

SAN LUIS TRUST BANK, FSB

FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

SAN LUIS TRUST BANK, FSB
STATEMENTS OF FINANCIAL CONDITION

December 31, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Cash and amounts due from depository institutions	\$ 1,483,716	\$ 1,544,090
Securities held-to-maturity	76,573,125	50,508,125
Loans, net	216,049,959	196,437,449
Accrued interest receivable	2,375,558	2,071,171
Premises and equipment, at cost, less accumulated depreciation	1,717,048	1,679,441
Investment required by law- stock in Federal Home Loan Bank, at cost	3,774,600	3,162,000
Deferred income taxes	440,536	440,536
Foreclosed real estate	357,917	-
Other assets	<u>501,073</u>	<u>152,136</u>
TOTAL ASSETS	<u><u>\$ 303,273,532</u></u>	<u><u>\$ 255,994,948</u></u>

See Notes to Financial Statements

SAN LUIS TRUST BANK, FSB
STATEMENTS OF FINANCIAL CONDITION

December 31, 2007 and 2006

	2007	2006
<u>LIABILITIES</u>		
Deposits	\$ 190,353,418	\$ 171,123,947
Accounts payable and accrued liabilities	366,695	403,988
Accrued interest payable	578,386	411,335
Federal funds purchased	4,940,000	3,715,000
Federal Home Loan Bank advances	76,910,000	52,800,000
Other liabilities	773,171	895,696
TOTAL LIABILITIES	273,921,670	229,349,966
Commitments and Contingencies (Note 15)	-	-
<u>STOCKHOLDERS' EQUITY</u>		
CAPITAL CONTRIBUTED		
Common stock, stated value \$1.60		
Authorized 10,000,000 shares		
Issued and outstanding 4,360,927 and 4,358,427		
shares at December 31, 2007 and 2006,		
respectively	6,977,483	6,973,483
Additional paid-in capital	7,428,072	7,423,409
TOTAL CAPITAL CONTRIBUTED	14,405,555	14,396,892
RETAINED EARNINGS	14,946,307	12,248,090
TOTAL STOCKHOLDERS' EQUITY	29,351,862	26,644,982
TOTAL LIABILITIES AND STOCKHOLDERS'		
EQUITY	\$ 303,273,532	\$ 255,994,948

See Notes to Financial Statements

SAN LUIS TRUST BANK, FSB

STATEMENTS OF INCOME

Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
INTEREST INCOME		
Interest on loans	\$ 19,048,932	\$ 20,047,021
Interest and dividends on investment securities	3,699,621	2,699,234
TOTAL INTEREST INCOME	<u>22,748,553</u>	<u>22,746,255</u>
INTEREST EXPENSE		
Interest on deposits	8,183,037	7,325,354
Interest on borrowings	2,826,547	2,675,586
TOTAL INTEREST EXPENSE	<u>11,009,584</u>	<u>10,000,940</u>
NET INTEREST INCOME	11,738,969	12,745,315
PROVISION FOR LOAN LOSSES	<u>-</u>	<u>1,146,266</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>11,738,969</u>	<u>11,599,049</u>
NON-INTEREST INCOME	<u>120,116</u>	<u>82,888</u>
NON-INTEREST EXPENSE		
Salaries, payroll taxes and employee benefits	3,261,665	2,394,054
Data processing expenses	179,664	217,844
Legal and professional	153,089	201,951
Offices supplies, telephone and postage	170,150	192,887
Advertising and promotions	203,848	161,476
Depreciation	77,733	89,492
Director fees	229,088	132,966
Other operating expenses	827,040	792,465
TOTAL NON-INTEREST EXPENSE	<u>5,102,277</u>	<u>4,183,135</u>
INCOME BEFORE INCOME TAXES	6,756,808	7,498,802
INCOME TAX EXPENSE	<u>(2,750,823)</u>	<u>(2,893,282)</u>
NET INCOME	<u>\$ 4,005,985</u>	<u>\$ 4,605,520</u>

