



BANK OF NAPA, N.A.

October 22, 2008

Dear Fellow Bank of Napa Shareholder,

Despite unprecedented and historic tumult in our national economy, we are pleased to tell you that our bank experienced significant growth in the third quarter of 2008. The bank's total deposits at September 30, 2008 were \$43.6 million, an increase from the same period last year of \$22.0 million. Loan balances at the end of the third quarter of 2008 were \$38.6 million, which is an increase of \$32.9 million. Bank of Napa had total assets of \$60.8 million at September 30, 2008, representing a \$20.4 million or 50.6% increase since September 30, 2007.

In the third quarter of 2008, the bank reported a net loss of \$320,000, an improvement of \$296,000 over the \$616,000 loss incurred in the third quarter of 2007. Through the first nine months of 2008, the bank's net loss was \$1,089,000, a 30.9% improvement over the first nine months of 2007. At September 30, 2008, the bank had equity capital of \$17.0 million, and all capital ratios were in excess of the regulatory definition for a "well capitalized" designation.

In last quarter's letter to shareholders, we stated that we were pleased with our balance sheet growth, the diversity of our loan portfolio, and our financial position as measured by our equity capital, liquidity, and credit quality. We continue to hold this view; particularly the loan and deposit growth we have achieved to-date, and our progress towards our goal of profitability. We can take a small measure of pride in noting that our third quarter loss was almost half of that experienced in the third quarter of 2007. Our bank is meeting budgeted expectations, and we are making progress towards attaining profitability commensurate with our strategic plan. Bank of Napa's balance sheet, capital level, and liquidity are sound.

In terms of our national economy, 2008 will be characterized as "one for the history books". The dramatic events began in March when the Federal Reserve orchestrated a deal with JP Morgan for the purchase of Bear Stearns Company. In July, the FDIC seized IndyMac Bank creating consumer concern as to the safety of their deposits. In September, both Fannie Mae and Freddie Mac were taken over by the US Treasury. These government sponsored entities held or guaranteed about half of our nation's mortgage loans. Shortly thereafter, Lehman Brothers succumbed to bankruptcy, and Merrill Lynch promptly agreed to an acquisition by Bank of America. AIG, one of the country's largest insurers asked for and received an \$85 billion loan from the Federal Reserve. To conclude the third quarter, Washington Mutual failed, and was quickly acquired by JP Morgan Chase; and Wells Fargo acquired the ailing Wachovia.

With these events as the backdrop, our bank was very busy addressing customer questions and concerns, the majority of which centered on FDIC Insurance. Fortunately, we have a team of experienced bankers who understand FDIC Insurance, and are keeping abreast of the enhancements. We promptly initiated a bank-wide training session so that all of our employees could provide advice and counsel to those who asked. The results were very satisfying, as we doubled the number of accounts we typically open during the quarter.

The most recent edition of *Current Interest*, the bank's electronic newsletter, contains helpful examples of how FDIC Insurance can be applied. Finally, as we did last quarter, we have enclosed more detailed financial information for your review. If you have questions about our bank, FDIC insurance coverage or wish to be included on our e-mail list, please give us a call. We thank you for your continued support, and look forward to serving you as a customer of Bank of Napa.

Sincerely,

Richard N. Anderson

Chairman of the Board

M. Thomas LeMasters

President & Chief Executive Officer



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Third Quarter Report - September 30, 2008

