

AVIDBANK HOLDINGS, INC.

**ISSUER INFORMATION AND DISCLOSURE STATEMENT
PURSUANT TO RULE 15c2-11(a)(5)**

For the Period ended **September 30, 2018**

This statement has not been filed with the Securities and Exchange Commission or any other regulatory agency

The following information is compiled, maintained and made available pursuant to Rule 144(c)(2) of the Securities Act of 1933, as amended, and Rule 15c2-11(a)(5)(i)-(xiv) and (a)(5)(xvi) of the Securities Exchange Act of 1934, as amended (“Securities Exchange Act”). Avidbank Holdings, Inc. (the “Company”) is not subject to Section 13 or 15(d) of the Securities Exchange Act and does not file periodic reports with the Securities and Exchange Commission (“SEC”). In the absence of such filings, this information is intended to satisfy the requirement that adequate current public information with respect to an issuer be available as a condition to the resale of certain securities of the issuer under Rule 144.

i. the exact name of the issuer and its predecessor (if any);

The name of the Company is Avidbank Holdings, Inc. The Company’s predecessor and current subsidiary is Avidbank. The Company was formerly Peninsula Bank Holding Co., which was organized in 2007 to be the holding company for The Private Bank of the Peninsula which was incorporated on April 8, 2003 and commenced operations on October 1, 2003. The Private Bank of the Peninsula changed its name to Avidbank on April 1, 2011, and Peninsula Bank Holding Co. changed its name to Avidbank Holdings, Inc. on August 1, 2011.

ii. the address of its principal executive offices;

1732 North First Street, 6th Floor
San Jose, California 95112
telephone: (408) 200-7390
website: www.avidbank.com

for investor relations issues, contact:

Mark D. Mordell, Chairman and CEO
1732 North First Street, 6th Floor
San Jose, California 95112
telephone: (408) 200-7390

iii. the state of incorporation, if it is a corporation;

California; incorporated in 2007 to act as the holding company for Avidbank

iv. the exact title and class of the security; and

v. the par or stated value of the security;

a. **5,974,645** shares of Avidbank Holdings, Inc. Common Stock, no par value,

issued and outstanding as of [September 30, 2018](#); Stock Ticker Symbol – AVBH or AVBH.OB; CUSIP # 05368J103; approximately 475 shareholders of record.

vi. the number of shares or total amount of the securities outstanding as of the end of the issuer's most recent fiscal year;

As of December 31, 2017, there were [5,893,144](#) shares of Avidbank Holdings, Inc. Common Stock, no par value, issued and outstanding

As of December 31, 2017, there were [85,650](#) options to purchase the Company's Common Stock issued and outstanding under the Company's equity incentive plan.

vii. the name and address of the transfer agent;

American Stock Transfer & Trust Company, LLC

6201 15th Avenue
Brooklyn, NY 11219
Bus: 718.921.8337
eFax: 718.765.8795

Attention: Craig Colosso

viii. the nature of the issuer's business;

Avidbank Holdings, Inc. is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated under the laws of the State of California in 2007 for the principal purpose of engaging in activities permitted for a bank holding company. As a bank holding company, the Company is authorized to engage in the activities permitted under the Bank Holding Company Act of 1956, as amended, and the regulations thereunder. Its principal office is located at 1732 North First Street, 6th Floor, San Jose, California 95112 and its telephone number is 408 (200)-7390.

The Company owns 100% of the issued and outstanding common shares of its banking subsidiary, Avidbank.

The Bank was incorporated under the laws of the State of California on April 8, 2003, and with the approval of the Department of Financial Institutions and the Federal Deposit Insurance Corporation (the "FDIC"), opened for business on October 1, 2003. In doing so, the Bank became the first locally owned commercial bank to start business in Palo Alto in many years. Avidbank operates in Santa Clara, San Mateo and San Francisco Counties including a head office and branch office in San Jose located at 1732 North First Street, 6th floor, San Jose, CA and a full service branch at 437 Lytton Avenue, Suite 100, Palo Alto, CA. The Bank has loan production offices in Redwood City located at 999 Main Street, Suite 100 and in San Francisco located at 135 Main Street, Suite 1130.

Avidbank's deposits are insured by the FDIC up to applicable legal limits. Avidbank's primary business is providing a wide array of financial products with an exemplary level of personal service to small and medium sized businesses, professionals and individuals preferring quality personal attention. The Bank's principal service area is Santa Clara, San Francisco and San Mateo counties, and the Bank utilizes electronic banking systems and an extensive courier service to provide personalized banking services throughout its service area. Avidbank accepts checking

and savings deposits, offers unsecured commercial loans, secured real estate loans, and other installment or term loans and offers other customary banking services. The Bank is a California state-chartered banking institution.

The mission of Avidbank is to provide customized financial services to the San Francisco Bay Area's businesses, professionals, and individuals who desire a high degree of personalized attention.

The Company's Primary SIC Code is 6022, state commercial bank.

For discussion of Supervision and Regulation of the Company and the Bank, see Appendix A.

At [September 30, 2018](#), the company had [92](#) full-time employees and equivalents.

ix. the nature of products or services offered;

Avidbank is a full service community bank that specializes in providing financial services to small and medium sized businesses, professionals and individuals in the San Francisco Bay Area. The products and the marketing focus of the Bank are designed to meet the demands of the Bank's target market. In addition to providing products and services, the Bank emphasizes the establishment of long standing relationships with its customers, and regularly modifies the products and services it offers to meet the unique demands of its customers. The following discussion is a review of the base or core products and services that Avidbank offers and is prepared to structure to meet customer needs.

Commercial Lending

The Bank provides a full array of commercial credit products:

- Lines of Credit to finance seasonal cash flow fluctuation.
- Term Loans to finance equipment purchases, business acquisitions and other growth needs.
- Account Receivables / Inventory Lines to finance business with ongoing working capital requirements.
- Standby Letters of Credit in lieu of performance bonds or guarantees.

The Bank's commercial and industrial loans have a high degree of industry diversification. A substantial portion of commercial and industrial loans that are not secured by real estate are secured by accounts receivables, inventory, equipment or other collateral. The remainder of the Bank's commercial and industrial loans are unsecured. Both secured and unsecured loans are underwritten based on the underlying historic and projected cash flow of the borrower.

