

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 June 30, 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 June 30, 2010.

# BANK OF NAPA, N.A.

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

**CONDENSED STATEMENTS OF CONDITION**

**June 30, 2010 and December 31, 2009**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>	(unaudited)	
Cash and due from banks	\$ 3,875,137	\$ 5,260,064
Federal funds sold	5,200,000	7,080,000
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	9,075,137	12,340,064
Investment securities, available-for-sale	12,128,955	7,207,890
Loans, net of deferred costs	67,170,489	63,403,209
Allowance for loan losses	(1,107,500)	(954,000)
Loans, net	66,062,989	62,449,209
Premises and equipment, net	611,263	684,111
Correspondent bank stock, at cost	881,643	845,602
Accrued interest receivable and other assets	779,400	739,338
<b>TOTAL ASSETS</b>	\$ 89,539,387	\$ 84,266,214
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing demand	\$ 13,512,443	\$ 12,480,904
Interest bearing demand	7,415,324	7,114,476
Money market	22,645,144	25,444,962
Savings	1,489,024	1,593,691
Time, less than \$100,000	8,425,651	7,894,284
Time, \$100,000 or more	19,287,820	12,987,719
<b>TOTAL DEPOSITS</b>	72,775,406	67,516,036
Accrued interest payable and other liabilities	306,310	363,313
<b>TOTAL LIABILITIES</b>	73,081,716	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	12,021,533	11,975,636
Accumulated deficit	(7,189,263)	(7,152,426)
Accumulated other comprehensive income	183,168	121,422
<b>TOTAL STOCKHOLDERS' EQUITY</b>	16,457,671	16,386,865
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ 89,539,387	\$ 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 and Six Months Ended June 30, 2010 and 2009**  
**(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>INTEREST AND DIVIDEND INCOME</b>				
Interest and fees on loans	\$ 946,602	\$ 801,225	\$ 1,857,615	\$ 1,513,564
Interest on investment securities	97,496	69,227	171,807	146,798
Interest on federal funds sold	1,976	480	3,286	677
Interest on money market deposits	2,493	-	4,959	-
Dividend income	7,572	7,661	16,338	16,389
<b>TOTAL INTEREST AND DIVIDEND INCOME</b>	1,056,139	878,593	2,054,005	1,677,428
<b>INTEREST EXPENSE</b>				
Interest on deposits	147,360	171,815	302,260	337,702
Interest on other borrowings	-	-	-	7
<b>TOTAL INTEREST EXPENSE</b>	147,360	171,815	302,260	337,709
<b>NET INTEREST INCOME</b>	908,779	706,778	1,751,745	1,339,719
Provision for loan losses	39,000	64,000	153,500	164,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	869,779	642,778	1,598,245	1,175,719
<b>NONINTEREST INCOME</b>				
Gain on sale of securities	-	-	4,132	111,250
Service charges and other noninterest income	56,382	34,057	116,755	67,253
<b>TOTAL NONINTEREST INCOME</b>	56,382	34,057	120,887	178,503
<b>NONINTEREST EXPENSE</b>				
Salaries and benefits	475,640	445,418	961,372	931,547
Occupancy expense	124,176	118,006	244,840	233,601
Data processing expense	78,864	82,448	162,430	149,993
Professional services	63,444	54,205	142,261	127,758
Marketing	22,072	5,401	31,973	23,278
Other expenses	104,849	106,885	212,293	219,407
<b>TOTAL NONINTEREST EXPENSE</b>	869,045	812,363	1,755,169	1,685,584
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	57,116	(135,528)	(36,037)	(331,362)
Income taxes	-	-	800	800
<b>NET INCOME (LOSS)</b>	\$ 57,116	\$ (135,528)	\$ (36,837)	\$ (332,162)
<b>NET INCOME (LOSS) PER SHARE - BASIC</b>	\$ 0.02	\$ (0.06)	\$ (0.02)	\$ (0.15)
<b>NET INCOME (LOSS) PER SHARE - DILUTIVE</b>	\$ 0.02	N/A	N/A	N/A