**Balance Sheet
 (Unaudited)**

| | <u>September 30,</u> | |
|---|----------------------|----------------------|
| | 2008 | 2007 |
| Assets | | |
| Cash and due from banks | \$ 4,578,000 | \$ 1,301,000 |
| Federal funds sold | 5,110,000 | 19,600,000 |
| Investment securities | 10,874,000 | 11,931,000 |
| Total loans | 38,564,000 | 5,642,000 |
| Less: allowance for loan losses | 384,000 | 57,000 |
| Net Loans | 38,180,000 | 5,585,000 |
| Premises and equipment, net | 886,000 | 1,023,000 |
| Other assets and interest receivable | 1,158,000 | 923,000 |
| Total Assets | \$ 60,786,000 | \$ 40,363,000 |
| Liabilities and Shareholders' Equity | | |
| Demand deposits | \$ 10,580,000 | \$ 5,384,000 |
| Interest checking | 3,168,000 | 2,294,000 |
| Savings | 841,000 | 838,000 |
| Money market | 19,301,000 | 8,338,000 |
| Time deposits | 9,714,000 | 4,707,000 |
| Total deposits | 43,604,000 | 21,561,000 |
| Other liabilities and interest payable | 219,000 | 238,000 |
| Total liabilities | 43,823,000 | 21,799,000 |
| Common stock | 11,442,000 | 11,441,000 |
| Surplus | 11,761,000 | 11,570,000 |
| Accumulated other comprehensive income | (84,000) | 19,000 |
| Accumulated Deficit | (5,067,000) | (3,041,000) |
| Net loss year-to-date | (1,089,000) | (1,425,000) |
| Total shareholders' equity | 16,963,000 | 18,564,000 |
| Total liabilities and equity | \$ 60,786,000 | \$ 40,363,000 |

Selected Ratios

| | <u>September 30,</u> | |
|-------------------------------|----------------------|-------------|
| | 2008 | 2007 |
| Book value per share | \$7.41 | \$8.11 |
| Earnings per share | (\$0.48) | (\$0.62) |
| Return on average assets | -2.76% | -5.76% |
| Return on average equity | -8.34% | -9.87% |
| Net interest margin | 3.68% | 3.58% |
| Efficiency ratio | 155.18% | 241.15% |
| Equity to assets | 27.91% | 45.99% |
| Nonperforming loans to assets | 0.00% | 0.00% |
| Loan to deposit ratio | 88.44% | 25.90% |
| Loan loss reserve to loans | 1.00% | 1.01% |

**Statement of Operations
 (Unaudited)**

| | <u>September 30,</u> | |
|--|-----------------------|-----------------------|
| | 2008 | 2007 |
| Interest and fees on loans | \$ 521,000 | \$ 66,000 |
| Interest on investments and fed funds | 138,000 | 411,000 |
| Total interest income | 659,000 | 477,000 |
| Deposit interest expense | 138,000 | 145,000 |
| Net interest income | 521,000 | 332,000 |
| Other operating income | 31,000 | 11,000 |
| Salaries and benefits | 423,000 | 548,000 |
| FF&E and occupancy expense | 115,000 | 114,000 |
| Other | 222,000 | 286,000 |
| Total operating expenses | 760,000 | 948,000 |
| Loss before provision and income taxes | (208,000) | (605,000) |
| Provision for loan losses | 112,000 | 10,000 |
| Provision for income taxes | - | 1,000 |
| Net loss | \$ (320,000) | \$ (616,000) |
| Net loss per share | \$ (0.14) | \$ (0.27) |
| September 30, 2008 | | |
| Interest and fees on loans | \$ 1,124,000 | \$ 200,000 |
| Interest on investments and fed funds | 636,000 | 1,074,000 |
| Total interest income | 1,760,000 | 1,274,000 |
| Deposit interest expense | 417,000 | 308,000 |
| Net interest income | 1,343,000 | 966,000 |
| Other operating income | 134,000 | 23,000 |
| Salaries and benefits | 1,270,000 | 1,358,000 |
| FF&E and occupancy expense | 344,000 | 331,000 |
| Other | 678,000 | 696,000 |
| Total operating expenses | 2,292,000 | 2,385,000 |
| Loss before provision and income taxes | (815,000) | (1,396,000) |
| Provision for loan losses | 273,000 | 27,000 |
| Provision for income taxes | 1,000 | 2,000 |
| Net loss | \$ (1,089,000) | \$ (1,425,000) |
| Net loss per share | \$ (0.48) | \$ (0.62) |

Member
 FDIC