Commercial Real Estate and Construction Lending

The Bank provides commercial real estate financing for both construction and mortgage purposes as well as construction lending on residential properties. Although many real estate borrowers are owners / users of the property constructed and / or permanently financed, the Bank also provides real estate financing for developers. The products offered by the bank include:

- Construction Loans for both residential and commercial projects.
- Commercial Mortgage financing (“Mini Perms”) with maturities up to ten years with longer amortizations.
- Acquisition financing for “build ready” lots that are already zoned and approved for the proposed project.
- Business lines of credit secured on residential or commercial property which provide secured working capital lines to developers.

Real estate mortgage loans are secured by deeds of trust on commercial property with repayment from the cash flow of the borrower.

Real estate construction loans consist of loans to individuals and residential developers that are secured by single-family and multi-family residential properties and to owner-users and developers that are secured by commercial properties. Repayment of construction loans is generally from long-term mortgages.

Personal Loan Products

For individuals, Avidbank offers lines of credit on an unsecured basis to qualified borrowers.

Cash Management Services

For business customers, Avidbank offers an extensive array of cash management products, which can be customized to meet specific customer requirements.

Cash management products for both businesses and individuals are accessible via the Internet.

Deposit Products

Avidbank offers a wide variety of both interest bearing and non-interest bearing transactional accounts for both businesses and individuals. In addition to providing access to deposit accounts via Online (Internet) Banking, the Bank also provides extensive courier service throughout the San Francisco Bay Area so that customers’ deposit and other banking needs may be served without the customer having to make a trip to the Bank. The Bank also offers savings accounts, money market deposit accounts and certificates of deposits for businesses and individuals.

Other Services

Avidbank offers notary services and medallion guarantee stamps for stock transfers.

It is Avidbank’s intent to provide our customers with easy access to solutions for all their financing needs.

Competition

The Bank’s primary market area consists of the San Francisco Bay Area peninsula and nearby communities of adjacent counties. In California generally, and in the Bank’s service area specifically, major banks and local regional banks dominate the commercial banking industry. By virtue of their larger capital bases, such institutions have substantially greater lending limits than

those of the Bank, as well as more locations, more products and services, greater economies of scale and greater ability to make investments in technology for the delivery of financial services.

As an independent bank, the Bank's principal competitors for deposits and loans are other banks (particularly major banks), savings and loan associations, credit unions, thrift and loans, mortgage brokerage companies and insurance companies. Other institutions, such as mutual funds, brokerage houses, credit card companies and even retail establishments have offered new investment vehicles, such as money-market funds, that also compete with banks. The direction of federal legislation in recent years' favors competition between different types of financial institutions and encourages new entrants into the financial services market, and it is anticipated that this trend will continue.

To compete with larger financial institutions in its service area, the Bank relies upon specialized services, responsive handling of customer needs, local promotional activity, and personal contacts by its officers, directors and staff, compared to large multi-branch banks that compete primarily on interest rates and location of branches. The Bank also assists customers requiring services not offered by the Bank to obtain such services from its correspondent banks. For customers whose loan demands exceed the Bank's lending limits, the Bank seeks to arrange funding for such loans on a participation basis with its correspondent banks or other independent commercial banks. No assurance can be given that the Bank will be able to compete successfully for such loans. Even if the Bank is successful in making such larger loans, larger and stronger borrowers may be more creditworthy and therefore may be able to negotiate for lower interest rates on their loans, which in turn may reduce the net interest margin in the Bank's portfolio.

x. the nature and extent of the issuer's facilities;

The Company and Avidbank lease all four of their current premises.

The Company's headquarters and branch office are located at 1732 North First Street, San Jose, CA 95112. The landlord is RNM First Street Center, L.P., 135 Main Street, Suite 1140, San Francisco, CA 94105. The premises consist of approximately 28,404 square feet on the sixth floor of the office building. The Bank leased the property for ten years commencing in October 23, 2017 and contains one five-year renewal option.

Avidbank's branch office is located at 437 Lytton Avenue, Suite 100, Palo Alto, CA 94301. The landlord is Manhattan Associates, LP, 3105 Woodside Road, Woodside, CA, 94062. The branch office consists of approximately 2,986 square feet situated on the first floor of the building. The office was leased for a ten-year term commencing on November 13, 2017 and contains one five-year renewal option.

The Bank's San Jose office opened June 16, 2012 at 50 W. San Fernando Street, Suite 405, San Jose, California, and moved to its current location at Suite 850 of the same office building on January 20, 2014. The current premises consist of approximately 7,600 square feet on the eighth floor of a seventeen story commercial office building. The office space is leased from 50 West San Fernando Owner, LLC. This lease has a schedule of fixed annual rent increases with the initial term expiring in January 2019. The staff from this location have been moved into the new location at 1732 North First Street and the space is vacant.

The Bank's Redwood City loan production office opened October 1, 2012 and is located at 999 Main Street, Redwood City, California. The premises consist of approximately 2,637 square feet on the first floor of a two story commercial office building. The office space is leased from

Premia 9M, LLC. This lease has a schedule of fixed annual rent increases with the initial term expiring in 2019. The lease contains one five-year renewal option.

The Bank's San Francisco loan production office opened March 30, 2015 and is located at 135 Main Street, Suite 1130, San Francisco, California. The premises consist of approximately 4,375 square feet on the eleventh floor of a twenty-two story commercial office building. The office space is leased from RNM 135 Main, LP. This lease has a schedule of fixed annual rent increases with the term expiring in 2022.

xi. the name of the chief executive officer and members of the board of directors;

Name	Age	Position With Company	Director Since	Principal Occupation, Business Experience During Past Five Years and Other Information
Mark D. Mordell	58	Chairman of the Board and CEO	2006	Chairman of the Board and Chief Executive Officer of the Bank and the Company. Mr. Mordell joined the board in January of 2006 and was appointed Chairman in February of 2007. He was named Chief Executive Officer in March of 2012 and brings over 30 years of financial services, real estate and diverse business experience to the bank. He is founder and former board member of CBC Properties, LLC, a full service real estate investment and management organization based in Palo Alto. Mr. Mordell also serves as an advisor to MMM Management, Inc., the strategic advisor to a family office based in San Francisco.
Kristofer W. Biorn	53	Director	2009	Attorney with the Palo Alto law firm of Crist, Biorn, Shepherd & Roskoph, APC. He has served on the Silicon Valley Bar Association Executive Committee and the Palo Alto Family YMCA Board of Directors.
Kenneth D. Brenner	71	Director and Head Of Strategic Relationships	2007	Mr. Brenner served as Chief Executive Officer of the Bank and the Company from August 2007 until March 2012. From 2001 to 2006, Mr. Brenner was Executive Vice President of Bridge Bank, and President and Manager of their Palo Alto region. He was President and Managing Director of the Venture Banking Group of Cupertino National Bank from 1992 through 2001, and for the seven years prior to that was Senior Vice President at Silicon Valley Bank.