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 Six Month Period Ending June 30, 2010, (unaudited)**

Comprehensive Income (Loss)	Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
<b>Balance at December 31, 2009</b>	2,288,884	\$11,442,233	\$ 11,975,636	\$ (7,152,426)	\$ 121,422	\$ 16,386,865
Stock-Based Compensation	-		45,897			45,897
Comprehensive income:						
Net Loss	(36,837)			(36,837)		(36,837)
Other comprehensive income:						
Unrealized holding (loss)/gain on securities available- for-sale arising during the year	65,877				65,878	65,878
Less: reclassification adjustment for gain included in net income	(4,132)				(4,132)	(4,132)
<b>Total Comprehensive Income</b>	<u>\$ 24,908</u>					
<b>Balance at June 30, 2010</b>	<u>2,288,884</u>	<u>\$11,442,233</u>	<u>\$ 12,021,533</u>	<u>\$ (7,189,263)</u>	<u>\$ 183,168</u>	<u>\$ 16,457,671</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 Six Month Period Ending June 30, 2010 and 2009**  
**(unaudited)**

	<b>2010</b>	<b>2009</b>
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (36,837)	\$ (332,162)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	78,351	87,091
Amortization and accretion on securities	27,139	25,468
Gain on sale of securities available-for-sale	(4,132)	(111,250)
Provision for loan losses	153,500	164,000
Stock based compensation expense	45,898	88,267
Net change in accrued interest receivable and other assets	(40,062)	(12,500)
Net change in accrued interest payable and other liabilities	(57,003)	74,052
<b>NET CASH FROM (USED BY) OPERATING ACTIVITIES</b>	<b>166,854</b>	<b>(17,034)</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of securities available-for-sale	(6,695,890)	(2,447,856)
Proceeds of matured, sold and called securities available-for-sale	1,813,564	4,738,205
Net change in loans	(3,767,279)	(7,614,678)
Purchase of premises and equipment	(5,503)	(8,755)
(Purchase) of correspondent bank stock	(36,043)	(412)
<b>NET CASH FROM (USED BY) INVESTING ACTIVITIES</b>	<b>(8,691,151)</b>	<b>(5,333,496)</b>
<b>FINANCING ACTIVITIES</b>		
Net changes in demand, money market and savings deposits	(1,572,097)	5,859,842
Net changes in time deposits	6,831,468	5,402,086
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>5,259,371</b>	<b>11,261,928</b>
	(3,264,927)	5,911,398
Cash and cash equivalents at beginning of year	12,340,064	3,678,377
Cash and cash equivalents at end of the period	<b>\$ 9,075,137</b>	<b>\$ 9,589,775</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 348,247	\$ 264,788
Income taxes paid	\$ 800	\$ 800
<b>Supplemental disclosure of noncash activities:</b>		
Net change in unrealized gains and losses on available-for-sale securities	\$ (61,745)	\$ (155,318)

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 June 30, 2010 and for the three and six months ended June 30, 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. As of June 30, 2010 and December 31, 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 June 30, 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 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 results of operations and the corresponding establishment of a new cost basis for the security. Amortization of premiums and accretion of discounts on debt securities are included in interest income over the life of the related security held-to-maturity or available-for-sale using the effective interest method. Dividend and interest income are recognized when earned.

## BANK OF NAPA, N.A.

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

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 income (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 June 30, 2010 and December 31, 2009, the Bank held stock in the FHLB totaling \$336,100 and \$294,400, respectively. 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 June 30, 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 and second quarters of 2010 at a rate of .27% and .26% respectively.

The Bank is also member of the FRB. As of June 30, 2010 and December 31, 2009, the Bank held stock in the FRB totaling \$492,000 and \$498,000, respectively. FRB stock is carried at cost, classified as a restricted security, and cash dividends are reported as income. FRB paid a dividend in the second quarter of 2010 at a rate of 6%.

