, 2009 is summarized below:

Aggregate amount outstanding, December 31, 2008	\$2,178,803
New loans or advances during the period	1,480,868
Repayments during the period	<u>1,279,243</u>
Aggregate amount outstanding, September 30, 2009	\$2,380,428
Loan commitments at September 30, 2009	\$2,985,035
Related party deposits at September 30, 2009	\$1,650,429

## 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 September 30, 2009 are as follows:

	September 30, 2009	
	Carrying Value	Fair Value
<b>Financial Assets:</b>		
Cash and Due From Banks	\$ 2,370,931	\$ 2,370,931
Federal Funds Sold	8,690,000	8,690,000
Investment Securities	9,090,970	9,090,970
Loans	57,181,278	57,499,376
Correspondent bank stock, at cost	857,602	857,602
Accrued interest receivable	250,020	250,020
<b>Financial Liabilities:</b>		
Deposits	\$ 61,611,860	\$ 61,787,978
Accrued interest payable	193,684	193,684

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.

#### ***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.

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

**Note 9 – Fair Value of Financial Instruments - Continued**

The following table presents information about the Bank’s assets measured at fair value on a recurring basis as of September 30, 2009, 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 September 30, 2009	Fair Value Measurements at September 30, 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	\$ 9,090,970	\$ -	\$ 9,090,970	\$ -
Total assets measured at fair value	\$ 9,090,970	\$ -	\$ 9,090,970	\$ -

**Note 10 – Subsequent Events**

The Bank has evaluated subsequent events through November 9, 2009, the date the financial statements were issued, and has determined that there were no recognized or nonrecognized subsequent events that require recognition or disclosure.

## **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, 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 September 30, 2009 were \$61.6 million, an increase from the same period last year of \$18.0 million or 41.3%. Loan balances at the end of the third quarter of 2009 were \$57.2 million, an increase of \$18.6 million or 48.2%. The Bank had total assets of \$78.5 million at September 30, 2009, representing a \$17.7 million or 29.1% increase since September 30, 2008.

For the three months ended September 30, 2009, the Bank reported a net loss of \$210,000 or \$.09 per share compared to a loss of \$320,000 or \$.14 per share for the three months ended September 30, 2008. The improvement of 34.4% in the third quarter 2009 over the same period in 2008 is attributable mostly to the increase in the net interest income of \$216,000 or 41.4%.

For the nine months ended September 30, 2009, the Bank reported a net loss of \$542,000 or \$.24 per share compared to a loss of \$1,089,000 or \$.48 per share for the nine months ended September 30, 2008. The improvement of 50.2% in the first nine months of 2009 over the same period in 2008 is attributable mostly to the increase in the net interest income of \$733,000 or 54.5%.

#### ***Net Interest Income***

The 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.

## BANK OF NAPA, N.A.

For the quarter ended September 30, 2009, the Bank's net interest income before provision for loan losses was \$738,000 compared to \$522,000 for the same period in 2008. The increase in total interest income from 2008 to 2009 was largely generated from an increase in loan volume by \$21.2 million. Interest expense of \$177,000 increased from \$138,000 as a result of increases in the volume of deposits by \$17.5 million for the three months ended September 30, 2009.

For the nine months ended September 30, 2009, the Bank's net interest income before provision for loan losses was \$2.1 million compared to \$1.3 million for the same period in 2008. The increase in total interest income from 2008 to 2009 was largely generated from an increase in loan volume by \$29.0 million. Interest expense of \$515,000 increased from \$417,000 as a result of increases in the volume of deposits by \$15.6 million for the nine months ended September 30, 2009.

The Bank's net interest margin as shown in Table 1, increased to 4.27% for the three months ended September 30, 2009 from 3.99% for the same period in 2008, an increase of 28 basis points (100 basis points = 1%) between the two periods. The prime rate averaged 3.25% for the three months ended September 30, 2009 compared to 5.0% for the comparative three months of 2008.

For the nine months ended September 30, 2009 the net interest margin increased 74 basis points from 3.68% to 4.42%. The prime rate averaged 3.25% for the nine months ended September 30, 2009 compared to 5.69% for the comparative nine months of 2008.