Name	Age	Position With Company	Director Since	Principal Occupation, Business Experience During Past Five Years and Other Information
Lisa B. Hendrickson	66	Director	2006	Former Capital Project Manager and former President and CEO of Avenidas, a Palo Alto based not-for-profit senior services agency. Previously she had twenty years of commercial banking experience culminating as Senior Vice President and Manager, Regional Commercial Banking, Wells Fargo Bank, Palo Alto.
Bryan C. Polster	65	Lead Independent Director	2007	Chairman of the Board of Partners and former Managing Partner of Frank, Rimerman & Co. LLP and its subsidiaries. He is a practicing Certified Public Accountant and has served on several committees of the American Institute of Certified Public Accountants.
Roxy H. Rapp	80	Director	2007	Founder of Rapp Development, a commercial real estate development company focused on the San Francisco Bay Area. He has served on the Board of Trustees of Menlo College, the Palo Alto Junior Museum & Zoo, the Museum of American Heritage and the Palo Alto Chamber of Commerce.
Michael F. Rosinus	60	Director	2014	Senior Advisor to Tricadia Capital Management, LLC focusing on investments in the financial services industry. He is also founder of TRF Partners, LLC a co-general partner of PTMR Capital Partners LP -- a fund making equity investments in community banks. Mr. Rosinus is also a director of Homebancorp and Bridgeview Bancorp. He was employed in the banking industry for 18 years, serving as the Chief Lending Officer for M&T Bank in New York City and subsequently the Chief Executive Officer of the Commercial Banking Division for Citibank in Chicago.
Robert H. Scott	63	Director	2017	CEO of Bradford Networks, a network security company. Previously, Rob served as CEO of Clique Intelligence a software platform for data sharing and collaboration. In 2008 he was appointed, Vice President of Worldwide Sales and Marketing at HP ProCurve Networking. Previously he was with Colubris Networks, where he had served as president and CEO, helping the company ascend to a prominent position in the wireless LAN industry. During his career, Rob has steered the helm of several technology companies as president and CEO, including Xelor Software, an IP telephony company, and IPeria, a provider of network-based voice messaging applications.

Name	Age	Position With Company	Director Since	Principal Occupation, Business Experience During Past Five Years and Other Information
Marc Verissimo	62	Director	2017	After stints with Bank of America, First Interstate Bank, and Comerica Bank, Mr. Verissimo joined Silicon Valley Bank in 1993. Over the next 24 years he served on the executive committee and worked in multiple roles including Head of California Banking, Chief Strategy Officer, Chief Risk Officer, and twice held the office as interim Chief Financial Officer. In these positions, he led the California banking team that comprised two thirds of the bank's revenues, oversaw the bank's international expansion into the United Kingdom, China, Israel and India, oversaw IT, HR, Legal, Operations, Finance, Audit, BSA/AML at various times, and finally led credit, enterprise Risk Management, cyber security, compliance, credit review, and regulatory relations among other responsibilities.

Principal Shareholders

Principal shareholders owning five percent or more of the Company's issued and outstanding shares of common stock are listed in the table below.

Security Ownership of Management, Directors and Principal Shareholders

The following table sets forth information as of [September 30, 2018](#) pertaining to beneficial ownership of the Company's common stock. The information in the following table has been obtained from the Company's records, or from information furnished directly by the individual or entity to the Company.

For purposes of the following table, shares issuable pursuant to stock options which may be exercised within 60 days of the above date are deemed to be issued and outstanding and have been treated as outstanding in determining the amount and nature of beneficial ownership and in calculating the percentage of ownership of those individuals possessing such interest, but not for any other individuals.

9/30/18

Name and Address of Beneficial Owner (A)	Relationship with Company	Amount and Nature of Beneficial Ownership (B)	Unvested Restricted Stock (C)	Vested Options (D)	% Shares Owned, Restricted Stock and Vested Options
Mark D. Mordell	<i>CEO and Chairman</i>	92,318	32,478	0	2.07%
Kristofer W. Biorn	<i>Director</i>	45,765	2,000	0	0.79%
Lisa B. Hendrickson	<i>Director</i>	31,010	2,000	0	0.55%
Bryan C. Polster	<i>Director</i>	142,353	2,000	0	2.39%
Roxy H. Rapp	<i>Director</i>	100,599	2,000	0	1.70%
Michael F. Rosinus (E)	<i>Director</i>	200,000	2,000	7,500	3.47%
Robert H. Scott	<i>Director</i>	264	2,000	0	0.04%
Marc Verissimo	<i>Director</i>	0	2,000	0	0.03%
Kenneth D. Brenner	<i>Director and Head of Strategic Relationships</i>	46,316	6,430	0	0.87%
Dori K. Hamilton	<i>Executive Vice President and Chief Banking Officer</i>	33,591	7,191	0	0.68%
Steven J. Leen	<i>Executive Vice President and Chief Financial Officer</i>	24,227	7,408	0	0.52%
Ronald E. Oliveira	<i>President and Chief Credit Officer</i>	18,337	8,484	0	0.44%
All directors and executive officers as a group (12 in number)		734,780	75,991	7,500	13.56%
EJF Capital LLC	<i>5% or more ownership</i>	397,289	0	0	6.58%
Patriot Financial Partners, L.P.	<i>5% or more ownership</i>	395,316	0	0	6.55%

(A) The address for all persons is c/o Avidbank Holdings, Inc., 1732 North First Street, 6th Floor, San Jose, CA 95112.