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 June 30, 2010 and 2009 the Bank recognized no interest and penalties.

The Bank had no unrecognized tax benefits at June 30, 2010 or December 31, 2009.

*Net Income (Loss) Per Common Share*- Basic net income (loss) per share amounts are computed by dividing net income (loss) available to stockholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which share in the earnings of the Bank. The treasury stock method is applied to determine the dilutive effect of stock options when computing diluted earnings per share. However, dilutive earnings per share amounts are not presented when a net loss occurs because the conversion of potential common stock is anti-dilutive. For the quarter and six months ended June 30, 2010, 125,500 and 119,500 options, respectively, were anti-dilutive and excluded from the computations.

#### ***Recent Accounting Pronouncements-***

##### ***ASU 2010-20, Receivables (Topic 310) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses***

This ASU requires significant new disclosures about the allowance for credit losses and the credit quality of financing receivables. The requirements are intended to enhance transparency regarding credit losses and the credit quality of loan and lease receivables. Under this statement, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables and nonaccrual status are to be presented by class of financing receivable. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. This ASU is effective for interim and annual reporting periods after December 15, 2010. The Bank will include these disclosures in the notes to the financial statements beginning in the fourth quarter of 2010 as applicable.

##### ***(ASU 2010-18, Effect of a Loan Modification When the Loan is Part of a Pool Accounted for as a Single Asset (Topic 310)***

This ASU codifies the consensus reached in Emerging Issues Task Force ("EITF") Issue No. 09-I, "Effect of a Loan Modification When the Loan is Part of a Pool Accounted for

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

as a Single Asset.” The amendments to the FASB Accounting Standards Codification (the “Codification” or “ASC”) provide that modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. ASU 2010-18 does not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40.

ASU 2010-18 is effective prospectively for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. Early application is permitted. Upon initial adoption of ASU 2010-18, an entity may make a one-time election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. We do not expect this ASU to have an impact on our financial condition or results of operations.

### ***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 Bank on January 1, 2010 with no material impact on its financial statements.

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

At June 30, 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 June 30, 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 stockholders' 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

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 June 30, 2010 are shown below.

	June 30, 2010	
	Amortized Cost	Fair Value
	(\$ in thousands)	
Due in one year or less	\$ 2,745,283	\$ 2,775,122
Due from one year to five years	8,211,532	8,302,353
Due from five years to ten years	988,972	1,051,480
Due after ten years	-	-
	<u>\$ 11,945,787</u>	<u>\$ 12,128,955</u>

**BANK OF NAPA, N.A.**  
**NOTE 3 - INVESTMENT SECURITIES - Continued**

The amortized cost and fair value of investment securities by security type at June 30, 2010 and December 31, 2009 are shown below.

June 30, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government agency securities	\$ 3,528,874	\$ 65,970	\$ -	\$ 3,594,844
Municipal securities	6,838,863	113,659	(9,836)	6,942,686
Corporate securities	1,578,050	13,375	-	1,591,425
	\$ 11,945,787	\$ 193,004	\$ (9,836)	\$ 12,128,955
December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government agency securities	\$ 2,540,295	\$ 75,643	\$ -	\$ 2,615,938
Municipal securities	4,546,173	48,756	(2,976)	4,591,953
	\$ 7,086,468	\$ 124,398	\$ (2,976)	\$ 7,207,890

During the six months ended June 30, 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 June 30, 2010 and December 31, 2009 are as follows:

Loan category	June 30, 2010		December 31, 2009	
	Amount	Percent of Total	Amount	Percent of Total
Agricultural Loans	\$ 575,250	0.9%	\$ 570,750	0.9%
Construction and land development	2,862,282	4.3%	2,582,419	4.1%
Commercial	16,577,809	24.8%	16,405,134	26.0%
Real Estate	46,342,509	69.3%	43,064,411	68.2%
Installment and other	504,102	0.8%	492,579	0.8%
Total Gross Loans	<u>66,861,952</u>	100%	<u>63,115,293</u>	100%
Deferred loan fees and costs, net	308,537		287,916	
Allowance for loan losses	<u>(1,107,500)</u>		<u>(954,000)</u>	
Net Loans	<u>\$ 66,062,989</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

	For the Six Months Ended	
	June 30, 2010	June 30, 2009
<b>Allowance for loan losses:</b>		
Balance at the beginning of the period	\$ 954,000	\$ 528,000
Loans charged off	-	-
Recoveries	-	-
Provisions	153,500	164,000
Balance at the end of the period	<u>\$ 1,107,500</u>	<u>\$ 692,000</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 June 30, 2010 and June 30, 2009, the Bank had \$104,000 and \$0, respectively, in non-accrual loans. Impaired loan balances totaled \$104,000 and \$0 at June 30, 2010 and June 30, 2009, respectively. A specific valuation allowance of \$104,000 and \$0 was made against impaired loans as of June 30, 2010 and June 30, 2009, respectively. Generally, we charge off our estimated losses related to specifically-identified impaired loans as losses are identified. The charged off portion of impaired loans was \$0 for periods ending June 30, 2010 and June 30, 2009.

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**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.

	June 30, 2010	December 31, 2009
Leasehold improvements	\$ 721,440	\$ 721,440
Furniture, fixtures, and equipment	358,048	353,365
Data processing & computers	171,169	170,350
	<u>1,250,657</u>	<u>1,245,155</u>
Less: Accumulated depreciation and amortization	(639,394)	(561,044)
	<u>\$ 611,263</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 June 30, 2010 and December 31, 2009, the Bank has a 100% valuation allowance equal to the amount of its net deferred tax asset.

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**NOTE 7 - Net Income (Loss) Per Common Share**

Basic income (loss) per common share is calculated by dividing net income (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. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which share in the earnings of the Bank. The treasury stock method is applied to determine the dilutive effect of stock options when computing diluted earnings per share. As of June 30, 2010 and June 30, 2009 there were 150,000 shares and 215,000 shares, respectively, outstanding in employee stock options. Under the treasury stock method for the three months ended June 30, 2010, there were 24,500 dilutive securities respectively.

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Net income (loss)	\$ 57,116	\$ (135,528)	\$ (36,837)	\$ (332,162)
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	24,500	-	-	-
Total average shares and equivalents	<u>2,313,384</u>	<u>2,288,884</u>	<u>2,288,884</u>	<u>2,288,884</u>
Basic EPS	\$ 0.02	\$ (0.06)	\$ (0.02)	\$ (0.15)
Diluted EPS	\$ 0.02	N/A	N/A	N/A

**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 June 30, 2010 is summarized below:

Aggregate amount outstanding, December 31, 2009	\$2,443,930
New loans or advances during the period	458,950
Repayments during period	922,743
Reduction in principal due to director retirements	171,665
Aggregate amount outstanding, June 30, 2010	<u>\$1,808,472</u>
Loan commitments	<u>\$2,877,351</u>
Related party deposits	<u>\$781,679</u>

**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 June 30, 2010 and December 31, 2009 are as follows:

	<b>June 30, 2010</b>	
	<u>Carrying Value</u>	<u>Fair Value</u>
<b>Financial Assets:</b>		
Cash and Due From Banks	\$ 3,875,137	\$ 3,875,137
Federal Funds Sold	5,200,000	5,200,000
Investment Securities	12,128,955	12,128,955
Loans	67,170,489	68,192,027
Correspondent bank stock, at cost	881,643	881,643
Interest receivable	381,585	381,585
<b>Financial Liabilities:</b>		
Deposits	\$ 72,775,406	\$ 72,874,431
Interest payable	129,080	129,080
	<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***

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

#### ***Investment 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. As of June 30, 2010 and December 31, 2009 there was no indication that FHLB or FRB stock was impaired.