See Notes to Financial Statements

SAN LUIS TRUST BANK, FSB

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2007 and 2006

	<u>Common Shares</u>	<u>Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
Balance, December 31, 2005	4,337,927	\$ 6,940,683	\$ 7,378,095	\$ 8,643,512	\$ 22,962,290
Exercise of stock options	20,500	32,800	45,314	-	78,114
Net income	-	-	-	4,605,520	4,605,520
Cash dividends	-	-	-	(1,000,942)	(1,000,942)
Balance, December 31, 2006	4,358,427	6,973,483	7,423,409	12,248,090	26,644,982
Exercise of stock options	2,500	4,000	4,663	-	8,663
Net income	-	-	-	4,005,985	4,005,985
Cash dividends	-	-	-	(1,307,768)	(1,307,768)
Balance, December 31, 2007	<u>4,360,927</u>	<u>\$ 6,977,483</u>	<u>\$ 7,428,072</u>	<u>\$ 14,946,307</u>	<u>\$ 29,351,862</u>

See Notes to Financial Statements

SAN LUIS TRUST BANK, FSB

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,005,985	\$ 4,605,520
Adjustments to reconcile net income to net cash flows from operating activities:		
Provision for loan losses	-	1,146,266
Loan charge-offs	(19,653)	(27,265)
Depreciation	77,733	89,492
Deferred income taxes	-	(203,169)
(Increase) decrease in operating assets:		
Accrued interest receivable	(304,387)	(278,797)
Other assets	(348,937)	214,169
Increase (decrease) in operating liabilities:		
Accounts payable & accrued liabilities	(37,293)	33,911
Accrued interest payable	167,051	146,323
Other liabilities	(122,525)	536,980
NET CASH FLOWS FROM OPERATING ACTIVITIES	3,417,974	6,263,430
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from called held-to-maturity securities	15,000,000	14,000,000
Purchase of held-to-maturity securities	(41,065,000)	(36,510,000)
Net (increase) decrease in loans	(19,950,774)	1,772,104
Purchase of premises and equipment	(115,340)	(27,532)
Purchase of stock in Federal Home Loan Bank	(612,600)	(920,000)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(46,743,714)	(21,685,428)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	19,229,471	(1,942,648)
Net increase in federal fund purchased	1,225,000	3,715,000
Advances from Federal Home Loan Bank	76,910,000	52,800,000
Payments on advances from the Federal Home Loan Bank	(52,800,000)	(47,700,000)
Proceeds from exercise of stock options	8,663	78,114
Cash dividends paid	(1,307,768)	(1,000,942)
NET CASH FLOWS FROM FINANCING ACTIVITIES	43,265,366	5,949,524
NET CHANGE IN CASH AND CASH EQUIVALENTS	(60,374)	(9,472,474)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,544,090	11,016,564
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,483,716	\$ 1,544,090

See Notes to Financial Statements

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(1) Summary of significant accounting policies

Nature of Operations - The Bank provides a variety of financial services to individuals and corporate customers through its office in San Luis Obispo, California. The Bank operates under a federal stock savings bank charter and is subject to regulation by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation.

Basis of Accounting - The Bank reports on the accrual basis of accounting for financial statement and income tax purposes.

Concentration of Credit Risk - The Bank maintains its cash balances in various financial institutions. At various times throughout the years ended December 31, 2007 and 2006 the Bank had cash deposited in Federal Deposit Insurance Corporation (FDIC) insured institutions in excess of the \$100,000 insured limit.

Financial instruments that potentially subject the Bank to concentrations of credit risk consist of loans, deposits, and debt. The majority of the Bank's loan and deposit portfolios consist of customers located in the San Luis Obispo area. Substantially all of the Bank's borrowings are from the Federal Home Loan Bank. The Bank's loan portfolio is also heavily collateralized by real estate located in the same geographic area and contains construction loans. These concentrations subject the Bank to risks associated with fluctuations in real estate values, changes in economic conditions of the region, fluctuations in the amount of construction related activities, growth and development, and employment status of the Bank's customers. Volatility in any of these areas can have a significant impact on the Bank's financial position and results of operations.