(B) Includes all shares owned, whether directly or indirectly, individually or together with associates.

(C) Includes all shares of unvested restricted stock issued.

(D) Includes any shares of which beneficial ownership may be acquired within 60 days by exercise of stock options.

(E) Mr. Rosinus has a 50% ownership in PTMR Capital Partners LP which owns 200,000 shares of the company's stock.

xii. the issuer's \$20 million private offering

On July 13, 2017, Avidbank Holdings, Inc. completed a \$20 million private offering of common shares at a purchase price of \$19.00 per share. Sandler O'Neill + Partners, L.P. acted as the sole placement agent for Avidbank Holdings in connection with the offering. Manatt, Phelps & Phillips, LLP, San Francisco, CA acted as legal counsel to Avidbank Holdings. Sheppard, Mullin, Richter & Hampton LLP acted as legal counsel to the placement agent

xiii. the issuer's private placement of subordinated notes;

On November 12, 2015, Avidbank Holdings, Inc. completed a private placement of \$12 million in ten-year, fixed-to-floating rate subordinated notes to certain qualified institutional buyers. The subordinated notes have a maturity date of November 15, 2025 and bear interest at the rate of 6.875% per annum, payable semiannually, for the first five years of the term, and then at a variable rate that will reset quarterly to a level equal to the then current 3-month LIBOR plus 536.7 basis points over the remainder of the term. The notes are redeemable after five years, subject to satisfaction of certain conditions. The indebtedness evidenced by the subordinated notes, including principal and interest, is unsecured and subordinate and junior to general and secured creditors and depositors.

The subordinated notes were issued at the holding company level, and have been structured to qualify as Tier 2 capital for regulatory purposes. The Company plans to use the proceeds from the placement of the subordinated notes for general corporate purposes including, but not limited to, contributing capital to the Bank to fund future growth. Sandler O'Neill + Partners, L.P. acted as placement agent for the private placement of the subordinated notes. The Company was advised by Manatt, Phelps & Phillips, LLP.

xiv. the issuer's most recent balance sheet and profit and loss and retained earnings statements;

Please refer to the financial tables below. The balance sheet includes a statement of retained earnings.

AVIDBANK HOLDINGS, INC. AND SUBSIDIARY

Unaudited Consolidated Statement of Condition

(In thousands, except number of shares)

<u>Assets</u>	<u>9/30/18</u>	<u>6/30/18</u>	<u>3/31/18</u>	<u>12/31/17</u>	<u>9/30/17</u>
Cash and due from banks	\$13,256	\$10,767	\$15,729	\$10,650	\$11,068
Due from Federal Reserve Bank	79,670	57,070	48,475	22,710	74,970
Total cash and cash equivalents	92,926	67,837	64,204	33,360	86,038
Investment securities - available for sale	57,401	60,362	70,797	74,364	76,742
Loans, net of deferred loan fees	757,115	691,011	662,005	648,273	578,524
Allowance for loan losses	(8,811)	(8,297)	(8,297)	(8,297)	(8,191)
Loans, net of allowance for loan losses	748,304	682,714	653,708	639,976	570,333
Bank owned life insurance	10,822	10,754	10,686	10,619	10,551
Premises and equipment, net	5,951	6,165	6,349	5,946	3,387
Other real estate owned	2,094	-	-	-	-
Accrued interest receivable & other assets	17,776	17,212	16,749	18,728	16,756
Total assets	\$935,274	\$845,044	\$822,493	\$782,993	\$763,807
<u>Liabilities</u>					
Non-interest-bearing demand deposits	\$384,731	\$313,143	\$281,967	\$275,925	\$295,862
Interest bearing transaction accounts	22,793	23,302	23,228	16,554	16,988
Money market and savings accounts	249,580	219,869	250,218	243,198	229,143
Time deposits	132,439	122,321	110,906	110,730	117,670
Total deposits	789,543	678,635	666,319	646,407	659,663
FHLB advances	30,000	55,000	50,000	30,000	-
Subordinated debt, net	11,824	11,803	11,782	11,761	11,740
Other liabilities	7,286	5,879	3,578	5,718	4,421
Total liabilities	838,653	751,317	731,679	693,886	675,824
<u>Shareholders' equity</u>					
Common stock/additional paid-in capital	67,891	67,626	67,230	66,996	66,704
Retained earnings	30,581	27,716	25,050	22,811	21,802
Accumulated other comprehensive income (loss)	(1,851)	(1,615)	(1,466)	(700)	(523)
Total shareholders' equity	96,621	93,727	90,814	89,107	87,983
Total liabilities and shareholders' equity	\$935,274	\$845,044	\$822,493	\$782,993	\$763,807
<u>Capital ratios</u>					
Tier 1 leverage ratio	11.07%	11.59%	11.45%	11.43%	11.87%
Common equity tier 1 capital ratio	10.39%	10.84%	10.84%	10.70%	11.61%
Tier 1 risk-based capital ratio	10.39%	10.84%	10.84%	10.70%	11.61%
Total risk-based capital ratio	12.61%	13.20%	13.24%	13.13%	14.27%
Book value per common share	\$16.17	\$15.66	\$15.25	\$15.12	\$14.99
Total common shares outstanding	5,974,645	5,983,390	5,956,609	5,893,144	5,870,691
<u>Other Ratios</u>					
Non-interest bearing deposits to total deposits	48.7%	46.1%	42.3%	42.7%	44.9%
Core deposits to total deposits	85.9%	85.1%	86.9%	87.4%	86.7%
Loan to deposit ratio	95.9%	101.8%	99.4%	100.3%	87.7%
Allowance for loan losses to total loans	1.16%	1.20%	1.25%	1.28%	1.42%

AVIDBANK HOLDINGS, INC. AND SUBSIDIARY

Unaudited Consolidated Statements of Income

(In thousands, except per share data)

