

SAN LUIS TRUST BANK

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007 AND

FOR THE YEARS THEN ENDED

AND

INDEPENDENT AUDITOR'S REPORT

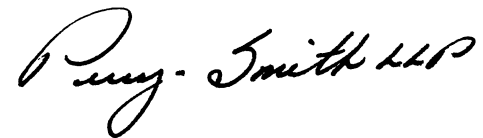
INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
San Luis Trust Bank

We have audited the accompanying balance sheet of San Luis Trust Bank as of December 31, 2008 and the related statements of income, changes in shareholders' equity and cash flows for year 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 audit. The financial statements of San Luis Trust Bank for the year ended December 31, 2007, were audited by other auditors whose report, dated April 21, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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 San Luis Trust Bank as of December 31, 2008 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



April 14, 2009

SAN LUIS TRUST BANK**BALANCE SHEET****December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and due from banks	\$ 1,633,366	\$ 1,483,716
Held-to-maturity investment securities (Notes 2 and 3)	57,373,125	76,573,125
Loans, less allowance for loan losses of \$5,012,419 in 2008 and \$3,630,347 in 2007 (Notes 2, 4, 8, 9 and 13)	247,345,202	216,049,959
Federal Home Loan Bank stock	4,221,300	3,774,600
Bank premises and equipment, net (Notes 5 and 9)	1,722,279	1,717,048
Other real estate	4,908,773	357,917
Accrued interest receivable and other assets	<u>4,844,031</u>	<u>3,051,013</u>
Total assets	<u>\$ 322,048,076</u>	<u>\$ 303,007,378</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$ 8,073,637	\$ 10,118,485
Interest-bearing (Note 6)	<u>210,350,001</u>	<u>181,177,490</u>
Total deposits	218,423,638	191,295,975
Federal funds purchased (Note 8)	120,000	4,940,000
Federal Home Loan Bank advances (Note 8)	71,000,000	76,910,000
Accrued interest payable and other liabilities	<u>1,366,487</u>	<u>509,541</u>
Total liabilities	<u>290,910,125</u>	<u>273,655,516</u>
Commitments and contingencies (Note 9)	-	-
Shareholders' equity (Notes 10 and 11):		
Common stock, \$1.60 par value, 10,000,000 shares authorized; 4,366,927 and 4,360,927 shares issued and outstanding at December 31, 2008 and 2007, respectively	6,987,083	6,977,483
Additional paid-in capital	7,437,711	7,428,072
Retained earnings	<u>16,713,157</u>	<u>14,946,307</u>
Total shareholders' equity	<u>31,137,951</u>	<u>29,351,862</u>
Total liabilities and shareholders' equity	<u>\$ 322,048,076</u>	<u>\$ 303,007,378</u>

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

SAN LUIS TRUST BANK

STATEMENT OF INCOME

For the Years Ended December 31, 2008 and 2007

	2008	2007
Interest income:		
Interest and fees on loans	\$ 17,604,280	\$ 19,063,661
Interest on investment securities	4,384,545	3,545,692
Interest on Federal Funds sold	<u>77,677</u>	<u>153,929</u>
Total interest income	<u>22,066,502</u>	<u>22,763,282</u>
Interest expense:		
Interest on deposits (Note 6)	7,126,531	8,183,037
Interest on borrowings (Note 8)	<u>2,618,219</u>	<u>2,826,547</u>
Total interest expense	<u>9,744,750</u>	<u>11,009,584</u>
Net interest income before provision for loan losses	12,321,752	11,753,698
Provision for loan losses	<u>4,328,383</u>	<u>-</u>
Net interest income after provision for loan losses	<u>7,993,369</u>	<u>11,753,698</u>
Non-interest income	<u>80,478</u>	<u>82,023</u>
Non-interest expenses:		
Salaries and employee benefits (Notes 4 and 14)	2,624,772	3,138,098
Occupancy and equipment (Notes 5 and 9)	278,085	193,938
Other expenses (Note 12)	<u>2,317,124</u>	<u>1,746,877</u>
Total non-interest expenses	<u>5,219,981</u>	<u>5,078,913</u>
Income before provision for income taxes	2,853,866	6,756,808
Provision for income taxes (Note 7)	<u>1,087,016</u>	<u>2,750,823</u>
Net income	<u>\$ 1,766,850</u>	<u>\$ 4,005,985</u>
Basic earnings per share (Note 10)	<u>\$ 0.40</u>	<u>\$ 0.92</u>
Diluted earnings per share (Note 10)	<u>\$ 0.40</u>	<u>\$ 0.91</u>

