

2010 FINANCIAL REPORT





REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Premier Service Bank

We have audited the accompanying statements of financial condition of Premier Service Bank as of December 31, 2010 and 2009, and the related statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Premier Service Bank as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
February 9, 2011

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PREMIER SERVICE BANK
STATEMENTS OF FINANCIAL CONDITION
December 31, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
Cash and Due from Banks	\$ 24,060,184	\$ 17,706,829
Federal Funds Sold	-	-
TOTAL CASH AND CASH EQUIVALENTS	<u>24,060,184</u>	<u>17,706,829</u>
Time Deposits - Other Financial Institutions	-	1,046,327
Investment Securities Available for Sale	5,077,139	6,626,991
Investment Securities Held to Maturity	3,399,120	3,821,936
Loans:		
Commercial and Industrial	15,576,494	17,388,932
Commercial and Industrial Loans Secured by Real Estate	9,336,600	10,483,578
Real Estate - Construction	9,471,532	12,520,891
Real Estate - Other	82,892,815	87,757,611
Consumer	346,467	439,601
TOTAL LOANS	<u>117,623,908</u>	<u>128,590,613</u>
Deferred Loan Fees, Net of Costs	(263,343)	(347,818)
Allowance for Loan Losses	(2,548,983)	(1,899,558)
NET LOANS	<u>114,811,582</u>	<u>126,343,237</u>
Premises and Equipment	452,587	535,473
Federal Home Loan Bank and Other Bank Stock, at cost	1,224,100	1,364,700
Bank-Owned Life Insurance	3,309,134	3,189,007
Other Real Estate Owned	1,864,601	822,572
Accrued Interest and Other Assets	1,793,205	2,522,307
	<u>\$ 155,991,652</u>	<u>\$ 163,979,379</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-Bearing Demand	\$ 37,587,444	\$ 39,033,919
NOW, Savings and Money Market Accounts	74,700,654	75,146,541
Time Deposits Under \$100,000	5,768,331	6,709,432
Time Deposits \$100,000 and Over	5,340,256	5,904,310
TOTAL DEPOSITS	<u>123,396,685</u>	<u>126,794,202</u>
Federal Home Loan Bank Advances	19,000,000	20,000,000
Accrued Interest and Other Liabilities	737,459	764,207
TOTAL LIABILITIES	<u>143,134,144</u>	<u>147,558,409</u>
Commitments and Contingencies - Notes D and I	-	-
Shareholders' Equity:		
Preferred Stock - 10,000,000 Shares Authorized, No Par, 4,200 Outstanding, December 31, 2010 and 2009 Respectively	4,064,341	4,020,337
Common Stock - 10,000,000 Shares Authorized, No Par, 1,261,281 Outstanding, December 31, 2010 and 2009 Respectively	13,147,433	13,147,433
Additional Paid-in Capital	285,313	281,419
Accumulated Deficit	(4,711,368)	(1,184,197)
Accumulated Other Comprehensive Income - Net Unrealized Gain on Available-for-Sale Securities	71,789	155,978
Net of Taxes of \$49,887 as of 12/31/10 and \$108,392 as of 12/31/09	<u>12,857,508</u>	<u>16,420,970</u>
TOTAL SHAREHOLDERS' EQUITY	<u>12,857,508</u>	<u>16,420,970</u>
	<u>\$ 155,991,652</u>	<u>\$ 163,979,379</u>

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

PREMIER SERVICE BANK
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2010 and 2009

	2010	2009
INTEREST INCOME		
Interest and Fees on Loans	\$ 7,908,275	\$ 8,654,610
Interest on Investment Securities	391,621	527,473
Other Interest Income	35,541	31,976
TOTAL INTEREST INCOME	8,335,437	9,214,059
 INTEREST EXPENSE		
Interest on NOW, Savings and Money Market Accounts	807,994	1,162,806
Interest on Time Deposits Less Than \$100,000	79,066	179,458
Interest on Time Deposits \$100,000 and Over	77,089	167,727
Interest on FHLB Advances	531,228	839,384
TOTAL INTEREST EXPENSE	1,495,377	2,349,375
NET INTEREST INCOME	6,840,060	6,864,684
 Provision for Loan Losses	4,011,000	1,870,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,829,060	4,994,684
 NONINTEREST INCOME		
Service Charges, Fees and Other Income	699,344	767,394
 NONINTEREST EXPENSE		
Salaries and Employee Benefits	3,185,317	3,258,307
Occupancy and Equipment Expenses	682,604	691,880
Data Processing	510,408	556,091
Marketing and Business Promotion	186,220	270,422
Professional Fees	506,181	494,192
Customer Expenses	177,801	220,412
Office Expenses	128,311	128,759
FDIC Assessment	284,920	272,130
Other Real Estate Owned Write Down and Expenses	614,908	421,777
Other Expenses	177,887	249,118
LOSS BEFORE INCOME TAXES	(2,926,153)	(801,010)
Income Tax Expense	502,514	800
NET LOSS	\$(3,428,667)	\$(801,810)
Preferred Stock Dividends and Accretion of Discount	(98,504)	(40,337)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$(3,527,171)	\$(842,147)
NET LOSS PER SHARE - BASIC	\$(2.80)	\$(0.67)
NET LOSS PER SHARE - DILUTED	\$(2.80)	\$(0.67)

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

PREMIER SERVICE BANK
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2010 and 2009