	<u>Quarter Ended</u>			<u>Year to Date</u>	
	<u>9/30/18</u>	<u>6/30/18</u>	<u>9/30/17</u>	<u>9/30/18</u>	<u>9/30/17</u>
Interest and fees on loans and leases	\$10,176	\$9,480	\$7,899	\$28,553	\$22,598
Interest on investment securities	350	404	466	1,209	1,511
Other interest income	349	232	160	730	336
Total interest income	<u>10,875</u>	<u>10,116</u>	<u>8,525</u>	<u>30,492</u>	<u>24,445</u>
Deposit interest expense	800	641	475	1,990	1,231
Other interest expense	479	525	277	1,370	866
Total interest expense	<u>1,279</u>	<u>1,166</u>	<u>752</u>	<u>3,360</u>	<u>2,097</u>
Net interest income	9,596	8,950	7,773	27,132	22,348
Provision for loan losses	665	-	74	665	1,880
Net interest income after provision for loan losses	8,931	8,950	7,699	26,467	20,468
Service charges, fees and other income	453	486	403	1,576	1,195
Income from bank owned life insurance	68	68	72	203	217
Gain (Loss) on sale of investment securities	0	17	-	17	-
Total non-interest income	<u>521</u>	<u>571</u>	<u>475</u>	<u>1,796</u>	<u>1,412</u>
Compensation and benefit expenses	3,619	3,756	3,421	11,258	9,309
Occupancy and equipment expenses	842	731	731	2,638	1,991
Other operating expenses	1,201	1,253	1,082	3,757	3,065
Total non-interest expense	<u>5,662</u>	<u>5,740</u>	<u>5,234</u>	<u>17,653</u>	<u>14,365</u>
Income before income taxes	3,790	3,781	2,940	10,610	7,515
Provision for income taxes	925	1,115	1,280	2,971	2,870
Net income	<u>\$2,865</u>	<u>\$2,666</u>	<u>\$1,660</u>	<u>\$7,639</u>	<u>\$4,645</u>
Basic earnings per common share	\$0.50	\$0.46	\$0.30	\$1.33	\$0.94
Diluted earnings per common share	\$0.49	\$0.45	\$0.29	\$1.30	\$0.92
Average common shares outstanding	5,767,950	5,753,044	5,552,977	5,751,400	4,945,170
Average common fully diluted shares	5,879,337	5,866,669	5,658,098	5,865,859	5,046,031
Annualized returns:					
Return on average assets	1.28%	1.30%	0.88%	1.22%	0.86%
Return on average common equity	11.82%	11.48%	7.75%	10.95%	8.59%
Net interest margin	4.47%	4.56%	4.33%	4.53%	4.32%
Cost of funds	0.65%	0.65%	0.45%	0.61%	0.43%
Efficiency ratio	55.97%	60.29%	63.46%	61.02%	60.46%

xv. similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence;

Please refer to the Company's audited balance sheets as of December 31, 2017 and December 31, 2016 and related consolidated statements of income, statements of shareholders' equity and comprehensive income cash flows for each of the years in the three-year period ending December 31, 2017 in conformity with generally accepted accounting principles together with the report of independent certified public accountants included in Avidbank Holdings, Inc.'s 2017 Annual Report.

A copy of the Company's 2017 Annual Report can be found on the home page of the company's web site www.avidbank.com under the title Investor Relations followed by the subtitle Financial Documents.

xvi. whether a broker or dealer or any associated person is affiliated, directly or indirectly with the issuer;

No broker or dealer or any associated person is affiliated, directly or indirectly, with the Company in connection with any shares of the Company's common stock that may be resold under Rule 144. One or more brokers or dealers facilitate trades in the Company's common stock and may act as informal market makers. However, no broker or dealer has any obligation to purchase or sell any of the Company's shares of common stock at any time and may discontinue any market making activities at any time.

xvii. [omitted]

xviii. whether the quotation is being submitted or published directly or indirectly on behalf of the issuer, or any director, officer or any person, directly or indirectly the beneficial owner of more than 10 percent of the outstanding units or shares of any equity security of the issuer, and, if so, the name of such person, and the basis for any exemption under the federal securities laws for any sales of such securities on behalf of such person.

To the best knowledge of the Company, there is no quotation being submitted or published directly or indirectly on behalf of the Company, or any director, officer or any person directly or indirectly the beneficial owner of more than 10 percent of the outstanding units or shares of any equity security of the Company, or at the request of any promoter for the Company.

As of the date of this disclosure, officers or directors of the Company for whose account a broker or dealer is offering to sell shares of the Company's common stock include the following:

NONE as of September 30, 2018

The Company's regular outside counsel is Manatt, Phelps & Phillips, LLP, San Francisco, California. The Company's independent public accounting firm is Crowe Horwath LLP. The services provided by Crowe Horwath LLP include the auditing and reporting of the

financial status of the Company.

This information has been prepared by the Company. If this information is made available by a broker or dealer to other persons pursuant to a request under Rule 15c2-11, delivery of this information to other persons shall not constitute a representation by the broker or dealer that the information is accurate.

Date on which this information was last revised: **September 30, 2018**

No dealer, salesman or any other person has been authorized to give any information, or to make any representations, not contained herein in connection with the issuer. Such information or representations, if made, must not be relied upon as having been authorized by the issuer.

Delivery of this information file does not at any time imply that the information contained herein is correct as of any time subsequent to the date above.

Appendix A

SUPERVISION AND REGULATION

Regulatory Environment

The banking and financial services industry is extensively regulated. Statutes, regulations and policies affecting the industry are frequently under review by Congress and state legislatures, and by the federal and state agencies charged with supervisory and examination authority over banking institutions. Changes in the banking and financial services industry can be expected to occur in the future. Some of the changes may create opportunities for Avidbank Holdings, Inc. and the Bank to compete in financial markets with less regulation. However, these changes also may create new competitors in geographic and product markets which have historically been limited by law to bank institutions, such as the Bank. Changes in the statutes, regulations, or policies that impact Avidbank Holdings, Inc. and the Bank cannot necessarily be predicted and may have a material effect on their business and earnings.

Set forth below is a summary of significant statutes, regulations and policies that apply to the operation of banking institutions. This summary is qualified in its entirety by reference to the full text of such statutes, regulations and policies.

Dodd-Frank Capital Rules

In July 2013, the federal bank regulatory agencies adopted final regulations which revised their risk-based and leverage capital requirements for banking organizations to meet requirements of the Dodd-Frank A Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and to implement international agreements reached by the Basel Committee on Banking Supervision intended to improve both the quality and quantity of banking organizations’ capital (“Basel III”). Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, some of them will apply on a phased in basis to all banking organizations, including the Company and the Bank.