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

SAN LUIS TRUST BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2008 and 2007

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total Share- holders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, January 1, 2007	4,358,427	\$ 6,973,483	\$ 7,423,409	\$ 12,248,090	\$ 26,644,982
Net income				4,005,985	4,005,985
Issuance of common stock under stock option plan (Note 11)	2,500	4,000	4,663		8,663
Cash dividends - \$0.30 per share				(1,307,768)	(1,307,768)
Balance, December 31, 2007	4,360,927	6,977,483	7,428,072	14,946,307	29,351,862
Net income				1,766,850	1,766,850
Issuance of common stock under stock option plan (Note 11)	6,000	9,600	9,639		19,239
Balance, December 31, 2008	<u>4,366,927</u>	<u>\$ 6,987,083</u>	<u>\$ 7,437,711</u>	<u>\$ 16,713,157</u>	<u>\$ 31,137,951</u>

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

SAN LUIS TRUST BANK
STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net income	\$ 1,766,850	\$ 4,005,985
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,328,383	
Depreciation and amortization	101,481	77,733
(Decrease) increase in deferred loan origination fees, net	(187,588)	208,498
Net increase in accrued interest receivable and other assets	(1,793,018)	(653,324)
Net increase in accrued interest payable and other liabilities	<u>856,946</u>	<u>7,233</u>
Net cash provided by operating activities	<u>5,073,054</u>	<u>3,646,125</u>
Cash flows from investing activities:		
Purchase of held-to-maturity investment securities	(15,000,000)	(41,065,000)
Proceeds from maturities, principal repayments or calls of held-to-maturity investment securities	34,200,000	15,000,000
Net increase in loans	(39,986,894)	(20,178,925)
Purchase of Federal Home Loan Bank stock	(446,700)	(612,600)
Purchases of premises and equipment	<u>(106,712)</u>	<u>(115,340)</u>
Net cash used in investing activities	<u>(21,340,306)</u>	<u>(46,971,865)</u>
Cash flows from financing activities:		
Net (decrease) increase in demand, interest-bearing and savings deposits	(658,408)	11,611,625
Net increase in time deposits	27,786,071	7,617,846
Net (decrease) increase in federal funds purchased	(4,820,000)	1,225,000
Net (decrease) increase in borrowings from Federal Home Loan Bank	(5,910,000)	24,110,000
Proceeds from exercise of stock options	19,239	8,663
Payments of cash dividends	<u>-</u>	<u>(1,307,768)</u>
Net cash provided by financing activities	<u>16,416,902</u>	<u>43,265,366</u>
Increase (decrease) in cash and cash equivalents	149,650	(60,374)
Cash and cash equivalents, beginning of year	<u>1,483,716</u>	<u>1,544,090</u>
Cash and cash equivalents, end of year	<u>\$ 1,633,366</u>	<u>\$ 1,483,716</u>
Additional cash flow information:		
Cash paid during the year for:		
Interest	\$ 9,944,770	\$ 10,842,533
Income taxes	\$ 1,087,016	\$ 3,245,000
Supplemental disclosures of non-cash investing and financing activity:		
Loans transferred to other real estate	\$ 4,550,856	\$ 357,917

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

SAN LUIS TRUST BANK
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

San Luis Trust 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 (OTS) and the Federal Deposit Insurance Corporation (FDIC).

The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America and general practice within the financial services industry.

The Bank is participating in the FDIC's Transaction Account Guarantee Program. Under this program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account and the Bank is assessed an annual fee of 10 basis points for all deposit amounts exceeding the existing deposit insurance limit of \$250,000. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general insurance rules.

Use of Estimates

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. These estimates and assumptions affect the reported amounts of assets and liabilities and the 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.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to classifications used in 2008.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash and due from banks and Federal Funds sold. Generally, Federal Funds sold are for one-day periods.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities

Investment securities are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for as fair value. At December 31, 2008 and 2007, all securities are classified as held-to-maturity and there were no transfers between categories.

Gains or losses on the sale of securities are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Bank to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank of San Francisco, the Bank is required to maintain an investment in the capital stock of the Federal Home Loan Bank (FHLB) in order to participate in FHLB programs. The investment is carried at cost. At December 31, 2008 and 2007, FHLB stock totaled \$4,221,300 and \$3,774,600, respectively. The FHLB can suspend dividends and redemptions upon notification to its members.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Federal Home Loan Bank Stock (Continued)

On January 8, 2009, the FHLB notified its members that it would not pay a dividend for the fourth quarter of 2008 and would not redeem excess capital stock on January 31, 2009.