#### ***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 June 30, 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.

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

Description	Fair Value June 30, 2010	Fair Value Measurements at June 30, 2010, Using		
		Quoted Prices in Active Markets Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U.S. Government agencies	\$ 3,594,844	\$ -	\$ 3,594,844	\$ -
Obligations of states and political subdivision	6,942,685		6,942,685	
Corporate debt	1,591,426		1,591,426	
Total assets measured at fair value	<u>\$ 12,128,955</u>	<u>\$ -</u>	<u>\$ 12,128,955</u>	<u>\$ -</u>

*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)
Obligations of U.S. Government agencies	\$ 2,615,938	\$ -	\$ 2,615,938	\$ -
Obligations of states and political subdivision	4,591,952		4,591,952	
Total assets measured at fair value	<u>\$ 7,207,890</u>	<u>\$ -</u>	<u>\$ 7,207,890</u>	<u>\$ -</u>

## **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 June 30, 2010 were \$72.8 million, an increase from the same period last year of \$17.8 million or 32.4%. Loan balances at the end of the second quarter of 2010 were \$67.2 million, an increase of \$12.9 million or 23.8% from the same period last year. The Bank had total assets of \$89.5 million at June 30, 2010, representing a \$17.6 million or 24.5% increase since June 30, 2009.

For the three months ended June 30, 2010, the Bank reported net income of \$57,000 or \$.02 per share compared to a net loss of \$136,000 or \$.06 per share for the three months ended June 30, 2009. The improvement of \$193,000 is attributable mostly to the increase in the net interest income of \$202,000 or 28.6%.

For the six months ended June 30, 2010, the Bank reported a net loss of \$37,000 or \$.02 per share compared to a loss of \$332,000 or \$.15 per share for the six months ended June 30, 2009. The improvement of 89.0% in the first six months of 2010 over the same period in 2009 is attributable mostly to balance sheet growth and the commensurate increase in net interest income of \$412,000 or 30.8%.

#### 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.

## BANK OF NAPA, N.A.

For the quarter ended June 30, 2010, the Bank's net interest income before provision for loan losses was \$909,000 compared to \$707,000 for the same period in 2009. Interest income on loans increased to \$947,000 for the period ended June 30, 2010 compared to \$801,000 for the three months ended June 30, 2009, an increase of \$146,000. The Bank increased income on debt securities by \$28,000 from \$69,000 to \$97,000 for the three months ended June 30, 2010. The Bank's interest expense decreased from \$172,000 to \$147,000. Interest expense decreased even though average interest bearing liabilities increased \$18.8 million. The reduction in interest expense was due to a reduction in the cost of deposits for the three months ended June 30, 2010.

The Bank's net interest margin as shown in Table 1 was 4.41% for the three months ended June 30, 2010. The net interest margin was 4.58% for the three months ended June 30, 2009. The net interest margin decreased due to the increase in average balances of lower yielding assets such as correspondent bank balances and federal funds sold and lower yields on loans and securities.

For the six months ended June 30, 2009 the net interest margin decreased 7 basis points from 4.50% to 4.43%. The margin has held fairly steady despite lower yields on loans and deposits due to reducing the Bank's cost of funds. The margin was also adversely affected by increasing balances in lower yielding assets such as fed funds sold and correspondent bank balances in an effort to increase the percentage of interest bearing assets and subsequently the Bank's net income.