	Preferred Stock		Common Stock		Additional Paid-in Capital	Comprehensive Income	Accumulated Deficit	Accumulated Other Comprehensive Income
	Number of Shares	Amount	Number of Shares	Amount				
Balance at January 1, 2009			1,261,281	\$ 13,147,433	\$ 268,069		\$(342,050)	\$ 135,956
Stock-Based Compensation					13,350			
Issuance of Preferred Stock, Net of Costs of \$20,000	4,200	\$ 3,980,000						
Accretion of Discount on Preferred Stock		40,337					(40,337)	
Comprehensive Income:								
Net Loss						\$(801,810)	(801,810)	
Net Unrealized Gain on Investment Securities Available for Sale, Net of Taxes of \$13,914						20,022		20,022
Total Comprehensive Income (Loss)						<u>\$(781,788)</u>		
Balance at December 31, 2009	4,200	4,020,337	1,261,281	13,147,433	281,419		(1,184,197)	155,978
Stock-Based Compensation					3,894			
Accretion of Discount on Preferred Stock		44,004					(44,004)	
Dividend on Preferred Stock							(54,500)	
Comprehensive Income:								
Net Loss						\$(3,428,667)	(3,428,667)	
Net Unrealized Loss on Investment Securities Available for Sale, Net of Tax (Benefit) of (\$58,505)						(84,190)		(84,189)
Total Comprehensive Income (Loss)						<u>\$(3,512,857)</u>		
Balance at December 31, 2010	<u>4,200</u>	<u>\$ 4,064,341</u>	<u>1,261,281</u>	<u>\$ 13,147,433</u>	<u>\$ 285,313</u>		<u>\$(4,711,368)</u>	<u>\$ 71,789</u>

PREMIER SERVICE BANK
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

OPERATING ACTIVITIES	2010	2009
Net Loss	\$(3,428,667)	\$(801,810)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	101,740	133,981
Provision for Loan Losses	4,011,000	1,870,000
Write-downs of Other Real Estate Owned	444,911	355,585
Deferred Tax Expense	502,000	34,000
Increase in Cash Surrender Value- Bank-Owned Life Insurance	(120,126)	(121,465)
Prepaid FDIC Assessment	-	(699,178)
Stock-based Compensation	3,894	13,350
Amortization of Premium and Accretion of Discount on Investment Securities	9,669	23,300
Loss on Sale of Other Bank Owned Assets	-	8,400
Other Items, net	174,385	(147,751)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,698,806	668,412
 INVESTING ACTIVITIES		
Decrease (Increase) in Time Deposits- Other Financial Institutions	1,046,327	(650,327)
Purchases of Held-to-Maturity Securities	(603,381)	-
Maturities/Principal Payment of Held-to-Maturity Securities	1,020,000	1,560,000
Purchases of Available-for-Sale Securities	(2,000,000)	(1,000,000)
Maturities/Principal Payment of Available-for-Sale Securities	3,403,684	3,113,692
Sales of Federal Home Loan Bank Stock	140,600	-
Proceeds on Sale of Other Bank Owned Assets	-	157,581
Net Decrease (Increase) in Loans	6,118,190	(5,078,627)
Purchases of Premises and Equipment	(18,854)	(26,180)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	9,106,566	(1,923,861)
 FINANCING ACTIVITIES		
Net Increase (Decrease) in Demand Deposits and Savings Accounts	(1,892,362)	25,286,309
Net Decrease in Time Deposits	(1,505,155)	(9,053,866)
Net Decrease in FHLB Advances	(1,000,000)	(6,900,000)
Proceeds from Issuance of Preferred Stock, Net of Stock Issuance Costs		3,980,000
Dividends Paid on Preferred Stock	(54,500)	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(4,452,017)	13,312,443
INCREASE IN CASH AND CASH EQUIVALENTS	6,353,355	12,056,994
Cash and Cash Equivalents at Beginning of Period	17,706,829	5,649,835
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 24,060,184	\$ 17,706,829
 Supplemental Disclosures of Cash Flow Information:		
Interest Paid	\$ 1,546,722	\$ 2,426,938
Taxes Paid	\$ 256,000	\$ 800
Transfer of Loans to Other Real Estate Owned	\$ 1,486,940	\$ 606,480

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

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Bank has been organized as a single operating segment and operates two full-service offices in Riverside County, California. The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through February 9, 2011, which is the date that the Bank's financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks and federal funds sold. Generally, federal funds are sold for one-day periods.

Cash and Due from Banks

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Bank has complied with the reserve requirements as of December 31, 2010 and 2009.

The Bank maintains amounts due from banks, which exceed federally insured limits. The Bank has not experienced any losses in such accounts.

Investment Securities

Bonds, notes, and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

Investments not classified as trading securities nor as held-to-maturity securities are classified as available-for-sale securities and recorded at fair value. Unrealized gains or losses on available-for-sale securities are excluded from net income and reported as an amount net of taxes as a separate component of other comprehensive income included in shareholders' equity. Premiums or discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investment Securities - Continued

Realized gains or losses on sales of held-to-maturity or available-for-sale securities are recorded using the specific identification method.

Management evaluates securities for other-than temporary impairment (“OTTI”) at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows; OTTI related to credit loss, which must be recognized in the income statement and; OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees is discontinued when a loan is placed on non-accrual status.

Interest income is accrued daily as earned on all loans. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectibility. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan’s principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

The Bank considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan which are to

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Loans - Continued

be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral. The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are generally considered troubled debt restructurings and classified as impaired. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of the estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

General reserves cover non-impaired loans and are based on historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Allowance for Loan Losses - Continued

Portfolio segments identified by the Bank include construction and land development, real estate, commercial and industrial and consumer loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to-income, collateral type and loan-to-value ratios for consumer loans.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which ranges from three to ten years for furniture and equipment. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter.

Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

Federal Home Loan Bank of San Francisco Stock

As a member of the Federal Home Loan Bank (“FHLB”) of San Francisco, the Bank is required to own common stock in the FHLB of San Francisco based upon total assets and outstanding FHLB advances. FHLB stock is carried at cost and may be sold back to the FHLB at its carrying value. Both cash and stock dividends received are reported as dividend income. The amount of FHLB stock outstanding as of December 31, 2010 and 2009 was \$1,124,100 and \$1,264,700, respectively.

Bank Owned Life Insurance

The Bank accounts for its investment in life insurance policies at the amount that could be realized under the insurance contract.

Other Real Estate Owned

Other real estate owned (“OREO”) represents real estate acquired through foreclosure, is considered held for sale, and is recorded at the lower of cost or fair value at the time of foreclosure. Loan balances in excess of fair value of the real estate acquired at the date of foreclosure are charged against the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying value or fair value less costs to sell. Any subsequent operating expenses or income, reduction in estimated values, and gains or losses on disposition of such properties are charged to current operations. Revenue recognition upon disposition of a property is dependent on the sale having met certain criteria relating to buyer’s initial investment in the property sold.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Advertising Costs

The Bank expenses the costs of advertising in the period incurred.