Loans

Loans are reported at principal balances outstanding and net of deferred loan origination fees and costs, write-downs and the allowance for loan losses. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered to be impaired and the future collectibility of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectibility of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

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 (including both principal and interest) in accordance with the contractual terms of the loan agreement. An impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective rate or, as a practical matter, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent.

Substantially all loan origination fees, commitment fees and direct loan origination costs on loans are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

The Bank services loans that have been participated with other financial institutions totaling approximately \$7.0 million and \$4.6 million as of December 31, 2008 and 2007, respectively. The participated balances of these loans were sold without recourse and are not included on the Bank's balance sheet.

Allowance for Loan Losses

The allowance for loan losses is maintained to provide for losses related to impaired loans and other losses that can be expected to occur in the normal course of business. The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan portfolio, specifically identified problem loans, losses inherent in the portfolio taken as a whole and economic conditions in the Bank's service area.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

Loans determined to be impaired are evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans based on management's assessment of the following for each identified loan type: (1) inherent credit risk, (2) historical losses, and where the Bank has not experienced losses, the loss experience of peer banks and (3) qualitative factors such as changes in local economies, nature and volume of the loan portfolio, volume and severity of past due loans, and levels of concentrations. These estimates are particularly susceptible to changes in the economic environment and market conditions.

The Bank's Board of Directors reviews the adequacy of the allowance for loan losses quarterly, to include consideration of the relative risks in the portfolio and current economic conditions. The allowance is adjusted based on that review if, in the judgment of the Board of Directors and management, changes are warranted.

The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after loan losses and loan growth. The allowance for loan losses at December 31, 2008 and 2007 reflects management's estimate of probable losses in the portfolio. Although management believes the allowance for loan losses to be adequate, ultimate losses may vary from their estimates. In addition, the FDIC and OTS, as an integral part of their examination process, review the adequacy of the allowance for loan losses. These agencies may require additions to the allowance for loan losses based on their judgment about information available at the time of their examinations.

Other Real Estate (ORE)

ORE is initially recorded at fair value at the date acquired less costs to sell. Losses incurred upon initial acquisition of real estate owned through foreclosure are charged to the allowance for loan losses. Subsequently, the Bank provides for losses on ORE when the fair value is estimated to be less than the Bank's recorded investment in the property by establishing a specific valuation allowance with a corresponding charge to expense or by adjusting an existing valuation allowance on the property. Costs related to the development of such properties are capitalized and costs related to holding are charged to non-interest expense as incurred. Gains and losses realized and expenses incurred in connection with the disposition of foreclosed real estate are recognized in income for the period. At December 31, 2008 and 2007, the Bank had ORE of \$4,908,773 and \$357,917, respectively.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank Premises and Equipment

Bank premises and equipment are carried at cost, less accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives, which range from five to seven years for furniture and equipment and thirty-nine years for premises. The Bank evaluates the recoverability of long-lived assets on an ongoing basis. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates which are expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Accounting for Uncertainty in Income Taxes

Since January 1, 2007, the Bank has accounted for uncertainties in income taxes under Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). Under the provisions of FIN 48, only tax positions that met the more-likely-than-not recognition threshold on January 1, 2007 were recognized or continue to be recognized. The adoption of FIN 48 did not have a material impact on the Bank's financial position, results of operations or cash flows.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Uncertainty in Income Taxes (Continued)

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than-not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the statement of income.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2008 and 2007, the Bank did not recognize any interest and penalties.

Stock-Based Compensation

At December 31, 2008, the Bank has one stock-based compensation plan (the "Plan"), which has been approved by its shareholders. The Plan provides for the grant of up to 30% of the Bank's issued and outstanding common shares. Under these plans, 45,500 shares of common stock are reserved for issuance to employees under incentive agreements and 12,500 shares of common stock are reserved for Directors under nonstatutory agreements as of December 31, 2008. The plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid for in full at the time the option is exercised. All options expire on a date determined by the Board of Directors, but not later than ten years from the date of grant. Upon grant, options vest ratably over a five year period. The Plan does not provide for the settlement of awards in cash and new shares are issued upon option exercise or restricted share grants.

There have been no grants of stock options during 2007 or 2008. No share-based compensation expense was recorded during 2007 or 2008.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share

Basic earnings per share (EPS), which excludes dilution, is computed by dividing net income 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, such as stock options, result in the issuance of common stock which shares in the earnings of the Bank. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS.