Loans and Allowances for Loan Losses - Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees.

Loan origination and commitment fees for certain direct origination costs are deferred and amortized as a yield adjustment over the lives of the related loans using a method which approximates the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on non-accrual status and the carrying amount of the loan is included in the Bank's impairment analysis.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(1) Summary of significant accounting policies (Continued)

The allowance for loan losses is maintained at a level, which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, loan loss experience, economic conditions and other risks inherent in the portfolio. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. The Bank evaluates and grades individual loans as part of the calculation of the allowance for loan losses.

When management believes it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement including scheduled interest payments, the Bank classifies the loan as impaired and evaluates the carrying value of the loan based on its discounted expected future cash flows, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of collateral. In these cases, the current fair value of the collateral, less selling costs, instead of discounted cash flows, is used. If the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the impairment is recognized through an allocated reserve or a charge-off to the allowance.

Premises and Equipment - Land, premises and equipment are carried at cost. Depreciation of premises and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets which are as follows:

<u>Asset Classification</u>	<u>Estimated Useful Lives</u>
Building and improvements	15 - 39 Years
Furniture, fixtures and equipment	5 - 7 Years

On a continuing basis, the Bank reviews the carrying value of the premises and equipment for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." If events or changes in circumstances were to indicate that an asset carrying value may not be recoverable, a write-down of the asset would be recorded through a charge to operations.

Maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized.

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(1) Summary of significant accounting policies (Continued)

Securities Held-to-Maturity - Federal agency securities that management has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts that are recognized in interest income using methods approximating the interest method over the period to maturity. From time to time, the Bank's held-to-maturity securities are called by the issuer. Gains and losses on called securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of individual held-to-maturity securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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.

Stock-Based Compensation - On January 1, 2006, the Bank adopted SFAS No. 123(R), "Share Based Payment". SFAS No. 123(R) allowed private companies to continue to account for any outstanding share based payments at the date of adoption of SFAS No. 123(R) using its prior accounting method which is described above. SFAS No. 123(R), however, eliminates the ability to account for share-based compensation transactions using APB No. 25 for any new stock options granted or modification, repurchase or cancellation of existing options; and instead requires that such transactions be accounted for and recognized in the statement of income based on their fair value. No new options were granted during 2006 or 2007, and no previously granted options were modified, repurchased or cancelled.

Income Taxes - Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the allowance for loan losses, net deferred loan fees and costs, and fixed asset depreciation methods and lives for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Deferred tax assets and liabilities are reflected at 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. A valuation allowance is recorded if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized. A valuation allowance reducing the deferred tax asset was determined not to be necessary at December 31, 2007 and 2006.

Statements of Cash Flows - The Bank considers all cash and amounts due from depository institutions and federal funds sold to be cash equivalents for purposes of the statement of cash flows based on the short term nature of these instruments (generally three months or less).

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(1) Summary of significant accounting policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for losses on loans. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic

conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and the adequacy of related reserves. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Recent Accounting Pronouncements – In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Bank does not believe this SFAS will have a material impact on its financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 permits fair value of assets and liabilities to be determined as a market-based measurement and for the fair value of liabilities to consider nonperformance risk. It also expands upon disclosures about the use of fair value to measure assets and liabilities. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Bank does not believe this SFAS will have a material impact on its financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an Interpretation of SFAS No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*, by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, the financial statement effects of a tax position should initially be recognized when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold should initially and subsequently be measured as the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with a taxing authority. FIN 48 is

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(1) Summary of significant accounting policies (Continued)

effective for fiscal years beginning after December 15, 2007. The cumulative effect, if any, of provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings in the period adopted. The Bank does not believe the adoption of FIN 48 will have a material impact on the Bank's financial position, results of operations, and liquidity.