Income Taxes

Deferred income tax assets and liabilities are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is “more likely than not” that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss carryforwards depend on having sufficient taxable income of an appropriate character within the carryforward period.

The Bank has adopted guidance issued by the Financial Accounting Standards Board that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statement only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of operating expense/income tax expense.

Comprehensive Income

Changes in unrealized gain or loss on available-for-sale securities net of income taxes is the only component of accumulated other comprehensive income for the Bank.

Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note I. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Earnings Per Share (EPS)

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a Bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

See Note M for more information and disclosures relating to the Bank's fair value measurements.

Reclassification

Certain reclassifications have been made in the 2009 financial statements to conform to the presentation used in 2010. These classifications are of a normal recurring nature.

Adoption of New Accounting Standards

In July 2010, accounting standards were amended to require significantly more information about the credit quality of the Bank's loan portfolio. Although this statement addresses only disclosure and does not seek to change recognition or measurement, the disclosure represents a meaningful change in practice. New period-end related disclosures are reflected in these financial statements while new activity related disclosures will be effective in 2011.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE B - INVESTMENT SECURITIES

Debt and equity securities have been classified in the statements of condition according to management's intent. The carrying amount of securities and their approximate fair values at December 31 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2010				
Available-for-Sale Securities:				
U.S. Government and Agency Securities	\$ 1,901,080	\$ 6,372	\$(71,256)	\$ 1,836,196
Mortgage-backed Securities	3,054,383	186,560	-	3,240,943
Total Available-for-Sale Securities	<u>\$ 4,955,463</u>	<u>\$ 192,932</u>	<u>\$(71,256)</u>	<u>\$ 5,077,139</u>
Held-to-Maturity Securities:				
State and Municipal Securities	\$ 3,399,120	\$ 70,277	\$(41,207)	\$ 3,428,190
Total Held-to-Maturity Securities	<u>\$ 3,399,120</u>	<u>\$ 70,277</u>	<u>\$(41,207)</u>	<u>\$ 3,428,190</u>
December 31, 2009				
Available-for-Sale Securities:				
U.S. Government and Agency Securities	\$ 1,939,054	\$ 36,954	\$(13,495)	\$ 1,962,513
Mortgage-backed Securities	4,423,566	240,912	-	4,664,478
Total Available-for-Sale Securities	<u>\$ 6,362,620</u>	<u>\$ 277,866</u>	<u>\$(13,495)</u>	<u>\$ 6,626,991</u>
Held-to-Maturity Securities:				
U.S. Government and Agency Securities	\$ 200,000	\$ 6,001	\$ -	\$ 206,001
State and Municipal Securities	3,621,936	117,043	(16,653)	3,722,326
Total Held-to-Maturity Securities	<u>\$ 3,821,936</u>	<u>\$ 123,044</u>	<u>\$(16,653)</u>	<u>\$ 3,928,327</u>

Investment securities carried at approximately \$6,855,000 and with a fair value of \$7,077,000 at December 31, 2010 were pledged to secure public deposits, FHLB advances, FRB discount window and other purposes as required by law. At December 31, 2009 investment securities carried at approximately \$10,185,000 and with a fair value of \$10,555,000 were pledged to secure public deposits, FHLB advances, FRB discount window and other purposes as required by law.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE B - INVESTMENT SECURITIES - CONTINUED

The scheduled contractual maturities of securities at December 31, 2010 are shown below. Mortgage-backed securities are listed as separated category due to the uncertainty of prepayment speed. Expected maturities may differ from contractual maturities because borrower may have the right to prepay obligations.

	Available-for-Sale Securities		Held-to-Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	\$ 401,080	\$ 407,452	\$ -	\$ -
Due from One to Five Years	500,000	495,554	188,998	198,045
Due from Five to Ten Years	-	-	2,323,662	2,374,712
Due after Ten Years	1,000,000	933,190	886,460	855,433
Mortgage-backed Securities	3,054,383	3,240,943	-	-
	<u>\$ 4,955,463</u>	<u>\$ 5,077,139</u>	<u>\$ 3,399,120</u>	<u>\$ 3,428,190</u>

Information pertaining to securities with gross unrealized losses at December 31, 2010 and 2009, aggregated by investment category and length of time that the individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
December 31, 2010						
U.S. Government and Agency Securities	\$ 1,428,744	\$ (71,256)	\$ -	\$ -	\$ 1,428,744	\$ (71,256)
State and Municipal Securities	569,030	(32,436)	321,432	(8,771)	890,462	(41,207)
Total	<u>\$ 1,997,774</u>	<u>\$ (103,692)</u>	<u>\$ 321,432</u>	<u>\$ (8,771)</u>	<u>\$ 2,319,206</u>	<u>\$ (112,463)</u>
December 31, 2009						
U.S. Government and Agency Securities	\$ 986,505	\$ (13,495)	\$ -	\$ -	\$ 986,505	\$ (13,495)
State and Municipal Securities	-	-	687,495	(16,653)	687,495	(16,653)
Total	<u>\$ 986,505</u>	<u>\$ (13,495)</u>	<u>\$ 687,495</u>	<u>\$ (16,653)</u>	<u>\$ 1,674,000</u>	<u>\$ (30,148)</u>

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE B - INVESTMENT SECURITIES - CONTINUED

At December 31, 2010, the six debt securities with unrealized losses have depreciated approximately 4.63% from the Bank's amortized cost basis. These securities are issued by the U.S. Government agencies, State or municipal governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are guaranteed by the federal government or its agencies, whether the issue is independently insured, whether downgrades by bond agencies have occurred, and the results of reviews of the issuer's financial condition.

Unrealized losses on the six securities have not been recognized into income because the issuer bonds are of high credit quality, management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach maturity.

NOTE C - LOANS

The Bank's loan portfolio consists primarily of loans to borrowers within the communities surrounding Riverside and Corona, California. Although the Bank seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Bank's market area and, as a result, the Bank's loan and collateral portfolios are, to some degree, concentrated in those industries.