Impact of New Financial Accounting Standards

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), including an amendment of FASB Statement No. 115. SFAS No.159 permits fair value accounting to be irrevocably elected for certain financial assets and liabilities on an individual contract basis at the time of acquisition or at a remeasurement event date. Upon adoption of SFAS No. 159, fair value accounting may also be elected for existing financial assets and liabilities. For those instruments for which fair value accounting is elected, changes in fair value will be recognized in earnings and fees and costs associated with origination or acquisition will be recognized as incurred rather than deferred. The Bank adopted SFAS No. 159 on January 1, 2008, but did not elect the fair value option for any assets or liabilities for the year ended December 31, 2008.

Business Combinations

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R), among other things, establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Bank is required to adopt SFAS No. 141(R) for all business combinations for which the acquisition date is on or after January 1, 2009. This Standard will change the Bank's accounting treatment for business combinations on a prospective basis.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Bank's financial instruments are as follows:

	December 31, 2008		December 31, 2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 1,633,366	\$ 1,633,366	\$ 1,483,716	\$ 1,483,716
Investment securities				
held-to-maturity	57,373,125	57,463,656	76,573,125	76,839,195
Loans receivable, net	247,345,202	247,242,287	216,049,959	217,727,903
Federal Home Loan Bank Stock	4,221,300	4,221,300	3,774,600	3,774,600
Accrued interest receivable	2,191,185	2,191,185	2,375,558	2,375,558
Financial Liabilities:				
Deposit accounts with no stated maturity	\$ 47,832,780	\$ 47,832,780	\$ 47,548,631	\$ 47,548,631
Certificates of deposit	170,590,858	171,952,417	142,804,787	142,805,000
Borrowed funds	71,120,000	72,515,991	76,910,000	76,910,000
Accrued interest payable	231,356	231,356	431,376	431,376

These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following methods and assumptions were used to estimate the fair value of financial instruments. For cash and cash equivalents, variable-rate loans, accrued interest receivable and payable, FHLB stock, deposits with no stated maturity and short-term borrowings, the carrying amount is estimated to be fair value. For investment securities held-to-maturity, fair values are based on quoted market prices, quoted market prices for similar securities and indications of value provided by brokers. The fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. Fair values for fixed-rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Bank for certificates with similar remaining maturities. The fair values of commitments are estimated using the fees currently charged to enter into similar agreements and are not significant and, therefore, not included in the above table.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. FAIR VALUE MEASUREMENTS

Fair Value Measurements under SFAS 157

On January 1, 2008, the Bank adopted Financial Accounting Standards Board (FASB) Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurement. Upon adoption of SFAS No. 157, there was no cumulative effect adjustment to beginning retained earnings and no impact on the financial statements.

In October 2008, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. The FSP was effective immediately and clarifies the application of FASB Statement No. 157, *Fair Value Measurements* in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

Fair Value Hierarchy

In accordance with SFAS No. 157, the Bank groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 – Quoted market prices for identical instruments traded in active exchange markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Bank's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Assets Recorded at Fair Value

The Bank did not have any financial assets or liabilities required to be measured at fair value on a recurring basis at December 31, 2008.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Measurements under SFAS 157 (Continued)

Assets Recorded at Fair Value (Continued)

The following table presents information about the Bank's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2008:

The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date.

<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Impaired loans	\$ 6,198,188		\$ 6,198,188	
Other real estate	<u>4,908,773</u>		<u>4,908,773</u>	
Total assets measured at fair value on a non-recurring basis	<u>\$ 11,106,961</u>	<u>\$ -</u>	<u>\$ 11,106,961</u>	<u>\$ -</u>

The fair value of impaired loans is based on the fair value of the collateral, obtained through property appraisals, for all collateral dependent loans and for other impaired loans is estimated using a discounted cash flow model.

The fair value of other real estate is based on the values obtained through property appraisals.

3. INVESTMENT SECURITIES

The following tables show the amortized cost and the estimated fair value of investment securities at December 31, 2008 and 2007:

Held-to-Maturity

	2008			Estimated Fair Value
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
Debt securities:				
U.S. Government agencies	<u>\$ 57,373,125</u>	<u>\$ 90,531</u>	<u>\$ -</u>	<u>\$ 57,463,656</u>

	2007			Estimated Fair Value
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
Debt securities:				
U.S. Government agencies	<u>\$ 76,573,125</u>	<u>\$ 289,940</u>	<u>\$ (23,870)</u>	<u>\$ 76,839,195</u>

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. INVESTMENT SECURITIES (Continued)

Held-to-Maturity (Continued)

Proceeds from the calls of investment securities totaled \$34,200,000 with no gains or losses realized for the year ended December 31, 2008. Proceeds from the calls of investment securities totaled \$15,000,000 with no gains or losses realized for the year ended December 31, 2007. There were no sales or transfers of held-to-maturity investment securities during 2008 and 2007.