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

	<u>Three Months Ended</u>					
	<u>June 30, 2010</u>			<u>June 30, 2009</u>		
	<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	\$ 65,397,652	5.81%	\$ 946,602	\$ 53,443,266	6.01%	\$ 801,225
Federal Funds Sold	3,184,341	0.25%	1,976	964,670	0.20%	480
Correspondent Banks	2,000,083	0.50%	2,493	-	0.00%	-
Debt Securities (1)	11,276,275	3.42%	97,496	6,688,372	4.09%	69,227
Other Securities (1)	869,183	3.45%	7,572	856,938	3.54%	7,661
<b>Total Interest Earning Assets</b>	<u>82,727,534</u>	<u>5.12%</u>	<u>1,056,139</u>	<u>61,953,246</u>	<u>5.69%</u>	<u>878,593</u>
<b>Non-Interest Earning Assets:</b>						
Cash and Due From Banks	7,807,717			7,546,253		
All Other Assets	443,644			570,403		
<b>Total Assets</b>	<u>\$ 90,978,895</u>			<u>\$ 70,069,902</u>		
<b>Liabilities and Equity</b>						
<b>Interest Bearing Liabilities:</b>						
Interest-bearing demand	7,495,980	0.15%	2,807	5,051,741	0.32%	3,987
Money Market	24,098,112	0.68%	40,982	16,826,999	1.29%	53,978
Savings	1,459,935	0.10%	346	1,740,782	0.61%	2,651
CDs < \$100K	8,142,731	1.37%	27,778	6,775,153	2.37%	39,998
CDs > \$100K	18,865,414	1.60%	75,447	10,859,902	2.63%	71,201
<b>Total Interest Bearing Liabilities</b>	<u>60,062,172</u>	<u>0.98%</u>	<u>147,360</u>	<u>41,254,577</u>	<u>1.67%</u>	<u>171,815</u>
<b>Non-Interest Bearing Liabilities:</b>						
Non-Interest Bearing Demand	14,281,862			11,523,298		
Other Liabilities	288,743			331,683		
Stockholders' Equity	16,346,118			16,960,344		
<b>Total Liabilities and Equity</b>	<u>\$ 90,978,895</u>			<u>\$ 70,069,902</u>		
<b>Net Interest Margin / Net Interest Income</b>		4.41%	\$ 908,779		4.58%	\$ 706,778

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	June 30, 2010		Six Months Ended		June 30, 2009	
	Average Balance	Yield / Cost	Income / Expense	Average Balance	Yield / Cost	Income / Expense
<b>Assets</b>						
<b>Interest Earning Assets:</b>						
Loans, gross	\$ 64,436,151	5.81%	\$ 1,857,615	\$ 50,894,472	6.00%	\$ 1,513,564
Federal Funds Sold	2,733,425	0.24%	3,286	631,022	0.22%	677
Correspondent Banks	2,000,073	0.50%	4,959	-	0.00%	-
Debt Securities (1)	9,779,804	3.49%	171,807	7,641,527	3.82%	146,798
Other Securities (1)	857,837	3.79%	16,338	857,444	3.80%	16,389
<b>Total Interest Earning Assets</b>	<b>79,807,290</b>	<b>5.19%</b>	<b>2,054,005</b>	<b>60,024,465</b>	<b>5.64%</b>	<b>1,677,428</b>
<b>Non-Interest Earning Assets:</b>						
Cash and Due From Banks	8,851,540			6,682,030		
All Other Assets	520,536			704,720		
<b>Total Assets</b>	<b>\$ 89,179,366</b>			<b>\$ 67,411,215</b>		
<b>Liabilities and Equity</b>						
<b>Interest Bearing Liabilities:</b>						
Interest-bearing demand	7,388,192	0.16%	5,897	4,872,110	0.35%	8,377
Money Market	24,233,724	0.72%	86,331	16,890,616	1.39%	116,203
Savings	1,399,077	0.10%	691	1,490,667	0.53%	3,945
CDs < \$100K	8,038,816	1.55%	61,670	5,943,169	2.47%	72,842
CDs > \$100K	17,619,873	1.69%	147,671	10,025,279	2.74%	136,335
<b>Total Interest Bearing Deposits</b>	<b>58,679,682</b>	<b>1.04%</b>	<b>302,260</b>	<b>39,221,841</b>	<b>1.74%</b>	<b>337,702</b>
Other Borrowings	-	0.00%	-	2,210	0.64%	7
<b>Total Interest Bearing Liabilities</b>	<b>58,679,682</b>	<b>1.04%</b>	<b>302,260</b>	<b>39,224,051</b>	<b>1.74%</b>	<b>337,709</b>
<b>Non-Interest Bearing Liabilities:</b>						
Non-Interest Bearing Demand	13,827,309			11,091,134		
Other Liabilities	317,447			321,277		
Stockholders' Equity	16,354,928			16,774,753		
<b>Total Liabilities and Equity</b>	<b>\$ 89,179,366</b>			<b>\$ 67,411,215</b>		
<b>Net Interest Margin / Net Interest Income</b>		<b>4.43%</b>	<b>1,751,745</b>		<b>4.50%</b>	<b>1,339,719</b>