The Bank pledged part of the loan portfolio as collateral for Federal Home Loan Bank ("FHLB") Line of Credit. The loans pledged to FHLB totaled \$86,166,000 and \$87,714,000 at December 31, 2010 and 2009, respectively.

A summary of the changes in the allowance for loan losses as of December 31 follows:

	<u>2010</u>	<u>2009</u>
Balance at Beginning of Year	\$ 1,899,558	\$ 1,595,944
Additions to the Allowance Charged to Expense	4,011,000	1,870,000
Recoveries on Loans Charged Off	<u>8,768</u>	<u>8,684</u>
	5,919,326	3,474,628
Less Loans Charged Off	<u>(3,370,343)</u>	<u>(1,575,070)</u>
Balance at End of Year	<u>\$ 2,548,983</u>	<u>\$ 1,899,558</u>

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE C - LOANS - CONTINUED

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by impairment method as of December 31, 2010:

<u>Allowance for Loan Losses</u>	<u>Evaluated for Impairment</u>		<u>Total</u>
	<u>Individually</u>	<u>Collectively</u>	
Construction and Land Development	\$ -	\$ 325,098	\$ 325,098
Real Estate - Commercial Real Estate and Others	21,294	1,096,399	1,117,693
Commercial and Industrial	506,069	596,893	1,102,962
Consumer	-	3,230	3,230
	<u>\$ 527,363</u>	<u>\$ 2,021,620</u>	<u>\$ 2,548,983</u>

<u>Loans</u>	<u>Evaluated for Impairment</u>		<u>Total</u>
	<u>Individually</u>	<u>Collectively</u>	
Construction and Land Development	\$ 2,305,544	\$ 7,165,988	\$ 9,471,532
Real Estate - Commercial Real Estate and Others	6,533,187	85,696,228	92,229,415
Commercial and Industrial	1,133,979	14,442,515	15,576,494
Consumer	-	346,467	346,467
	<u>\$ 9,972,710</u>	<u>\$ 107,651,198</u>	<u>\$ 117,623,908</u>

The Bank categorizes loan into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Bank uses the following definitions for risk ratings:

Special Mention – loans classified as special mention have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans s classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Impaired – A loan is considered impaired, when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions above and smaller, homogeneous loans not assessed on an individual basis.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE C - LOANS - CONTINUED

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows as of December 31:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Impaired</u>	<u>Total</u>
December 31, 2010					
Real Estate:					
Construction and Land Development	\$ 4,787,830	\$ 2,378,158	\$ -	\$ 2,305,544	\$ 9,471,532
1-4 Family Residential	7,169,583	-	\$ 1,982,192	1,769,557	10,921,332
Multifamily Residential	4,592,414	-	-	168,330	4,760,744
Commercial Real Estate and Other	68,981,482	1,320,323	1,650,234	4,595,300	76,547,339
Commercial and Industrial	10,485,367	1,185,378	2,771,770	1,133,979	15,576,494
Consumer	346,467	-	-	-	346,467
	<u>\$ 96,363,143</u>	<u>\$ 4,883,859</u>	<u>\$ 6,404,196</u>	<u>\$ 9,972,710</u>	<u>\$ 117,623,908</u>
December 31, 2009					
Real Estate:					
Construction and Land Development	\$ 8,569,762	\$ 2,667,211	\$ 270,041	\$ 1,013,877	\$ 12,520,891
1-4 Family Residential	8,542,213	189,410	1,747,148	686,397	11,165,168
Multifamily Residential	5,863,296	-	-	-	5,863,296
Commercial Real Estate and Other	77,693,327	-	1,406,232	2,113,167	81,212,726
Commercial and Industrial	13,673,842	1,060,292	2,654,797	-	17,388,931
Consumer	439,601	-	-	-	439,601
	<u>\$114,782,041</u>	<u>\$ 3,916,913</u>	<u>\$ 6,078,218</u>	<u>\$ 3,813,441</u>	<u>\$ 128,590,613</u>

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE C - LOANS - CONTINUED

Past due and nonaccrual loans were as follows as of December 31:

	Still Accruing		Nonaccrual
	30-89 Days Past Due	Over 90 Days Past Due	
December 31, 2010			
Real Estate:			
Construction and Land Development	\$ -	\$ -	\$ 2,305,544
1-4 Family Residential	-	-	748,430
Multifamily Residential	293,282	-	168,330
Commercial Real Estate and Other	1,363,544	-	2,936,122
Commercial and Industrial	-	-	2,050,937
Consumer	-	-	-
	<u>\$ 1,656,826</u>	<u>\$ -</u>	<u>\$ 8,209,363</u>
December 31, 2009			
Real Estate:			
Construction and Land Development	\$ -	\$ -	\$ 1,283,918
1-4 Family Residential	-	-	1,373,805
Multifamily Residential	-	-	-
Commercial Real Estate and Other	1,827,085	-	2,810,620
Commercial and Industrial	150,000	-	2,011,352
Consumer	-	-	-
	<u>\$ 1,977,085</u>	<u>\$ -</u>	<u>\$ 7,479,695</u>

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE C - LOANS - CONTINUED

Individually impaired loans were as follows as of December 31:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2010					
With no Related Allowance Recorded					
Real Estate:					
Construction and Land Development	\$ 3,380,654	\$ 2,305,544	\$ -	\$ 1,565,559	\$ -
1-4 Family Residential	2,202,800	1,769,557	-	1,859,170	58,888
Multifamily Residential	271,076	168,330	-	133,092	-
Commercial Real Estate and Other	3,990,191	3,231,756	-	3,184,334	-
Commercial and Industrial	-	-	-	-	-
Consumer	-	-	-	-	-
With an Allowance Recorded					
Real Estate:					
Construction and Land Development	-	-	-	-	-
1-4 Family Residential	-	-	-	-	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	1,363,544	1,363,544	21,294	340,886	-
Commercial and Industrial	2,278,516	1,133,979	506,069	1,300,195	-
Consumer	-	-	-	-	-
	<u>\$13,486,781</u>	<u>\$9,972,710</u>	<u>\$ 527,363</u>	<u>\$8,383,236</u>	<u>\$ 58,888</u>
December 31, 2009					
With no Related Allowance Recorded					
Real Estate:					
Construction and Land Development	\$ 1,494,500	\$ 1,013,877	\$ -	\$ 2,078,458	\$ -
1-4 Family Residential	-	-	-	-	-
Commercial Real Estate and Other	957,218	613,340	-	392,640	-
Commercial and Industrial	-	-	-	-	-
Consumer	-	-	-	-	-
With an Allowance Recorded					
Real Estate:					
Construction and Land Development	270,041	270,041	44,314	135,021	-
1-4 Family Residential	2,098,047	2,006,514	114,496	1,905,911	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	2,216,836	2,216,836	348,421	518,988	-
Commercial and Industrial	-	-	-	-	-
Consumer	-	-	-	-	-
	<u>\$ 7,036,642</u>	<u>\$ 6,120,608</u>	<u>\$ 507,231</u>	<u>\$ 5,031,017</u>	<u>\$ -</u>