There were no securities in an unrealized loss position at December 31, 2008. Investment securities with unrealized losses at December 31, 2007 are summarized and classified according to the duration of the loss period as follows:

December 31, 2007					
Less than 12 Months		12 Months or More		Total	
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:					
U.S. Government agencies					
\$ -	\$ -	\$ 25,755,020	\$ (23,870)	\$ 25,755,020	\$ (23,870)

Contractual Maturities

The amortized cost and estimated fair value of held-to-maturity investment securities at December 31, 2008 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	2008	
	Amortized Cost	Estimated Fair Value
After five year through ten years	\$ 1,000,000	\$ 1,000,400
After ten years	56,373,125	56,463,256
	\$ 57,373,125	\$ 57,463,656

Certain investment securities were pledged to secure a borrowing arrangement (see Note 8).

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans receivable are summarized as follows:

	December 31,	
	2008	2007
Real estate:		
Mortgage	\$ 195,950,304	\$ 163,345,396
Construction	29,242,765	35,242,731
Commercial	21,952,272	17,364,972
Consumer	5,608,316	4,310,831
	252,753,657	220,263,930
Less:		
Deferred loan origination fees, net	(396,036)	(583,624)
Allowance for loan losses	(5,012,419)	(3,630,347)
	<u>\$ 247,345,202</u>	<u>\$ 216,049,959</u>

Salaries and employee benefits totaling \$215,452 and \$187,037 were deferred as loan origination costs for the years ended December 31, 2008 and 2007, respectively.

Certain loans have been pledged to secure borrowing arrangements (see Note 8).

Changes in the allowance for loan losses were as follows:

	Year Ended December 31,	
	2008	2007
Balance, beginning of year	\$ 3,630,347	\$ 3,650,000
Provision for loan losses	4,328,383	
Losses charged to the allowance	(2,946,311)	(19,653)
Balance, end of year	<u>\$ 5,012,419</u>	<u>\$ 3,630,347</u>

At December 31, 2008 and 2007, nonaccrual loans totaled \$6,198,188 and \$1,549,781, respectively. There were no loans past due 90 days or more and still accruing interest at December 31, 2008 and 2007. Interest foregone on nonaccrual loans totaled \$1,222,994 and \$94,027 for the years ended December 31, 2008 and 2007, respectively.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

At December 31, 2008 and 2007, the recorded investment in impaired loans totaled \$6,198,188 and \$1,549,781, respectively. There was no related allowance for loan losses at December 31, 2008 or 2007 as the Bank has a practice of immediately charging off the balance of the loan that is in excess of the collateral value less estimated costs to sell. The average recorded investments in impaired loans for the years ended December 31, 2008 and 2007 was \$9,234,554 and \$1,082,748, respectively. There was no interest income recognized on a cash basis for impaired loans for the years ended December 31, 2008 and 2007, respectively.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

	December 31,	
	2008	2007
Land and improvements	\$ 595,850	\$ 595,850
Buildings	1,153,969	1,153,969
Furniture and equipment	683,846	585,647
	2,433,665	2,335,466
Less: accumulated depreciation and amortization	(711,386)	(618,418)
	\$ 1,722,279	\$ 1,717,048

Depreciation and amortization included in occupancy and equipment expense totaled \$101,481 and \$77,733 for the years ended December 31, 2008 and 2007, respectively.

6. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2008	2007
Savings	\$ 1,985,338	\$ 3,362,218
Money market	10,682,585	8,474,465
Interest checking accounts	27,091,220	26,536,020
Time, \$100,000 or more	35,148,055	38,141,360
Other time	56,986,995	52,123,398
Brokered deposits	29,845,091	52,441,000
Wholesale funds	48,610,717	99,029
	\$ 210,350,001	\$ 181,177,490

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. INTEREST-BEARING DEPOSITS (Continued)

A summary of time deposits by maturity is as follows:

Year Ending December 31,	
2009	\$ 129,703,323
2010	34,676,900
2011	6,210,635
	\$ 170,590,858

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2008 and 2007 consisted of the following:

	2008	2007
Savings	\$ 79,417	\$ 100,287
Money market	301,937	380,469
Interest checking accounts	821,633	779,592
Time, \$100,000 or more	1,519,399	1,242,612
Other time	1,685,115	2,532,118
Brokered deposits	1,902,959	3,127,158
Wholesale funds	816,071	20,801
	\$ 7,126,531	\$ 8,183,037

7. INCOME TAXES

The provision for income taxes consisted of the following:

	Federal	State	Total
<u>2008</u>			
Current	\$ 1,147,016	\$ 441,000	\$ 1,588,016
Deferred	(363,000)	(138,000)	(501,000)
Provision for income taxes	\$ 784,016	\$ 303,000	\$ 1,087,016
<u>2007</u>			
Current	\$ 2,013,333	\$ 737,490	\$ 2,750,823

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following:

	December 31,	
	2008	2007
Deferred tax assets:		
Allowance for loan losses	\$ 1,913,000	\$ 1,277,000
Other real estate	<u>176,000</u>	
Total deferred tax assets	<u>2,089,000</u>	<u>1,277,000</u>
Deferred tax liabilities:		
Future liability of state deferred tax assets	(88,000)	
Federal Home Loan Bank stock dividends	(95,000)	
Deferred loan fee income	(876,000)	(742,000)
Premises and equipment	<u>(88,000)</u>	<u>(94,000)</u>
Total deferred tax liabilities	<u>(1,147,000)</u>	<u>(836,000)</u>
Net deferred tax asset	<u>\$ 942,000</u>	<u>\$ 441,000</u>

The Bank believes that it is more likely than not that it will realize the above deferred tax assets in future periods; therefore, no valuation allowance has been provided against its deferred tax assets.

The provision for income tax expense (benefit) differs from amounts computed by applying the statutory Federal income tax rate to income before income taxes. The reasons for these differences are as follows:

	2008		2007	
	Amount	Rate %	Amount	Rate %
Federal income tax expense, at statutory rate	\$ 970,314	34.0	\$ 2,297,315	34.0
State franchise tax, net of Federal tax effect	202,624	7.1	479,733	7.1
Other	<u>(85,922)</u>	<u>(3.0)</u>	<u>(26,225)</u>	<u>(0.4)</u>
Total income tax expense (benefit)	<u>\$ 1,087,016</u>	<u>38.1</u>	<u>\$ 2,750,823</u>	<u>40.7</u>

The Bank files income tax returns in the U.S. federal and California jurisdictions. None of the Bank's tax returns have been examined by the taxing authorities, nor has the Bank been notified of any pending examinations.

With few exceptions, the Bank is no longer subject to tax examination by U.S. federal taxing authorities for years ended before December 31, 2005 and by state and local taxing authorities for years ended before December 31, 2004.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. BORROWING ARRANGEMENTS

Federal Funds Line of Credit

At December 31, 2008 and 2007, the Bank had \$8,000,000 and \$5,060,000, respectively, in unsecured borrowing arrangements with one of its correspondent banks to meet short-term liquidity needs, at interest rates that vary with market conditions. Borrowings outstanding under this arrangement totaled \$120,000 and \$4,940,000 at December 31, 2008 and 2007, respectively, and matured the next business day.

Federal Home Loan Bank Advances

The Bank had outstanding advances from the FHLB at December 31, 2008 in the amount of \$71,000,000, maturing at various dates through September 28, 2011. Interest is payable monthly at interest rates ranging from 2.46% to 3.46%. Specific mortgage loans with a balance of approximately \$82,772,000 and FHLB stock of \$4,221,300 at December 31, 2008 were pledged to the FHLB as collateral for advances.

At December 31, 2008, securities with amortized costs of \$57,373,125 and estimated market values of \$57,463,656 were pledged to secure public deposits and FHLB borrowings.

The Bank had outstanding advances from the 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 \$40,912,000 and FHLB stock of \$3,774,600 at December 31, 2007 were pledged to the FHLB as collateral for advances.

At December 31, 2007, securities with amortized costs of \$76,573,125 and estimated market values of \$76,839,195 were pledged to secure public deposits and FHLB borrowings.

At December 31, 2008 and 2007, the Bank had available borrowing capacity of \$8,745,000 and \$4,573,000, respectively, at the FHLB.

Temporary Liquidity Guarantee Program

The Bank is eligible to issue certain debt that is backed by the full faith and credit of the U.S. Government, up to a limit of \$5,972,710, under the Federal Deposit Insurance Corporation's Temporary Guarantee Program. Any senior unsecured debt with a stated maturity of more than thirty days issued by the Bank up to its debt guarantee limit falls under this program. The Bank will be charged an annualized assessment from the FDIC, ranging from 50 to 100 basis points, based on the term and amount of the debt outstanding under the program. At December 31, 2008, the Bank had no borrowings under this debt guarantee program.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. COMMITMENTS AND CONTINGENCIES

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The amount of such reserve balances at December 31, 2008 and 2007 was \$277,738 and \$413,521, respectively.