Foreclosed Real Estate – Foreclosed real estate includes both formally foreclosed property and in-substance foreclosed property. In-substance foreclosed properties are those properties for which the institution has taken physical possession, regardless of whether formal foreclosure proceedings have taken place.

At the time of foreclosure, foreclosed real estate is recorded at the fair value less cost to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the

new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. There were no impairment losses on foreclosed assets during 2006 or 2007. Costs incurred in maintaining foreclosed real estate and subsequent adjustments to the carrying amount of the property are included in income (loss) on foreclosed real estate. There were no costs incurred or adjustments to the carrying values of the foreclosed real estate in 2006 or 2007.

Reclassification – Certain items in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

(2) Securities Held-to Maturity

Investment securities have been classified according to management's intent. Securities held-to-maturity consists of federal agency bonds. The amortized cost of the held-to-maturity securities and their approximate fair values are as follows as of December 31:

	<u>2007</u>	<u>2006</u>
Amortized cost	\$ 76,573,125	\$ 50,508,125
Gross unrealized gains	289,940	-
Gross unrealized losses	(23,870)	(725,405)
Estimated fair value	<u>\$ 76,839,195</u>	<u>\$ 49,782,720</u>

The amount of held to maturity securities called for the years ended December 31, 2007 and 2006 had amortized costs of \$15,000,000 and \$14,000,000, respectively. Proceeds on the called securities were \$15,000,000 and \$14,000,000 resulting in a realized gain of \$0 for both years.

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(2) Securities Held-to Maturity (Continued)

The following is a summary of maturities of securities held-to-maturity as of December 31, 2007:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Amounts maturing in:		
One year or less	\$ -	\$ -
After one year through five years	-	-
After five years through ten years	-	-
After ten years	76,573,125	76,839,195
	<u>\$ 76,573,125</u>	<u>\$ 76,839,195</u>

Investment securities with a carrying amount of \$76,573,125 and \$50,508,125 were pledged to secure deposits, other borrowings, and FHLB advances as required or permitted by law at December 31, 2007 and 2006, respectively.

(3) Loans

Loans are summarized as follows as of December 31:

	<u>2007</u>	<u>2006</u>
Mortgage loans including equity lines	\$ 163,345,396	\$ 140,264,544
Short-term loans for construction	35,242,731	47,063,733
Commercial loans	17,156,391	11,075,634
Consumer loans	4,519,412	2,058,664
	<u>220,263,930</u>	<u>200,462,575</u>
Allowances for loan losses	(3,630,347)	(3,650,000)
Net deferred loan origination fees	(583,624)	(375,126)
	<u>\$ 216,049,959</u>	<u>\$ 196,437,449</u>

An analysis of the allowance for loan losses is as follows for the year ended December 31:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 3,650,000	\$ 2,530,999
Loans charged off	(19,653)	(27,265)
Recoveries	-	-
Provision for losses	-	1,146,266
Balance, end of year	<u>\$ 3,630,347</u>	<u>\$ 3,650,000</u>

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(3) Loans (Continued)

At December 31, 2007 and 2006, the total recorded investment in loans on non-accrual amounted to approximately \$1,548,506 and \$357,537, respectively and the total recorded investment in loans past due ninety days or more and still accruing interest amounted to \$0 for both years.

In the ordinary course of business, the Bank has and expects to continue to have transactions, including borrowings, with its officers, directors, stockholders and their affiliates. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability. The loans to such borrowers are summarized as follows for the year ended December 31:

	<u>2007</u>	<u>2006</u>
Beginning balance	\$ 1,898,917	\$ 7,752,629
Loan additions	637,500	70,000
Loan payments	(798,166)	(5,923,712)
Ending balance	<u>\$ 1,738,251</u>	<u>\$ 1,898,917</u>

As a result of the Bank's decision to change its loan policy with regard to related parties, during 2006 a majority of the outstanding loans to officers, directors, stockholders and their affiliates were refinanced with other financial institutions and are no longer part of the Bank's loan portfolio.