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

	<u>Three Months Ended</u>					
	September 30, 2009			September 30, 2008		
	<u>Average Balance</u>	<u>Yield / Cost</u>	<u>Income / Expense</u>	<u>Average Balance</u>	<u>Yield / Cost</u>	<u>Income / Expense</u>
<b>Assets</b>						
<b>Interest Earning Assets:</b>						
Loans, gross	\$ 55,215,531	5.96%	\$ 829,822	\$ 34,083,059	6.08%	\$ 521,199
Federal Funds Sold	4,902,283	0.25%	3,090	3,938,913	1.89%	18,999
Debt Securities	7,489,631	3.83%	73,312	13,719,179	3.13%	109,729
Other Securities	857,601	3.77%	8,270	884,336	4.26%	9,625
<b>Total Interest Earning Assets</b>	<u>68,465,046</u>	<u>5.30%</u>	<u>914,494</u>	<u>52,625,487</u>	<u>4.99%</u>	<u>659,552</u>
<b>Non-Interest Earning Assets:</b>						
Cash and Due From Banks	6,825,707			3,650,240		
All Other Assets	610,429			536,670		
<b>Total Assets</b>	<u>\$ 75,901,182</u>			<u>\$ 56,812,397</u>		
<b>Liabilities and Equity</b>						
<b>Interest Bearing Liabilities:</b>						
Interest-bearing demand	5,869,625	0.26%	3,790	2,600,954	0.47%	3,098
Money Market	20,167,419	1.18%	59,973	18,742,396	1.64%	77,051
Savings	1,908,745	0.56%	2,680	849,817	0.39%	830
CDs < \$100K	7,242,182	2.16%	39,409	4,102,583	2.26%	23,255
CDs ≥ \$100K	11,701,126	2.41%	70,973	3,096,533	4.34%	33,787
<b>Total Interest Bearing Liabilities</b>	<u>46,889,097</u>	<u>1.50%</u>	<u>176,825</u>	<u>29,392,283</u>	<u>1.87%</u>	<u>138,021</u>
<b>Non-Interest Bearing Liabilities:</b>						
Non-Interest Bearing Demand	12,046,446			10,154,966		
Other Liabilities	422,021			237,774		
Stockholders' Equity	16,543,618			17,027,374		
<b>Total Liabilities and Equity</b>	<u>\$ 75,901,182</u>			<u>\$ 56,812,397</u>		
<b>Net Interest Margin / Net Interest Income</b>		4.27%	\$ 737,669		3.99%	\$ 521,531

## BANK OF NAPA, N.A.

	<u>Nine Months Ended</u>					
	September 30, 2009			September 30, 2008		
	<u>Average</u> <u>Balance</u>	<u>Yield /</u> <u>Cost</u>	<u>Income /</u> <u>Expense</u>	<u>Average</u> <u>Balance</u>	<u>Yield /</u> <u>Cost</u>	<u>Income /</u> <u>Expense</u>
<b>Assets</b>						
<b>Interest Earning Assets:</b>						
Loans, gross	\$ 52,350,653	5.98%	\$ 2,343,386	\$ 23,378,024	6.42%	\$ 1,124,105
Federal Funds Sold	2,070,421	0.24%	3,767	8,088,869	2.63%	162,120
Debt Securities	7,590,338	3.82%	220,110	16,545,647	3.54%	445,636
Other Securities	857,497	3.79%	24,659	730,986	5.09%	28,325
<b>Total Interest Earning Assets</b>	<u>62,868,909</u>	<u>5.51%</u>	<u>2,591,922</u>	<u>48,743,526</u>	<u>4.82%</u>	<u>1,760,186</u>
<b>Non-Interest Earning Assets:</b>						
Cash and Due From Banks	6,730,448			2,909,452		
All Other Assets	672,946			1,136,074		
<b>Total Assets</b>	<u>\$ 70,272,303</u>			<u>\$ 52,789,052</u>		
<b>Liabilities and Equity</b>						
<b>Interest Bearing Liabilities:</b>						
Interest-bearing demand	5,208,269	0.31%	12,167	2,515,045	0.76%	14,220
Money Market	17,994,887	1.31%	176,176	16,916,155	1.83%	231,960
Savings	1,631,558	0.54%	6,625	874,991	0.72%	4,690
CDs < \$100K	6,381,214	2.35%	112,251	3,249,098	3.86%	93,893
CDs ≥ \$100K	10,590,033	2.62%	207,308	2,626,381	3.65%	71,804
<b>Total Interest Bearing Deposits</b>	<u>41,805,961</u>	<u>1.65%</u>	<u>514,527</u>	<u>26,181,670</u>	<u>2.13%</u>	<u>416,567</u>
Other Borrowings	1,612	0.58%	7	-		-
<b>Total Interest Bearing Liabilities</b>	<u>41,807,573</u>	<u>1.65%</u>	<u>514,534</u>	<u>26,181,670</u>	<u>2.13%</u>	<u>416,567</u>
<b>Non-Interest Bearing Liabilities:</b>						
Non-Interest Bearing Demand	11,413,070			8,911,585		
Other Liabilities	354,798			244,769		
Stockholders' Equity	16,696,862			17,451,028		
<b>Total Liabilities and Equity</b>	<u>\$ 70,272,303</u>			<u>\$ 52,789,052</u>		
<b>Net Interest Margin / Net Interest Income</b>		4.42%	2,077,388		3.68%	1,343,619

Federal Funds Sold, Debt and Other Securities yields are calculated on a 360-day basis.