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Those insured financial institutions have elected to participate in the FDIC sponsored Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. This program was not in effect in 2007 and uninsured deposits totaled \$2,937,019 at December 31, 2007.

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 represent commitments to originate fixed and variable rate loans, lines of credit, letters of credit and loans in process, and involve, to varying degrees, elements of interest rate risk and credit risk in excess of the amount recognized in the Bank's balance sheet. The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments to originate loans, lines of credit and letters of credit as it does for on-balance sheet instruments.

The following financial instruments represent off-balance-sheet credit risk:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Commitments to extend credit	\$ 40,395,293	\$ 46,181,275
Standby letters of credit	\$ 1,104,656	\$ 655,120

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. COMMITMENTS AND CONTINGENCIES (Continued)

Financial Instruments With Off-Balance-Sheet Risk (Continued)

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 some of the commitments are expected to 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 of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, crops, inventory, equipment, income-producing commercial properties, farm land and residential properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2008 and 2007. The Bank recognizes these fees as revenues over the term of the commitment or when the commitment is used.

At December 31, 2008, consumer loan commitments represent approximately 5% of total commitments and are generally unsecured. Commercial loan commitments represent approximately 16% of total commitments and are generally secured by various assets of the borrower. Real estate loan commitments represent the remaining 79% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. In addition, the majority of the Bank's commitments have variable interest rates.

Concentrations of Credit Risk

The Bank grants real estate mortgage, real estate construction, commercial and consumer loans to customers in San Luis Obispo and surrounding counties. Although the Bank has a diversified loan portfolio, a substantial portion of its portfolio is secured by residential and commercial real estate.

At December 31, 2008 and 2007, in management's judgment, a concentration of loans existed in real estate related loans of which approximately 89% and 90%, respectively, of the Bank's loans were real estate related. A substantial decline in the performance of the economy in general or a continuing decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on the collectibility of these loans. Personal and business income represent the primary source of repayment for a majority of these loans.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. COMMITMENTS AND CONTINGENCIES (Continued)

Leases

The Bank has one property lease on office space located at 1208 Osos Street. The lease expires in 2010 and has a two-year renewal option, with rent increasing 5% annually at that point. The future rental commitment under the lease during its initial term is as follows:

<u>Year Ending December 31, _____</u>	
2009	\$ 24,844
2010	<u>22,532</u>
	<u>\$ 47,376</u>

Rental expense included in occupancy expense totaled \$25,815 and \$6,247 for the years ended December 31, 2008 and 2007, respectively.

Contingencies

The Bank is involved in legal proceedings arising in the normal course of business. In the opinion of management, the outcomes of such proceedings will not have a material adverse effect on the Bank's financial position or results of operations.

10. SHAREHOLDERS' EQUITY

Dividend Restrictions

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2008, retained earnings of \$8,069,645 were free of such restrictions.

During the year ended December 31, 2007, the Bank paid cash dividends \$1,307,768. There were no cash dividends paid during 2008.

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by the FDIC and the OTS. Failure to meet these 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.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (Continued)

Under capital adequacy guidelines, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. These quantitative measures are established by regulation and require that minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets be maintained. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Bank is also subject to additional capital guidelines under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table on the following page. The most recent notification from the FDIC and OTS categorized the Bank as well capitalized under these guidelines. There are no conditions or events since that notification that management believes have changed the Bank's category.

Management believes that the Bank met all capital adequacy requirements as of December 31, 2008 and 2007.

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

	December 31,			
	2008		2007	
	Amount	Ratio	Amount	Ratio
<u>Tier 1 Leverage Ratio</u>				
San Luis Trust Bank	\$ 31,138	9.7%	\$ 29,352	9.7%
Minimum requirement for "Well-Capitalized" institution	\$ 16,105	5.0%	\$ 15,164	5.0%
Minimum regulatory requirement	\$ 12,884	4.0%	\$ 12,131	4.0%
<u>Tier 1 Risk-Based Capital Ratio</u>				
San Luis Trust Bank	\$ 31,138	12.0%	\$ 29,352	11.7%
Minimum requirement for "Well-Capitalized" institution	\$ 15,528	6.0%	\$ 15,086	6.0%
Minimum regulatory requirement	\$ 10,352	4.0%	\$ 10,057	4.0%
<u>Total Risk-Based Capital Ratio</u>				
San Luis Trust Bank	\$ 34,396	13.3%	\$ 32,495	12.9%
Minimum requirement for "Well-Capitalized" institution	\$ 25,880	10.0%	\$ 25,143	10.0%
Minimum regulatory requirement	\$ 20,704	8.0%	\$ 20,114	8.0%