The Bank has allocated approximately \$466,000 and \$139,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2010 and 2009. The recorded investment amount for troubled debt restructured were \$3,549,000 and \$2,393,000 as of December 31, 2010 and 2009, respectively. The Bank has not committed to lend additional amounts as of December 31, 2010 and 2009 to customers with outstanding loans that are classified as troubled debt restructurings.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE D - PREMISES AND EQUIPMENT

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

	<u>2010</u>	<u>2009</u>
Leasehold Improvements	\$ 594,652	\$ 594,652
Furniture and Equipment	1,149,589	1,130,736
	<u>1,744,241</u>	<u>1,725,388</u>
Less Accumulated Depreciation and Amortization	<u>(1,291,654)</u>	<u>(1,189,915)</u>
	<u>\$ 452,587</u>	<u>\$ 535,473</u>

The Bank has entered into two operating lease agreements that cover its Riverside Office and Corona Office. The lease for Riverside Office has annual rent increases of 3% per year and an option to extend the term up to two additional periods of five years each. The lease for Corona Office shall be adjusted annually based on the cost-of-living adjustment and an option to extend the term up to three additional periods of five years each. The Riverside lease expires July 31, 2011, and the Corona lease expires September 30, 2013. Rental expense, including common area charges, relating to these leases was approximately \$431,000 in 2010 and \$423,000 in 2009.

At December 31, 2010, the future minimum annual lease payments for the Bank's leases are as follows:

2011	292,188
2012	111,514
2013	<u>83,635</u>
	<u>\$ 487,337</u>

The minimum rental payments shown above are given for the existing lease obligations, including annual rent adjustments, and are not a forecast of future rental expense.

NOTE E - DEPOSITS

At December 31, 2010, the scheduled maturities of time deposits are as follows:

2011	10,253,270
2012	702,103
2013	<u>153,214</u>
	<u>\$ 11,108,587</u>

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE F - BORROWING ARRANGEMENTS

Overnight borrowing: The Bank may borrow up to \$2,500,000 overnight on an unsecured basis from its correspondent bank and up to \$2,942,000 overnight secured by the Bank's municipal bonds portfolio from FRB Discount window. As of December 31, 2010 no amounts were outstanding under these arrangements.

Federal Home Loan Bank Line of Credit: The Bank maintains a line of credit with FHLB. The maximum amount the Bank may borrow under this agreement is limited to the lesser of a percentage of eligible collateral as established in the agreement or 20% of the Bank's total assets. At December 31, 2010, the financing availability from the FHLB was \$12,480,000. FHLB advances are collateralized by loans with a carrying value of \$86,166,000 and U.S. government and agency securities and mortgage-backed securities portfolio with a carrying value of \$2,883,000 at December 31, 2010. FHLB advances outstanding totaled \$19,000,000 and \$20,000,000 at December 31, 2010 and 2009, respectively.

At December 31, 2010, the scheduled maturities of FHLB advances are as follows:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Lock-Out Expiration*</u>
FHLB Advance	2,000,000	3.43%	4/29/2011	N/A
FHLB Advance	2,000,000	1.17%	3/26/2012	N/A
FHLB Advance	3,000,000	4.35%	8/29/2012	8/29/2009
FHLB Advance	2,000,000	4.16%	9/19/2012	9/19/2009
FHLB Advance	2,000,000	1.77%	4/30/2013	N/A
FHLB Advance	1,000,000	1.68%	5/13/2013	N/A
FHLB Advance	1,000,000	1.50%	5/20/2013	N/A
FHLB Advance	2,000,000	1.05%	9/16/2013	N/A
FHLB Advance	1,000,000	0.97%	9/23/2013	N/A
FHLB Advance	1,000,000	0.94%	9/30/2013	N/A
FHLB Advance	2,000,000	4.05%	10/27/2014	10/27/2010
	<u>\$ 19,000,000</u>			

* FHLB Advance will be quarterly puttable after lock-out expiration.

NOTE G - EMPLOYEE PROFIT SHARING AND DEFERRED COMPENSATION

The Bank sponsors a 401 (k) plan for the benefit of its employees. Contributions to these plans are determined by the Board of Directors. The Bank did not incur expenses in 2010 and 2009 as there was no matching contribution to the 401 (k) plan for the year.

In 2006 and 2008 the Bank entered into deferred compensation agreements with key officers. Under these agreements, the Bank is obligated to provide, upon retirement, a fixed benefit for each of the

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE G - EMPLOYEE PROFIT SHARING AND DEFERRED COMPENSATION - CONTINUED

officers for a fixed period of time. The annual benefits range from \$40,000 to \$50,000 for key officers. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of the agreements until the expected retirement dates of the participants. Early termination benefit is also provided by these agreements paying the key officers the accrued liability balance defined in the agreements. The expense incurred for this plan for the year ended December 31, 2010 was \$78,000, and for the year ended December 31, 2009 was \$67,000. An early termination benefit of \$36,000 was paid from accrued liability in 2010. The amount accrued for this plan for the year ended December 31, 2010 was \$253,000, and for the year ended December 31, 2009 was \$211,000. The Bank is a beneficiary of life insurance policies that have been purchased as a method of financing the benefits under the agreements.