Since December 31, 2008 through September 30, 2009, the total deposits of the Bank increased to \$61.6 million while earning assets (the combination of federal funds sold, securities and loans) totaled \$75.0 million, an increase of \$19.2 million or 34.4%. From December 31, 2007 to September 30, 2008, total deposits increased to \$43.6 million and earning assets totaled \$54.2 million, an increase of \$13.5 million or 33.2%.

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

Table 2. Rate and Volume Analysis

	<b>Three Months Ended</b>		
	<b>September 30, 2009 compared to September 30, 2008</b>		
	<b>Increase (decrease) due to change in</b>		
	Average Volume	Average Rate	Total Change
Interest income			
Loans	\$ 317,620	\$ (8,997)	\$ 308,623
Federal funds sold	580	(16,489)	(15,909)
Investment securities	(62,453)	26,036	(36,417)
Other interest earning assets	(352)	(1,003)	(1,355)
Total interest income	<u>255,395</u>	<u>(453)</u>	<u>254,942</u>
Interest expense			
Interest-bearing demand	\$ 2,098	\$ (1,404)	\$ 694
Savings and money market	6,498	(21,726)	(15,228)
Time under \$100,000	16,840	(687)	16,153
Time deposits \$100,000 or more	52,025	(14,840)	37,185
Total interest expense	<u>77,461</u>	<u>(38,657)</u>	<u>38,804</u>
Change in net interest income	<u>\$ 177,934</u>	<u>\$ 38,204</u>	<u>\$ 216,138</u>

	<b>Nine Months Ended</b>		
	<b>September 30, 2009 compared to September 30, 2008</b>		
	<b>Increase (decrease) due to change in</b>		
	Average Volume	Average Rate	Total Change
Interest income			
Loans	\$ 1,299,989	\$ (80,708)	\$ 1,219,281
Federal funds sold	(10,950)	(147,403)	(158,353)
Investment securities	(259,692)	34,166	(225,526)
Other interest earning assets	3,638	(7,304)	(3,666)
Total interest income	<u>1,032,985</u>	<u>(201,249)</u>	<u>831,736</u>
Interest expense			
Interest-bearing demand	\$ 6,331	\$ (8,384)	\$ (2,053)
Savings and money market	17,743	(71,592)	(53,849)
Time under \$100,000	55,354	(36,996)	18,358
Time deposits \$100,000 or more	156,091	(20,587)	135,504
Other Borrowings	7	0	7
Total interest expense	<u>235,526</u>	<u>(137,559)</u>	<u>97,967</u>
Change in net interest income	<u>\$ 797,459</u>	<u>\$ (63,690)</u>	<u>\$ 733,769</u>

For the three months ended September 30, 2009, total interest income increased approximately \$255,000 or 38.6% compared to the three month period ended September 30, 2008. Earning asset volumes increased in loans and federal funds sold while volumes decreased in investment securities. For the nine months ended September 30, 2009, total interest income increased approximately \$832,000 or 47.3% compared to the nine month

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

period ended September 30, 2008. Earning asset volumes increased in loans while volumes decreased in federal funds sold and investment securities. The average rate earned on total average earning assets for the three month and nine month periods increased by 31 and 69 basis points, respectively.

Total interest expense increased approximately \$39,000 or 28.3% for the three months ended September 30, 2009 compared to three month period ended September 30, 2008. Between the two periods average interest-bearing liabilities increased by \$17.5 million, while the average rates paid on those liabilities decreased by 37 basis points. Total interest expense increased approximately \$98,000 or 23.5% for the nine months ended September 30, 2009 compared to nine month period ended September 30, 2008. Between the two periods average interest-bearing liabilities increased by \$15.6 million, while the average rates paid on those liabilities decreased by 48 basis points.