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. SHAREHOLDERS' EQUITY (Continued)

Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows:

	Year Ended December 31,	
	2008	2007
Basic Earnings Per Share:		
Net income	<u>\$ 1,766,850</u>	<u>\$ 4,005,985</u>
Weighted average shares outstanding	<u>4,362,785</u>	<u>4,360,927</u>
Net income per share	<u>\$ 0.40</u>	<u>\$ 0.92</u>
Diluted Earnings Per Share:		
Net income	<u>\$ 1,766,850</u>	<u>\$ 4,005,985</u>
Weighted average shares outstanding	4,362,785	4,360,927
Effect of dilutive stock options	<u>2,407</u>	<u>64,000</u>
Weighted average shares of common stock and common stock equivalents	<u>4,365,192</u>	<u>4,424,927</u>
Net income per diluted share	<u>\$ 0.40</u>	<u>\$ 0.91</u>

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

11. STOCK-BASED COMPENSATION

Stock Options

A summary of the combined activity of the Plans for the years ended December 31, 2008 and 2007 follows:

	<u>Number of Stock Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at January 1, 2007	146,500	\$ 4.00		
Options exercised	<u>(2,500)</u>	\$ 3.47		
Options outstanding at December 31, 2007	144,000	\$ 4.01		
Options exercised	(6,000)	\$ 3.21		
Options forfeited	<u>(80,000)</u>	\$ 6.88		
Options outstanding at December 31, 2008	<u>58,000</u>	\$ 4.75	<u>4.27 years</u>	<u>\$ 6,500</u>
Options vested or expected to vest at December 31, 2008	<u>58,000</u>	<u>\$ 4.75</u>	<u>4.27 years</u>	<u>\$ 6,500</u>
Options exercisable at December 31, 2008	<u>50,000</u>	<u>\$ 4.47</u>	<u>4.12 years</u>	<u>\$ 6,500</u>

The total intrinsic value of options exercised in the years ended December 31, 2008 and 2007 was \$11,586 and \$15,367, respectively.

Cash received from options exercised for the years ended December 31, 2008 and 2007 was \$19,239 and \$8,663, respectively. The actual tax benefit realized for the tax deductions from options exercised were not significant for the years ended December 31, 2008 and 2007, respectively.

12. OTHER EXPENSES

Other expenses consisted of the following:

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Professional fees	\$ 342,002	\$ 206,062
Data processing	285,762	171,555
Director fees	254,250	229,088
Deposit insurance premiums	242,049	227,514
Foreclosure costs	228,492	112,889
Advertising	173,698	132,604
Supplies	117,899	99,340
Postage	26,678	23,863
Other	<u>646,294</u>	<u>543,962</u>
	<u>\$ 2,317,124</u>	<u>\$ 1,746,877</u>

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

13. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including directors and executive officers. These transactions include borrowings from the Bank and are on substantially the same terms and conditions as those prevailing for comparable transactions with unrelated parties.

The following is a summary of the aggregate activity involving related party borrowers during 2008:

Balance, January 1, 2008	\$ 1,739,660
Disbursements	929,099
Amounts repaid	<u>840,879</u>
Balance, December 31, 2008	<u>\$ 1,827,880</u>
Undisbursed commitments to related parties at December 31, 2008	<u>\$ 1,029,509</u>

The Bank held deposits of approximately \$2,738,405 and \$2,329,955 for related parties including officers, directors, and major stockholders at December 31, 2008 and 2007, respectively.

14. EMPLOYEE BENEFIT PLANS

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.

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. Employee contributions are not permitted. 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.

SAN LUIS TRUST BANK

NOTES TO FINANCIAL STATEMENTS

(Continued)

14. EMPLOYEE BENEFIT PLANS (Continued)

Employee Stock Ownership Plan (Continued)

The Bank contributed \$26,750 and \$301,109 for the years ended December 31, 2008 and 2007, respectively, which was recognized in the income statement as compensation expense.

The ESOP shares are as follows as of December 31:

<u>2008</u>	<u>2007</u>
<u>158,715</u>	<u>145,732</u>