Loans with carrying amounts of \$357,917 and \$0 were transferred to foreclosed real estate in 2007 and 2006, respectively.

(4) Accrued Interest Receivable

Accrued interest receivable consists of the following as of December 31:

	<u>2007</u>	<u>2006</u>
Loans	\$ 1,264,061	\$ 1,404,383
Investments and other	1,111,497	666,788
	<u>\$ 2,375,558</u>	<u>\$ 2,071,171</u>

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(5) Premises and Equipment

Premises and equipment is summarized as follows as of December 31:

	2007	2006
Cost		
Land	\$ 595,850	\$ 595,850
Building and improvements	1,153,969	1,152,906
Furniture, fixtures and equipment	585,647	500,354
Total cost	2,335,466	2,249,110
Accumulated depreciation	(618,418)	(569,669)
 Net premises and equipment	 \$ 1,717,048	 \$ 1,679,441

The aggregate depreciation charged to operations was \$77,733 and \$89,492 for 2007 and 2006, respectively.

(6) Foreclosed Real Estate

At December 31, 2007 and 2006, the Bank had foreclosed real estate held for sale of \$357,917 and \$0, respectively. There were no foreclosure losses, writedowns of foreclosed real estate or real estate taxes paid for foreclosed real estate in 2007 or 2006.

(7) Deposits

Deposit account balances are summarized as follows as of December 31:

	2007	%	2006	%
Noninterest bearing checking accounts	\$ 9,175,928	4.8%	\$ 9,259,828	5.4%
Interest-bearing checking accounts	35,010,486	18.4%	23,929,496	14.0%
Savings accounts	3,362,217	1.8%	2,747,682	1.6%
Certificates of deposit	142,804,787	75.0%	135,186,941	79.0%
	\$ 190,353,418	100.0%	\$ 171,123,947	100.0%

The aggregate amount of short-term jumbo certificates of deposit with a minimum denomination of \$100,000 was approximately \$91,918,000 and \$52,171,000 at December 31, 2007 and 2006, respectively.

All certificates of deposit held at December 31, 2007 will mature within one year.

Brokered deposits of \$52,441,000 and \$79,023,000 maturing within one year were held at December 31, 2007 and 2006, respectively.

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(7) Deposits (Continued)

The Bank held deposits of approximately \$1,031,026 and \$1,137,564 for related parties including officers, directors, and major stockholders at December 31, 2007 and 2006, respectively.

(8) Advances from Federal Home Loan Bank

The Bank had outstanding advances from the Federal Home Loan Bank (FHLB) at December 31, 2007 in the amount of \$76,910,000, maturing at various dates through September 2011. Interest is payable monthly at interest rates ranging from 2.50% to 3.24%. Specific mortgage loans with a balance of approximately \$40,912,270 and FHLB stock of \$3,774,600 at December 31, 2007 were pledged to the FHLB as collateral for advances.

The Bank had outstanding advances from the Federal Home Loan Bank (FHLB) at December 31, 2006 in the amount of \$52,800,000, maturing at various dates through March 26, 2007. Interest is payable monthly at interest rates ranging from 5.27% to 5.58%. On March 26, 2007 these advances matured and were extended for one year until March 26, 2008. Specific mortgage loans with a balance of approximately \$31,593,494 and FHLB stock of \$3,162,000 at December 31, 2006 were pledged to the FHLB as collateral for advances.

(9) Federal Funds Purchased

The Bank had federal funds purchased of \$4,940,000 maturing within two days with an interest rate of 4.95% at December 31, 2007. The Bank had federal funds purchased of \$3,715,000 maturing within four days with an interest rate of 6.21% at December 31, 2006.