NOTE H - INCOME TAXES

The provision for income tax expense for the years ended December 31, consists of the following:

	<u>2010</u>	<u>2009</u>
Current:		
Federal	\$ -	\$(34,000)
State	514	800
	<u>514</u>	<u>(33,200)</u>
Deferred	(1,287,000)	(376,000)
Valuation Allowance	<u>1,789,000</u>	<u>410,000</u>
	<u>\$ 502,514</u>	<u>\$ 800</u>

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE H - INCOME TAXES - CONTINUED

The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying statements of financial condition at December 31:

	<u>2010</u>	<u>2009</u>
Deferred Tax Assets:		
Allowance for Loan Losses Due to Tax Differences	\$ 609,000	\$ 535,000
OREO and Other Bank Owned Assets	539,000	219,000
Deferred Compensation	104,000	87,000
Non Accrued Loan Interest	90,000	81,000
Net Operation Loss	880,000	92,000
Other	<u>132,000</u>	<u>104,000</u>
	2,354,000	1,118,000
 Valuation Allowance	 (2,199,000)	 (410,000)
Deferred Tax Liabilities:		
Conversion to Accrual Basis of Reporting	-	(18,000)
Depreciation Differences	(41,000)	(50,000)
Prepaid Expenses	(52,000)	(59,000)
Market Valuation Adjustment on Investment Securities	(50,000)	(108,000)
Other	<u>(62,000)</u>	<u>(79,000)</u>
	<u>(205,000)</u>	<u>(314,000)</u>
 Net Deferred Tax Assets (Liabilities)	 <u>\$ (50,000)</u>	 <u>\$ 394,000</u>

A comparison of the federal statutory income tax rates to the Bank's effective income tax rates at December 31 follows:

	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Statutory Federal Tax	\$(995,000)	(34.0%)	\$(272,000)	(34.0%)
State Franchise Tax, Net of Federal Benefit	(217,000)	(7.4%)	(65,000)	(8.1%)
Valuation Allowance	1,789,000	61.1%	410,000	51.2%
Cash Surrender Value Bank-Owned Life Insurance	(41,000)	(1.4%)	(41,000)	(5.1%)
Stock-Based Compensation	1,000	0.0%	5,000	0.6%
Municipal Investment	(36,000)	(1.2%)	(32,000)	(4.0%)
Other	<u>1,514</u>	<u>0.1%</u>	<u>(4,200)</u>	<u>(0.5%)</u>
 Actual Tax Expense	 <u>\$ 502,514</u>	 <u>17.2%</u>	 <u>\$ 800</u>	 <u>0.1%</u>

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE H - INCOME TAXES - CONTINUED

The valuation allowance was established because the Bank has not reported earnings sufficient enough to support the full recognition of the deferred tax assets. The Bank has net operating loss carryforwards of approximately \$2,137,000 for federal income tax purposes and \$2,151,000 for California franchise tax purposes. Federal net operating loss carryforwards, to the extent not used, will expire in 2030. California net operating loss carryforwards, to the extent not used, will expire in 2030.

The Bank is subject to federal income tax and franchise tax of the state of California. Federal income tax returns for the years ended December 31, 2009, 2008 and 2007 are open to audit by the federal authorities and California state tax returns for the years ended December 31, 2009, 2008, 2007 and 2006, are open to audit by state authorities.

In accordance with accounting literature, the Bank records interest and penalties related to uncertain tax positions as part of income tax expense. There was no penalty or interest expense recorded as of December 31, 2010. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

NOTE I - COMMITMENTS

In the ordinary course of business, the Bank enters into financial commitments to meet the financing needs of its customers. These financial commitments include commitments to extend credit and standby letters of credit. Those instruments involve to varying degrees, elements of credit and interest rate risk not recognized in the Bank's financial statements.

The Bank's exposure to loan loss in the event of nonperformance on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for loans reflected in the financial statements.

As of December 31, 2010 and 2009, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2010	2009
Commitments to Extend Credit	\$ 12,082,000	\$ 20,147,000
Standby Letters of Credit	1,172,000	1,357,000
	\$ 13,254,000	\$ 21,504,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Bank evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank is based on management's credit evaluation of the customer. The majority of the Bank's commitments to extend credit and standby letters of credit are secured by real estate.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE J - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank may grant loans to certain officers and directors and the companies with which they are associated. In the Bank's opinion, all loans and loan commitments to such parties will be made on substantially the same terms including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons. A summary of the activity in these loans follows:

	<u>2010</u>	<u>2009</u>
Outstanding Balance at Beginning of Year	\$ 1,540,908	\$ 1,765,757
Credit Granted, Including Renewals	-	210,000
Repayments	<u>(173,387)</u>	<u>(434,849)</u>
Outstanding Balance at End of Year	<u>\$ 1,367,521</u>	<u>\$ 1,540,908</u>

Deposits from related parties held by the Bank at December 31, 2010 and 2009 amounted to \$4,900,000 and \$5,257,000, respectively.

NOTE K - STOCK OPTION PLAN

The Bank's 2000 Stock Plan was approved by its shareholders in April 2002. Under the terms of the 2000 Stock Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and other consultants, who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase 309,617 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of grant. Stock options expire no later than ten years from the date of the grant and generally vest over five years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. The Bank recognized stock-based compensation cost of \$3,894 and \$13,350 in 2010 and 2009, respectively. The Bank did not recognize income tax benefits related to stock based compensation in 2010 and 2009.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE K - STOCK OPTION PLAN - CONTINUED

There were no stock options granted in 2010 or 2009. A summary of the status of the Bank's stock option plan as of December 31, 2010 and changes during the year ending thereon is presented below:

	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at Beginning of Year	163,597	\$ 11.99		
Granted	-	\$ -		
Exercised	-	\$ -		
Forfeited	<u>(22,500)</u>	<u>\$ 14.00</u>		
Outstanding at End of Year	<u>141,097</u>	<u>\$ 11.67</u>	<u>1.8 Years</u>	<u>\$ -</u>
Options Exercisable	<u>141,097</u>	<u>\$ 11.67</u>	<u>1.8 Years</u>	<u>\$ -</u>

There were no options exercised during the year ended December 31, 2010 and 2009. As of December 31, 2010, there was no unrecognized compensation cost related to the outstanding stock options.