(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

	<b>Three Months Ended</b>		
	<b>June 30, 2010 compared to June 30, 2009</b>		
	<b>Increase (decrease) due to change in</b>		
	Average Volume	Average Rate	Total Change
Interest income			
Loans	\$ 172,960	\$ (27,583)	\$ 145,377
Federal funds sold	1,378	118	1,496
Correspondent Banks	2,493	0	2,493
Investment securities	39,481	(11,212)	28,269
Other interest earning assets	102	(191)	(89)
Total interest income	<u>216,414</u>	<u>(38,868)</u>	<u>177,546</u>
Interest expense			
Interest-bearing demand	910	(2,090)	(1,180)
Savings and money market	11,231	(26,532)	(15,301)
Time under \$100,000	4,619	(16,839)	(12,220)
Time deposits \$100,000 or more	31,940	(27,694)	4,246
Total interest expense	<u>48,700</u>	<u>(73,155)</u>	<u>(24,455)</u>
Change in net interest income	<u>\$ 167,714</u>	<u>\$ 34,287</u>	<u>\$ 202,001</u>
	<b>Six Months Ended</b>		
	<b>June 30, 2010 compared to June 30, 2009</b>		
	<b>Increase (decrease) due to change in</b>		
	Average Volume	Average Rate	Total Change
Interest income			
Loans	\$ 386,315	\$ (42,264)	\$ 344,051
Federal funds sold	2,525	84	2,609
Correspondent Banks	4,959	0	4,959
Investment securities	36,629	(11,620)	25,009
Other interest earning assets	(82)	31	(51)
Total interest income	<u>430,346</u>	<u>(53,769)</u>	<u>376,577</u>
Interest expense			
Interest-bearing demand	1,997	(4,477)	(2,480)
Savings and money market	24,445	(57,572)	(33,127)
Time under \$100,000	15,950	(27,123)	(11,173)
Time deposits \$100,000 or more	63,417	(52,079)	11,338
Other Borrowings	(7)	0	(7)
Total interest expense	<u>105,802</u>	<u>(141,251)</u>	<u>(35,449)</u>
Change in net interest income	<u>\$ 324,544</u>	<u>\$ 87,482</u>	<u>\$ 412,026</u>

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

For the three months ended June 30, 2010, net interest income increased by \$202,000 from the same period in 2009. The increase in net interest income is largely attributable to volume increases in assets. Specifically, interest income on loan volume increased \$173,000 and interest income on investment security volume increased \$39,000. Net interest income also benefited from a reduction in the rate paid on interest bearing liabilities of \$73,000. Partially, offsetting these increases were reductions in the yield on assets of \$39,000 and increases in the volume of interest bearing liabilities of \$49,000.