(10) Income Taxes

Income tax expense was computed as follows as of December 31:

	<u>2007</u>	<u>2006</u>
Federal income tax	\$ 2,013,333	\$ 2,333,778
State income tax	737,490	762,673
Total income taxes, current provision	<u>2,750,823</u>	<u>3,096,451</u>
Deferred income tax benefit	-	(203,169)
Total income taxes	<u>\$ 2,750,823</u>	<u>\$ 2,893,282</u>

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(10) Income Taxes (Continued)

The Bank provides deferred income taxes to reflect the impact of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The components of the cumulative net deferred tax asset as of December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Loan loss reserve	\$ 1,276,785	\$ 1,276,785
Net deferred loan costs/fees	(741,764)	(778,471)
Depreciation	(94,485)	(57,778)
Total deferred income taxes	<u>\$ 440,536</u>	<u>\$ 440,536</u>

The income tax expense differs from that computed by applying federal statutory rates to income before federal income tax expense, as indicated in the following analysis:

	<u>2007</u>	<u>2006</u>
Federal statutory income tax at 34%	\$ 2,297,315	\$ 2,549,594
Permanent differences	17,892	(4,601)
Other, net	(199,364)	182,459
Effects of state tax	634,980	165,830
	<u>\$ 2,750,823</u>	<u>\$ 2,893,282</u>

(11) Stock Option Plan

The Bank established a stock option plan (the "Plan") during the year ended December 31, 2000 for the purpose of offering selected individuals an opportunity to acquire a proprietary interest in the success of the Bank by purchasing shares of the Bank's stock. The Plan provides for the grant of up to 30% of the Bank's issued and outstanding common shares. Options granted under the Plan may include "Non-statutory Options" as well as "Incentive Stock Options". Pursuant to the Plan, the purchase price of shares offered shall be determined by the Board of Directors at its sole discretion, but shall not be less than the fair market value of such shares at the date of grant. Options granted under the Plan are fully vested at the date of grant, have a basic term not to exceed 10 years, and are exercisable up to 20% per year.

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(11) Stock Option Plan (Continued)

Following is a summary of the activity of the plan during the years ended December 31, 2007 and 2006:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2005	167,000	\$ 3.98
Exercised	(20,500)	3.81
Forfeited	-	-
Outstanding at December 31, 2006	146,500	4.00
Exercised	(2,500)	3.47
Forfeited	-	-
Outstanding at December 31, 2007	144,000	\$ 4.01
Exercisable at December 31, 2007	111,000	

Following is a summary of the status of options outstanding at December 31, 2007:

Exercise Price Range	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$ 2.20	74,500	29 months	\$ 2.20
3.35	1,500	66 months	3.35
3.64	25,500	71 months	3.64
6.88	15,000	75 months	6.88
7.56	20,000	15 months	7.56
8.25	7,500	77 months	8.25

All options were vested at December 31, 2007 and 2006.

The maximum number of shares of common stock reserved for the exercise of stock options at December 31, 2007 was 1,308,278.

(12) Employee Stock Ownership Plan

Effective January 1, 2002, the Bank sponsored a non-leveraged employee stock ownership plan (ESOP) that covers all employees who have completed a twelve month period of employment in which they work at least one thousand hours and are at least twenty-one years of age. Years of service with the Bank before the effective date of the Plan do not apply toward satisfying the requirement.

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(12) Employee Stock Ownership Plan (Continued)

Contributions to the ESOP are invested primarily in San Luis Trust Bank stock; however, the contributions may be invested temporarily in savings accounts or certain other investments, as defined. The amount of the contribution, if any, is decided annually by the Board of Directors. Dividends on shares held by the ESOP are recorded as a reduction of retained earnings. Contributions and earnings of the Plan are allocated each year to eligible employees based upon their proportionate share of total compensation for the year. After three years of service, employees become twenty percent vested in the value of their allocated contributions and earnings, and twenty percent per year thereafter. After six years of service, eligible employees are fully vested. An employee can elect distribution in stock or in cash when the value of their allocated contributions and earnings exceeds \$5,000. If the Plan does not have the cash available for distribution, the employee's stock will be sold. If the stock cannot be sold, the Bank will either make a contribution or loan the required cash to the ESOP.