NOTE L - EARNINGS PER SHARE (EPS)

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute EPS:

	<u>2010</u>		<u>2009</u>	
	<u>Income</u>	<u>Shares</u>	<u>Income</u>	<u>Shares</u>
Net Loss as Reported	\$(3,428,667)		\$(801,810)	
Preferred Stock Dividend and Accretion	(98,504)		\$(40,337)	
Shares Outstanding at Year End		1,261,281		1,261,281
Impact of Weighting Shares Purchased During the Year		<u>-</u>		<u>-</u>
Used in Basic EPS	(3,527,171)	1,261,281	(842,147)	1,261,281
Dilutive Effect of Outstanding Stock Options and Warrants		<u>-</u>		<u>-</u>
Used in Dilutive EPS	<u>\$(3,527,171)</u>	<u>1,261,281</u>	<u>\$(842,147)</u>	<u>1,261,281</u>

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE L - EARNINGS PER SHARE (EPS) - CONTINUED

All of the outstanding stock options were not considered in computing diluted earnings per share for 2010 and 2009 because they were antidilutive.

NOTE M - FAIR VALUE MEASUREMENT

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

Collateral-Dependent Impaired Loans: The Bank does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent impaired loans are obtained from real estate brokers or other third-party consultants (Level 3).

Other Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

PREMIER SERVICE BANK
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NOTE M - FAIR VALUE MEASUREMENT - CONTINUED

The following table provides the hierarchy and fair value for each major category of assets measured at fair value at December 31:

	Fair Value Measurements as of December 31, 2010 Using:			Total
	Level 1	Level 2	Level 3	
Assets Measured at Fair Value on a Recurring Basis				
Securities Available for Sale	\$ -	\$ 5,077,139	\$ -	\$ 5,077,139
Assets Measured at Fair Value on a Non-recurring Basis				
Collateral-Dependent Impaired Loans Net of Specific Reserves	\$ -	\$ -	\$ 6,460,273	\$ 6,460,273
Other Real Estate Owned, Net	\$ -	\$ -	\$ 1,864,601	\$ 1,864,601
Fair Value Measurements as of December 31, 2009 Using:				
	Level 1	Level 2	Level 3	Total
Assets Measured at Fair Value on a Recurring Basis				
Securities Available for Sale	\$ -	\$ 6,626,991	\$ -	\$ 6,626,991
Assets Measured at Fair Value on a Non-recurring Basis				
Collateral-Dependent Impaired Loans Net of Specific Reserves	\$ -	\$ -	\$ 3,479,067	\$ 3,479,067
Other Real Estate Owned, Net	\$ -	\$ -	\$ 822,572	\$ 822,572

Collateral-dependent impaired loans, which are measured for impairment using the fair value of the collateral, with a carrying value of \$6,521,000 as of December 31, 2010, were written down to their fair value of \$6,460,000, resulting in an additional provision for loan losses of \$61,000, which was included in earnings for the period. Collateral-dependent impaired loans, which are measured for impairment using the fair value of the collateral, with a carrying value of \$3,813,000 as of December 31, 2009, were written down to their fair value of \$3,479,000, resulting in an additional provision for loan losses of \$334,000, which was included in earnings for the period.

Other real estate owned has a net carrying amount of \$1,865,000, which is made up of the outstanding balance of \$2,765,000, net of a valuation allowance of \$900,000 at December 31, 2010. At December 31, 2009, other real estate owned has a net carrying amount of \$823,000, which is made up of the outstanding balance of \$1,278,000, net of the a valuation allowance of \$455,000.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting guidance specifies the disclosure of the estimated fair value of financial instruments. The Bank's estimated fair value amounts have been determined by the Bank using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Bank could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Fair value estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The following methods and assumptions were used by the Bank in estimating fair values of financial instruments:

Cash and Cash Equivalents, Federal Funds Sold and Interest-Bearing Deposits in Other Banks: The carrying values reported in the balance sheets approximate fair values due to the short-term nature of the assets.

Securities: See Fair Value Measurement footnote discussion.

Loans: Fair value is estimated by discounting expected future cash flows at a market rate of interest for loans of similar credit risk and maturity.

FHLB and Other Stock: The carrying amount approximates fair market value, as the stock may be sold back to the FHLB or Bank that issued it at carrying value and no other market exists for the sale of this stock.

Bank Owned Life Insurance: The carrying values reported in the balance sheets are deemed to be fair values since it represents the cash surrender value of the policy.

Other Real Estate Owned: The carrying values reported in the balance sheets are recorded at the lower of cost or estimated fair value at the time of foreclosure and evaluated periodically thereafter. The fair values of OREO properties are based on third-party appraisals, broker price opinions or accepted written offers.

Accrued Interest Receivable and Payable: The recorded carrying value approximates the estimated fair value due to the short-term nature of the asset / liability.

Deposits: The fair values of certificates of deposit are estimated by discounting the expected cash flows at current rates for instruments with similar maturities. The carrying values of transaction accounts are deemed to be fair value since they are payable on demand.

FHLB Advances: The fair values of FHLB advances are estimated by discounting the expected cash flows at current FHLB advance rates for instruments with similar maturities.

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NOTES TO FINANCIAL STATEMENTS
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NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

The estimated fair values of the Bank's financial instruments are as follows at year end:

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and Due From Banks	\$ 24,060	\$ 24,060	\$ 17,707	\$ 17,707
Time Deposits - Other Financial Institutions	-	-	1,046	1,046
Investment Securities Available for Sale	5,077	5,077	6,627	6,627
Investment Securities Held to Maturity	3,399	3,428	3,822	3,928
Loans, net	114,812	115,973	126,343	126,340
Federal Home Loan Bank and Other Stocks	1,224	1,224	1,365	1,365
Bank-Owned Life Insurance	3,309	3,309	3,189	3,189
Other Real Estate Owned	1,865	1,865	823	823
Accrued Interest Receivable	500	500	573	573
Financial Liabilities:				
Deposits	123,397	123,409	126,794	126,792
FHLB Borrowings	19,000	19,214	20,000	20,294
Accrued Interest Payable	43	43	94	94

NOTE O - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

On November 30, 2010, the Bank and representatives of the Federal Deposit Insurance Corporation ("FDIC") and the California Department of Financial Institutions (the "DFI") entered into a Stipulation and Consent to the Issuance of a Consent Order (the "Consent"). The Consent was signed by the Bank on that date without admitting or denying the alleged charges of unsafe or unsound banking practices and violation so law and/or regulations. Pursuant to the Consent, a joint Consent Order (the "Order") was issued by the FDIC and the DFI on December 1, 2010.