For the six months ended June 30, 2010 net interest income increased \$412,000. Interest income grew due to the growth in the Bank's balance sheet and the commensurate increases in interest income. The increase is primarily attributable to increases in loan interest income volume of \$386,000 year over year. The Bank also benefited from volume increases in the securities portfolio of \$37,000. Lastly, the bank incurred \$106,000 in additional interest expense due to the Bank's deposit growth. The growth was more than offset by decreases in the rates paid on deposits of \$141,000.

### *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 June 30, 2010, the provision to the allowance for loan losses amounted to \$39,000 compared to \$64,000 for the three months ended June 30, 2009. For the six months ended June 30, 2010, the provision to the allowance for loan losses amounted to \$154,000 compared to \$164,000 for the six months ended June 30, 2009. The amount provided to the allowance for loan losses during the first six months brought the allowance to 1.65% of net outstanding balances at June 30, 2010, compared to 1.50% of net loans outstanding at December 31, 2009. As of June 30, 2010 and December 31, 2009 the Bank held \$5,049,000 and \$4,498,000 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 1.78% and 1.62%, as of June 30, 2010 and December 31, 2009 respectively. Additionally, there are no loans which have been charged-off for the three months ended June 30, 2010 or 2009. There is one loan for \$104,000 on non-accrual status for the three months ended June 30, 2010 and there were no loans on non-accrual status for the three months ended June 30, 2009.

### *Noninterest Income*

Noninterest income for the quarter ending June 30, 2010 increased by \$22,000 or 65.6% over the same period in 2009 due to increases in bank deposits and corresponding increases in the volume of service charges.

For the six months ended June 30, 2010 noninterest income decreased by \$58,000. 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 which was partially offset by increases in deposit account service charges of \$50,000.

## BANK OF NAPA, N.A.

### *Noninterest Expense*

Non-interest expenses modestly increased \$57,000 for the three months ended June 30, 2010 by 7% from the same period in 2009. For the six months ended June 30, 2010 noninterest expenses increased \$70,000 or 4%. The Bank recognized stock-based compensation expense of \$23,000 and \$41,000 for the quarters ended June 30, 2010 and 2009, respectively. This expense is included in non-interest expense under salaries and employee benefits. For the six months ended June 30, 2010 and 2009 the Bank recognized \$46,000 and \$88,000 in stock-based compensation expense.

The significant components of other expense includes supplies, insurance and regulatory fees which for the three months ended June 30 were approximately \$13,000, \$15,000 and \$41,000 respectively, in 2010 and \$8,000 and \$14,000 and \$44,000 respectively, in 2009. For the six months ended June 30, 2010 these same significant components were \$27,000, \$30,000 and \$80,000, respectively and \$10,000, \$15,000 and \$68,000 respectively, in 2009.

### *Capital Adequacy*

The Bank's capital adequacy ratios at June 30, 2010 and December 31, 2009 are presented in the following table. The ratios at June 30, 2010 as compared to December 31, 2009, declined slightly. The slight decline in capital ratios was due to the growth in average assets and risk weighted asset averages while Tier 1 capital increased slightly as the Bank became profitable.

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".

	Actual		Amount of Capital Required			
			To Be Adequately Capitalized		To Be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of June 30, 2010</b>						
Total capital to risk-weighted assets	\$ 17,149	24.6%	\$ 5,576	8.0%	\$ 6,970	10.0%
Tier 1 capital to risk-weighted assets	\$ 16,275	23.4%	\$ 2,788	4.0%	\$ 4,182	6.0%
Tier 1 capital to average assets	\$ 16,275	17.9%	\$ 3,639	4.0%	\$ 4,549	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

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

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 June 30, 2010 the Bank had approximately \$9.1 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, 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 June 30, 2010 the Bank had undisbursed loan commitments of \$14.7 million compared to \$14.0 million as of June 30, 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: August 13, 2010

/s/M. Thomas LeMasters

M. Thomas LeMasters, President and CEO

Date: August 13, 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
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.	32

## 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: August 13, 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: August 13, 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 June 30, 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

Date: August 13, 2010  
Officer

/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.