The following are among the requirements that are being phased in beginning on January 1, 2015:

- An increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets;
- A new category and a required 4.50% of risk-weighted assets ratio is established for “common equity Tier 1” as a subset of Tier 1 capital limited to common equity;
- A minimum non-risk-based leverage ratio is set at 4.00%, eliminating a 3.00% exception for higher rated banks;
- Changes in the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities;
- An additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios will be phased in from 2016 to 2019 and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses;
- The risk-weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development and

construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures; and

- An additional “countercyclical capital buffer” is required for larger and more complex institutions.

CFPB Actions

Dodd-Frank provided for the creation of the Consumer Financial Protection Bureau (the “CFPB”) as an independent entity with broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The bureau’s functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining bank consumer transactions, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to all financial institutions and banks with \$10 billion or more in assets are subject to examination by the CFPB. Banks with less than \$10 billion in assets, including the Bank, will continue to be examined for compliance by their primary federal banking agency, although it is believed that such other agencies may decide to follow CFPB regulations and guidance in many areas. The CFPB’s supervisory and enforcement authority over large financial institutions and banks that may affect the Bank’s operations and compliance costs include:

- Rules for residential mortgage lending, including definitions for “qualified mortgages” and detailed standards by which lenders must satisfy themselves of the borrower’s ability to repay the loan and revised forms of disclosure under the Truth in Lending Act and the Real Estate Settlement Procedures Act;
- The issuance of a policy report and potential proposals on arbitration clauses which could result in the restriction or prohibition of lenders’ including arbitration clauses in consumer financial services contracts;
- Actions taken to regulate and supervise credit bureaus and debt collections; and
- Positions taken by CFPB on fair lending, including applying the disparate impact theory to auto financing, which could make it harder for lenders to charge different rates or apply different terms to auto loans to different customers.

Bank Holding Company Act

As a bank holding company, Avidbank Holdings, Inc. is subject to regulation under the Bank Holding Company Act of 1956, as amended (“BHC Act”), and is subject to examination by the Board of Governors of the Federal Reserve System (the “FRB”). Pursuant to the BHC Act, Avidbank Holdings, Inc. is subject to limitations on the kinds of businesses in which it can engage directly or through subsidiaries. It is permitted to manage or control banks. Generally, however, it is prohibited, with certain exceptions, from acquiring direct or indirect ownership or control of more than five percent of any class of voting shares of an entity engaged in nonbanking activities, unless the FRB finds such activities to be “so closely related to banking” as to be deemed “a proper incident thereto” within the meaning of the BHC Act.

Bank acquisitions by bank holding companies are also regulated. A bank holding company may not acquire more than five percent of the voting shares of any domestic bank without the prior

approval of the FRB.

The BHC Act subjects bank holding companies to minimum capital requirements. See “--Regulatory Capital Requirements.” Under the Dodd-Frank Act, bank holding companies must serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank. Under certain conditions, the FRB may conclude that certain actions of a bank holding company, such as a payment of a cash dividend, would constitute an unsafe and unsound banking practice.

Regulation and Supervision of the Bank

The Bank is a California state-chartered commercial bank. The Bank’s deposits are insured by the FDIC and thus are subject to the rules and regulations of the FDIC pertaining to deposit insurance, including deposit insurance assessments. The Bank also is subject to regulation and supervision by the California Department of Business Oversight (the “CDBO”) and, as a state non-member bank, the FRB. Applicable federal and state regulations address many aspects of the Bank’s business and activities, including investments, loans, borrowings, transactions with affiliates, branching, acquisitions of other banks or branches of other banks, reporting and other areas.

Dividends

A California corporation such as Avidbank Holdings, Inc. may make a distribution to its shareholders if the corporation’s retained earnings equal at least the amount of the proposed distribution. In the event sufficient retained earnings are not available for the proposed distribution, a California corporation may nevertheless make a distribution to its shareholders if, after giving effect to the distribution, the corporation’s assets exceed its liabilities and shareholder preferences.

It is the FRB’s policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition. It is also the FRB’s policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. The FRB also discourages dividend payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

The primary source of funds for payment of dividends by Avidbank Holdings, Inc. to its shareholders will be the receipt of dividends from the Bank. Avidbank Holdings, Inc.’s ability to receive dividends from the Bank will be limited by applicable state and federal law. Under the California Financial Code, funds available for cash dividend payments by a bank are restricted to the lesser of: (i) retained earnings; or (ii) the Bank’s net income for its last three fiscal years (less any distributions to shareholders made during such period). However, under the California Financial Code, with the prior approval of the Commissioner, a bank may pay cash dividends in an amount not to exceed the greater of the: (1) retained earnings of the bank; (2) net income of the bank for its last fiscal year; or (3) net income of the bank for its current fiscal year. However, if the state finds that the shareholders’ equity of the bank is not adequate or that the payment of a dividend would be unsafe or unsound, the Commissioner may order such bank not to pay a dividend to shareholders.

Additionally, under Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), a bank may not make any capital distribution, including the payment of dividends, if after making such distribution the bank would be in any of the “undercapitalized” categories under

the FDIC's Prompt Corrective Action regulations. A bank is undercapitalized for this purpose if its leverage ratio, Tier 1 risk-based capital level and total risk-based capital ratio are not at least four percent, four percent and eight percent, respectively. See "--Regulatory Capital Requirements."

The FRB and the CDBO have authority to prohibit a bank holding company or a bank from engaging in practices which are considered to be unsafe and unsound. Depending on the financial condition of the Bank and upon other factors, the FRB or the CDBO could determine that payment of dividends or other payments by Avidbank Holdings, Inc. or the Bank might constitute an unsafe or unsound practice. Finally, any dividend that would cause a bank to fall below required capital levels could also be prohibited. See "--Regulatory Capital Requirements."

Effect of Governmental Policies and Legislation

Banking is a business that depends in large part on rate differentials. In general, the difference between the interest rate paid by the Bank on its deposits and its other borrowings and the interest rate received by the Bank on loans extended to its customers and securities held in the Bank's portfolio comprise the major portion of the Bank's earnings. These rates are highly sensitive to many factors that are beyond the control of the Bank. Accordingly, the earnings and growth of the Bank are subject to the influence of domestic and foreign economic conditions, including inflation, recession and unemployment.