ESOP compensation expense was \$301,109 and \$100,000 for the years ended December 31, 2007 and 2006, respectively.

The ESOP shares are as follows as of December 31:

	<u>2007</u>	<u>2006</u>
Allocated shares	<u>145,732</u>	<u>100,562</u>

(13) Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Office of Thrift Supervision (OTS). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by the regulators, which if undertaken, could have a direct material affect on the Bank and the financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving 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 under the prompt corrective action guidelines 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 of: total risk-based capital and Tier I capital to risk-weighted assets (as defined in the regulations), Tier I capital to adjusted total assets (as defined), and tangible capital to adjusted total assets (as defined). As of December 31, 2007 and 2006, the Bank meets all of the capital adequacy requirements to which it was subject.

As of December 31, 2007 and 2006 the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage, and tangible capital ratios as disclosed in the table below.

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(13) Regulatory Matters (Continued)

Management believes that no conditions or events have occurred since the most recent OTS examination that would change the Bank's status as "well capitalized" as described above.

On May 9, 2006, the Bank and the Office of Thrift Supervision (OTS), its primary regulator, entered into a Supervisory Agreement (the "Agreement"). The Agreement called for the Bank to appoint a minimum of two new directors acceptable to the OTS, to hire two qualified individuals for the positions of internal auditor and chief credit officer, to adhere to certain credit administration practice changes, and to monitor and certify compliance with the agreement to the OTS on a quarterly basis. In addition, the Agreement required the Bank to submit, within forty-five (45) days, a management plan with written analysis and assessment of the Bank's management needs, to revise certain policies and procedures to the satisfaction of the OTS, to engage a qualified and independent third party consultant to conduct a review and analysis of the Bank's internal controls, to modify and amend existing Internal Control policy, and to submit to the OTS a new three-year business plan. The Bank complied with all terms of the Agreement, and accordingly the Agreement was lifted on June 26, 2007.

The Bank's actual and required capital amounts are as follows (dollars in thousands):

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>				<u>To Be Well Capitalized under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2007:								
Total Risk-Based Capital (to Risk-Weighted Assets)	\$ 32,495	12.9% ≥	\$ 20,114	≥ 8.0%	≥	\$ 25,143	≥ 10.0%	
Tier 1 Capital (to Risk-Weighted Assets)	\$ 29,352	11.7% ≥	\$ 10,057	≥ 4.0%	≥	\$ 15,086	≥ 6.0%	
Tier 1 Capital (to Adjusted Total Assets)	\$ 29,352	9.7% ≥	\$ 12,131	≥ 4.0%	≥	\$ 15,164	≥ 5.0%	
Tangible Capital (to Adjust Total Assets)	\$ 29,352	9.7% ≥	\$ 4,549	≥ 1.5%	≥	\$ 4,549	≥ 1.5%	
As of December 31, 2006:								
Total Risk-Based Capital (to Risk-Weighted Assets)	\$ 29,433	13.2% ≥	\$ 17,846	≥ 8.0%	≥	\$ 22,308	≥ 10.0%	
Tier 1 Capital (to Risk-Weighted Assets)	\$ 26,645	11.9% ≥	\$ 8,923	≥ 4.0%	≥	\$ 13,385	≥ 6.0%	
Tier 1 Capital (to Adjusted Total Assets)	\$ 26,645	10.4% ≥	\$ 10,231	≥ 4.0%	≥	\$ 12,788	≥ 5.0%	
Tangible Capital (to Adjust Total Assets)	\$ 26,645	10.4% ≥	\$ 3,836	≥ 1.5%	≥	\$ 3,836	≥ 1.5%	

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(14) Restriction on Dividends

Under the Federal Deposit Insurance Corporation Improvement Act (FDICIA) regulations, the Bank is subject to restrictions on the payment of dividends. Payment of dividends is prohibited if the effect would render the Bank undercapitalized. The Bank paid dividends of \$1,307,768 and \$1,000,942 for years ended December 31, 2007 and 2006, respectively.