### *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 September 30, 2009, the provision to the allowance for loan losses amounted to \$103,000 compared to \$112,000 for the three months ended September 30, 2008. For the nine months ended September 30, 2009, the provision to the allowance for loan losses amounted to \$267,000 compared to \$273,000 for the nine months ended September 30, 2008. The amount provided to the allowance for loan losses during the first nine months brought the allowance to 1.39% of net outstanding balances at September 30, 2009, compared to 1.13% of net loans outstanding at December 31, 2008. Additionally, there are no loans which have been charged-off or loans that are on non accrual status for the nine months ended September 30, 2009 and 2008.

### *Noninterest Income*

Noninterest income for the quarter end September 30, 2009 increased by approximately \$5,000 or 17.2% over the same period in 2008. The increase from 2009 over 2008 is attributable to the increase of service charges from new accounts. Noninterest income for the nine months ended September 30, 2009 increased by \$81,000 or 60.6% over the same period in 2008. The increase from 2009 over 2008 is mostly attributable to the gain in the sale securities of \$111,000 in 2009 versus \$66,000 in 2008 and an increase in new deposit relationship resulting in additional fee income.

### *Noninterest Expense*

The Bank recognized stock-based compensation expense of \$42,000 and \$53,000 for the quarters ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009 and 2008 the Bank recognized stock based compensation of \$130,000 and \$159,000, respectively. This expense is included in noninterest expense under salaries and employee benefits.

The significant components of other expense includes supplies, insurance, regulatory fees and loan expenses which for the quarter ended September 30 were approximately \$10,000, \$15,000, \$28,000 and \$9,000 respectively, in 2009 and \$8,000 and \$15,000, \$12,000 and \$11,000 respectively, in 2008. For the nine months ended September 30, 2009 these same

## BANK OF NAPA, N.A.

significant components were \$28,000, \$44,000, \$90,000 and \$27,000, respectively and \$24,000, \$41,000, \$42,000 and \$28,000 respectively, in 2008. The increase in FDIC insurance of \$42,000 or 114.3% for the nine months ending September 30, 2009 compared to the same period in 2008 is attributable to the one-time special assessment of 5 basis points imposed by the FDIC to all financial institutions. This assessment was calculated based on total assets less Tier I capital as of June 30, 2009.

Data processing fees increased by \$9,000 for the quarter-end September 30, 2009 compared to the same period in 2008, an increase of 13.4% and \$30,000 or 15.2% for the nine months ended September 30, 2009 compared to the same period in 2008. The increase is attributable to volume increase in the number of accounts for the Bank.

### *Capital Adequacy*

The Bank's capital adequacy ratios at September 30, 2009 and December 31, 2008 are presented in the following table. The ratios at September 30, 2009 as compared to December 31, 2008, declined, typical of de novo institutions. This is primarily due to the expected net loss the Bank incurred in the first nine months of 2009.

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".

	Amount of Capital Required					
	Actual		To Be Adequately Capitalized		To Be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of September 30, 2009</b>						
Total capital to risk-weighted assets	\$ 17,144	26.7%	\$ 5,137	8.0%	\$ 6,421	10.0%
Tier 1 capital to risk-weighted assets	\$ 16,349	25.5%	\$ 2,568	4.0%	\$ 3,853	6.0%
Tier 1 capital to average assets	\$ 16,349	24.3%	\$ 2,811	4.0%	\$ 3,514	5.0%
<b>As of December 31, 2008</b>						
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%

### *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

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

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 September 30, 2009 the Bank had approximately \$11.1 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 or the FRB.

### *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 September 30, 2009 the Bank had undisbursed loan commitments of \$12.4 million and \$12.4 million as of September 30, 2008. These commitments, to the extent used, are expected to be funded through repayment of existing loans and normal deposit growth. As of September 30, 2009 the Bank has allocated \$29,000 in reserve for the undisbursed loan commitments included in other liabilities.

## **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 Submission of Matters to a Vote of Security Holders**

None

#### **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: November 9, 2009

/s/M. Thomas LeMasters

M. Thomas LeMasters, President and CEO

Date: November 9, 2009

/s/Carmela D. Johnson

Carmela D. Johnson, Interim Chief Financial Officer and Interim Principal 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.	23
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	24
32	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	25

## 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 annual report on Form 10-K of Bank of Napa (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: November 9, 2009

*/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, Carmela D. Johnson, Interim Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Bank of Napa (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: November 9, 2009

*/s/ Carmela D. Johnson*  
Carmela D. Johnson  
Interim 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 September 30, 2009, 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: November 9, 2009

/s/ Carmela D. Johnson

Carmela D. Johnson  
Interim 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.