The commercial banking business is not only affected by general economic conditions but is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the FRB. The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) by its open-market operations in United States government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements, and by varying the discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates charged on loans and paid on deposits. The monetary policies of the FRB have had a significant effect on the operating results of commercial banks in the past and are expected to do so in the future. However, the effect, if any, of such policies on the future business and earnings of the Bank cannot be accurately predicted.

Regulatory Capital Requirements

Federal regulations establish guidelines for calculating "risk-adjusted" capital ratios. These guidelines, which apply to banks and bank holding companies, establish a systematic approach of assigning risk weights to bank assets and commitments; making capital requirements more sensitive to differences in risk profiles among banking organizations. For these purposes, "Tier 1" capital consists of common equity, non-cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries and excludes goodwill. "Tier 2" capital consists of cumulative perpetual preferred stock, limited-life preferred stock, mandatory convertible securities, subordinated debt and (subject to a limit of 1.25% of risk-weighted assets) general loan loss reserves. In calculating the relevant ratio, a bank's assets and off-balance sheet commitments are risk-weighted; thus, for example, loans are included at 100% of their book value while assets considered less risky are included at a percentage of their book value (20%, for example, for interbank obligations and Government Agency securities, and 0% for vault cash and U. S. Government securities).

Assets and credit equivalent amounts of off-balance sheet items are assigned to one of several broad risk classifications, according to the obligor or, if relevant, the guarantor or the nature

of the collateral. The aggregate dollar value of the amount in each risk classification is then multiplied by the risk weight associated with that classification. The resulting weighted values from each of the risk classifications are added together. This total is the bank's total risk weighted assets.

Risk weights for off-balance sheet items, such as unfunded loan commitments, letters of credit and recourse arrangements, are determined by a two-step process. First, the "credit equivalent amount" of the off-balance sheet items is determined, in most cases by multiplying the off balance sheet item by a credit conversion factor. Second, the credit equivalent amount is treated like any balance sheet asset and is assigned to the appropriate risk category according to the obligor or, if relevant, the guarantor or the nature of the collateral. This result is added to the bank's risk weighted assets and comprises the denominator of the risk-based capital ratio.

Under these regulations, to be considered adequately capitalized, banks and bank holding companies are required to maintain a risk-based capital ratio of 8%, with Tier 1 risk-based capital (primarily shareholders' equity) constituting at least 50% of total qualifying capital or 4% of risk-weighted assets.

Additionally, regulators have adopted a minimum leverage capital ratio standard. This standard is designed to ensure that all financial institutions, irrespective of their risk profile, maintain minimum levels of core capital, which by definition excludes the allowance for loan losses. These minimum standards for top rated institutions may be as low as 3%; however, regulatory agencies have stated that most institutions should maintain ratios at least 1 to 2 percentage points above the 3% minimum.

Capital ratios for the Company and the Bank are shown in the footnotes to the audited financial statements.

Regulations also define "well capitalized" institutions as those with a leverage ratio of 5% or above, a Tier 1 risk-based capital ratio of 6% or above (not applicable to bank holding companies), and a total risk-based capital ratio of 10% or above. Well capitalized bank holding companies that are considered well managed are entitled to certain expedited processing of applications and notices filed with the FRB under the BHC Act. California state banks that are adequately capitalized are entitled to similar processing of applications and notices filed with the CDBO. The Bank meets the requirements pertaining to the definition "well capitalized."

Federal regulations have established five tiers of capital measurement ranging from "well capitalized" to "critically undercapitalized." Federal bank regulatory authorities are required to take prompt corrective action with respect to inadequately capitalized banks. If a bank does not meet the minimum capital requirements set by its regulators, the regulators are compelled to take certain actions, which may include a prohibition on payment of dividends to a parent holding company and requiring adoption of a capital restoration plan which must be guaranteed by the Bank's holding company. Failure to comply will result in further sanctions, which may include orders to raise capital, merge with another institution, restrict transactions with affiliates, limit asset growth or reduce asset size, divest certain investments and/or elect new directors. It is the Company's policy to maintain risk-based capital ratios for itself and for the Bank at above the minimum for the "well capitalized" levels (8% Tier 1 risk-based; 10% total risk-based; 5% leverage ratio).

Management believes that, as of December 31, 2015, the Company and the Bank would meet all applicable capital requirements under the new capital rules adopted under Basel III (See "Dodd-Frank Capital Rules," above) on a fully phased-in basis if such requirements were currently in

effect. Including the capital conservation buffer of 2.5% above the regulatory minimum capital ratios established under the Dodd-Frank final capital rule would result in the following minimum ratios:

(i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. While the new final capital rule sets higher regulatory capital standards for the Company and the Bank, bank regulators may also continue their past policies of expecting banks to maintain additional capital beyond the new minimum requirements. The implementation of the new capital rules or more stringent requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company's net income and return on equity, restrict the ability to pay dividends and require the raising of additional capital.

Safety and Soundness Standards

The federal banking agencies have adopted final guidelines establishing safety and soundness standards for all insured depository institutions. Those guidelines relate to internal controls, information systems, internal audit systems, loan underwriting and documentation, compensation and interest rate exposure.

In general, the standards are designed to assist the federal banking agencies in identifying and addressing problems at insured depository institutions before capital becomes impaired. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan and may institute enforcement proceedings if an acceptable compliance plan is not submitted.

Premiums for Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures the Bank's customer deposits through the Deposit Insurance Fund (the "DIF") up to prescribed limits for each depositor. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for the Bank would also result in the revocation of the Bank's charter by the DBO.

Audit Requirements

Like all California state-chartered commercial banks, the Bank is required to have an annual independent audit and to prepare all financial statements in accordance with generally accepted accounting principles. The Bank is audited on a consolidated basis with the Company. The Bank is also required to have an independent audit committee comprised entirely of outside directors.