(15) Commitments and Contingencies

In the normal course of business, the Bank has various outstanding commitments and contingent liabilities that are not reflected in the accompanying financial statements. The principal commitments of the Bank are as follows:

Commitments under borrower unused lines of credit totaled approximately \$46,181,275 and \$44,110,953 at December 31, 2007 and 2006, respectively.

Commitments under standby letters of credit totaled approximately \$655,120 and \$413,895 at December 31, 2007 and 2006, respectively.

At December 31, 2007 and 2006, the Bank had unused borrowing capacity with the Federal Home Loan Bank totaling \$56,980,000 and \$12,638,000, respectively.

At December 31, 2007 and 2006, the Bank had unused federal fund lines of credit. The lines totaled \$15,000,000 and \$5,000,000, of which \$4,940,000 and \$3,715,000 was outstanding at December 31, 2007 and 2006, respectively.

(16) Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of financial condition.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments can expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Bank upon extension of credit or entering into a commitment to extend credit, varies and is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(16) Financial Instruments with Off-Balance-Sheet Risk (Continued)

expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral and the nature of such collateral is essentially the same as that involved in making commitments to extend credit.

The Bank has not been required to perform on any financial guarantees during the past two years. The Bank has not incurred any losses on its commitments in either 2007 or 2006.

(17) Cash Flows Disclosure

The following is a summary of supplemental cash flow information:

	<u>2007</u>	<u>2006</u>
Cash paid:		
Interest	<u>\$ 10,842,533</u>	<u>\$ 9,722,143</u>
Income taxes	<u>\$ 3,245,000</u>	<u>\$ 2,777,687</u>
Noncash investing activities:		
Loans transferred to foreclosed real estate	<u>\$ 357,917</u>	<u>\$ -</u>

(18) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Statement No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Bank.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash and cash equivalents - The carrying amounts reported in the statements of financial condition for cash and cash equivalents approximate those assets' fair values.

Held-to-maturity securities - Fair values for investment securities are based on quoted market prices.

SAN LUIS TRUST BANK, FSB

Notes to Financial Statements

(18) Fair Value of Financial Instruments (Continued)

Loans - Fair values for loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers for the same remaining maturities.

Federal Home Loan Bank Stock – Fair value is based upon redemption value, which equates to the carrying amount.

Deposits - The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowed Funds - For these financial instruments, the carrying amount is a reasonable estimate of fair value due to the short-term nature of the liabilities.

Commitments to Extend Credit and Standby Letters of Credit - The fair value of a loan commitment and letter of credit is determined based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of counterparties. Neither the fees earned during the year nor these instruments or their fair value at year-end are significant to the Bank's financial position.

	December 31, 2007		December 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	\$ 1,483,716	\$ 1,484,000	\$ 1,544,090	\$ 1,544,000
Securities held-to-maturity	76,573,125	76,839,000	50,508,125	49,783,000
Loans	219,680,306	191,926,000	200,087,449	197,732,000
Less allowance for loan losses	(3,630,347)	(3,630,000)	(3,650,000)	(3,650,000)
Federal Home Loan Bank Stock	3,774,600	3,775,000	3,162,000	3,162,000
Financial liabilities				
Deposits with no stated maturity	47,548,631	47,549,000	35,937,006	35,937,000
Certificates of deposit	142,804,787	142,805,000	135,186,941	135,171,000
Borrowed funds	76,910,000	76,910,000	52,800,000	52,800,000
Unrecognized financial instruments				
Commitments to extend credit	46,181,275	-	44,110,953	-
Standby letters of credit	655,120	-	420,073	-