PREMIER SERVICE BANK
NOTES TO FINANCIAL STATEMENTS
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NOTE O - REGULATORY MATTERS - CONTINUED

The following table also sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

	Amount of Capital Required					
	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2010:						
Total Capital (to Risk-Weighted Assets)	\$14,338	11.6%	\$ 9,852	8%	*	*
Tier 1 Capital (to Risk-Weighted Assets)	\$12,786	10.4%	\$ 4,926	4%	\$ 7,389	6%
Tier 1 Capital (to Average Assets)	\$12,786	8.1%	\$ 6,350	4%	*	*
As of December 31, 2009:						
Total Capital (to Risk-Weighted Assets)	\$17,986	13.1%	\$10,994	8%	\$13,742	10%
Tier 1 Capital (to Risk-Weighted Assets)	\$16,265	11.8%	\$ 5,497	4%	\$ 8,245	6%
Tier 1 Capital (to Average Assets)	\$16,265	9.8%	\$ 6,641	4%	\$ 8,302	5%

* The Order issued by the FDIC and the DFI requires several corrective actions and restricts other actions by the Bank. Among these provisions is the requirement that within 90 days from the effective date of the Order (by February 28, 2011), the Bank shall increase and thereafter maintain its Tier I capital in such an amount to ensure that the Bank's leverage ratio equals or exceeds 9.50 percent. Within 90 days from the effective date of the Order (by February 28, 2011), the Bank is required to increase and thereafter maintain its total risk-based capital ratio in such an amount as to equal or exceed 12 percent. As noted in the table above, the Bank was not in compliance with these ratios as of December 31, 2010. The Bank hopes to effect compliance with a rights and public offering of up to \$5 million of its common stock, to commence in February 2011.

In a letter dated June 22, 2010, the Bank was advised by the FDIC that the Bank is considered "troubled" for the purposes of Section 32 of the Federal Deposit Insurance Act. As a result of this designation, the Bank must notify the FDIC in writing at least 30 days prior to certain management changes. These changes include the addition or replacement of a board member, or the employment or change in responsibilities of anyone who is, who will become, or who performs the duties of a senior executive officer. In addition, the Bank was notified that it is considered "troubled" for purposes of Part 359 of the FDIC Rules and Regulations. In accordance with Part 359, prior to entering into any agreement to pay and prior to making any golden parachute payment or excess nondiscriminatory severance plan payment to any institution-affiliated party, the Bank must file an application pursuant to sections 303.244 and 359.6 of the FDIC Rules and Regulations to obtain the consent of the FDIC. These provisions and restrictions may make the Bank less competitive in hiring senior executive officers.

The California Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of the bank's undivided profits or the bank's net income for its last three fiscal

PREMIER SERVICE BANK
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NOTE O - REGULATORY MATTERS - CONTINUED

years less the amount of any distribution made by the bank to shareholders during the same period. The bank is also restricted in its ability to pay dividends by the Order and by the terms of the preferred stock issued to the Treasury under the Capital Purchase Plan.

NOTE P – SENIOR PREFERRED STOCK

On February 20, 2009, the Bank elected to participate in the Capital Purchase Plan (“CPP”) of the Department of the Treasury (the “Treasury”), by issuing 4,000 shares of the Bank’s Fixed Rate Non-cumulative Perpetual Preferred Stock, Series A (the “Series A Preferred Stock”) and 200 shares of Fixed Rate Non-cumulative Perpetual Preferred Stock, Series B (the “Series B Preferred Stock”) for an aggregate purchase price of \$4,000,000 in cash less costs of \$20,000. The redemption of both Series A and Series B Preferred Stock will be \$4,200,000. The discount of \$220,000 will be accreted against retained earnings over the estimated five-year life of the Preferred Stock, reducing the reported income available for common shareholders.

The Series A Preferred Stock Qualifies as Tier 1 capital and pays non-cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. The Series A Preferred Stock may be redeemed after notice from the Bank to the Treasury, subject to consultation with the appropriate Federal Banking Agency and subject to the existing supervisory procedures for approving redemption requests for capital instruments. The Series B Preferred Stock also qualifies as Tier 1 Capital and pays non-cumulative dividends at a rate of 9% per annum. The Series B Preferred Stock may only be redeemed after all of the Series A Preferred Stock has been redeemed. For as long as any Preferred Stock is outstanding and held by Treasury, no dividends may be declared on common shares.

In the Purchase Agreement, the Bank agreed that, until such time as the Treasury ceases to own debt or equity securities of the Bank acquired pursuant to the Purchase Agreement, the Bank will take all necessary action to ensure that its benefit plans with respect to its senior executive officers comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 (the “EESA”), as implemented by any guidance or regulation under the EESA that has been issued and is in effect as of the date of the issuance of the Preferred Stock, and has agreed to not adopt any benefit plans with respect to, or which covers, its senior executive officers that do not comply with the EESA, and the applicable executives have consented to the foregoing.

The Bank failed to pay its sixth dividend as of the dividend payment date of November 15, 2010. In anticipation of that failure, the Treasury appointed an observer who attended the regular meeting of the Board of Directors held on October 21, 2010, and he has been monitoring the Bank’s performance since that date. As a result of the Bank’s failure to pay six dividend payments, the Treasury has the right to appoint two directors to the Board. Any directors appointed by the Treasury would not replace any existing directors, but would be added to the existing Board. As of December 31, 2010, the Treasury has not appointed any directors to the Board, and has not indicated an intention to do so.



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