Community Reinvestment Act

Pursuant to the Community Reinvestment Act ("CRA") of 1977, the federal regulatory agencies that oversee the banking industry are required to use their authority to encourage financial

institutions to help meet the credit needs of the local communities in which such institutions are chartered, consistent with safe and sound banking practices. When conducting an examination of a financial institution such as the Bank, the agencies assess the institution’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods. This record is taken into account in an agency’s evaluation of an application for creation or relocation of domestic branches or for merger with another institution. Failure to address the credit needs of a bank’s community may also result in the imposition of certain other regulatory sanctions, including a requirement that corrective action be taken.

The federal banking regulators have promulgated regulations to implement the Community Reinvestment Act. These agencies determine a bank’s CRA rating by evaluating its performance on lending, service, and investment tests, with the lending test as the most important. The tests are intended to be applied in an “assessment context” that is developed by the agency for a particular institution. The assessment context takes into account demographic data about the community, the community’s characteristics and needs, the institution’s capacities and constraints, the institution’s product offerings and business strategy, the institution’s prior performance, and data on similarly situated lenders. Since the assessment context is developed by the regulatory agencies, a particular bank does not know until it is examined whether its CRA programs and efforts have been sufficient.

Larger institutions are required to compile and report certain data on their lending activities in order to measure performance. Some of this data is also required under other laws, such as the Equal Credit Opportunity Act. Small institutions are examined on a “streamlined assessment method.” The streamlined method focuses on the institution’s loan to deposit ratio, degree of local lending, record of lending to borrowers and neighborhoods of differing income levels, and record of responding to complaints.

Potential Enforcement Actions

FDICIA requires the federal banking agencies to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. Each of the federal banking agencies has issued regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An insured depository institution generally will be classified in the following categories based on the capital measures indicated below:

Capital Category	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Common Equity	
			Tier 1 Risk-Based Capital Ratio	Tier 1 Leverage Ratio
Well capitalized	10.0%	8.0%	6.5%	5.0%
Adequately capitalized	8.0%	6.0%	4.5%	4.0%
Undercapitalized	<8.0%	<6.0%	<4.5%	<4.0%
Significantly undercapitalized	<6.0%	<4.0%	<3%	<3.0%

An institution is critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0 percent.

An institution that, based upon its capital levels, is classified as well-capitalized, adequately capitalized or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and an opportunity for a hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat an institution as “critically undercapitalized” unless its capital ratio actually warrants such treatment.

If an insured depository institution is undercapitalized, it will be closely monitored by the appropriate federal banking agency. Undercapitalized institutions must submit an acceptable capital restoration plan. If the institution is owned by a holding company, the capital restoration plan must include a guarantee of performance issued by the holding company. Further restrictions and sanctions are required to be imposed on insured depository institutions that are critically undercapitalized. The most important additional measure is that the appropriate federal banking agency is required to either appoint a receiver for the institution within 90 days or obtain the concurrence of the FDIC in another form of action.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease-and-desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties and the enforcement of such actions through injunctions or restraining orders based upon a prima facie showing by the agency that such relief is appropriate. Additionally, a holding company’s inability to serve as a source of strength to its subsidiary banking organizations could serve as an additional basis for a regulatory action against the holding company.

Consumer Protection Laws and Regulations

The banking regulatory agencies are focusing greater attention on compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. The Company and the Bank are subject to many federal and state consumer protection and privacy statutes and regulations, some of which are discussed below.

The *Equal Credit Opportunity Act* (the “ECOA”) generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The *Truth in Lending Act* (the “TILA”) is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably.

As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The *Fair Housing Act* (the “FH Act”) regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FH Act, including some that are not specifically mentioned in the FH Act itself.

The *Home Mortgage Disclosure Act* (the “HMDA”), in response to public concern over credit shortages in certain urban neighborhoods, requires public disclosure of information that shows whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

The *Real Estate Settlement Procedures Act* (the “RESPA”) requires lenders to provide noncommercial borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts.

Financial Privacy and Protection Laws

In November 2007, federal banking agencies together with the National Credit Union Administration and Federal Trade Commission adopted regulations under the Fair and Accurate Credit Transactions Act of 2003 to require financial institutions and other creditors to develop and implement a written identity theft prevention program to detect, prevent and mitigate identity theft in connection with consumer accounts and other accounts that present a reasonably foreseeable risk of identity theft. In addition, the Right to Financial Privacy Act requires for financial institutions to provide privacy protections to consumers, disclosures to consumers of its privacy policy, and state the rights of consumers to direct their financial institution not to share their nonpublic personal information with third parties. The Gramm-Leach-Bliley Financial Services Modernization Act imposes further obligations and required on financial institutions with respect to the handling and protection of customer information. See “Financial Services Modernization Act,” below.

Penalties for noncompliance or violations under the above laws may include fines, reimbursement and other penalties. Due to heightened regulatory concern related to compliance with these laws generally, the Company may incur additional compliance costs or be required to expend additional funds for investments in its local communities.

Financial Services Modernization Act

The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 eliminates most barriers to affiliations among banks and securities firms, insurance companies, and other financial service providers, and enables full affiliations to occur between such entities. The legislation permits bank holding companies to become “financial holding companies” and thereby acquire securities firms and insurance companies and engage in other activities that are financial in nature. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized under the FDICIA prompt corrective action provisions, is well managed, and has at least a satisfactory rating under the Community Reinvestment Act. A bank holding company

becomes a financial holding company by filing a declaration that it wishes to do so. No regulatory approval is required for a financial holding company to acquire a company (other than a bank or savings association) that is engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the FRB.

The Gramm-Leach-Bliley Act also reformed the overall regulatory framework of the financial services industry. In order to implement its underlying purposes, the Gramm-Leach-Bliley Act preempted state laws that would restrict the types of financial affiliations that are authorized or permitted under the Gramm-Leach-Bliley Act, subject to specified exceptions for state insurance laws and regulations. With regard to securities laws, the Gramm-Leach-Bliley Act removed the blanket exemption for banks from being considered brokers or dealers under the Securities Exchange Act and replaced it with a number of more limited exemptions. Thus, previously exempted banks may become subject to the broker-dealer registration and supervision requirements of the Securities Exchange Act. The exemption that prevented bank holding companies and banks that advise mutual funds from being considered investment advisers under the Investment Advisers Act of 1940 was also eliminated.

Separately, the Gramm-Leach-Bliley Act imposes customer privacy requirements on any company engaged in financial activities. Under these requirements, a financial company is required to protect the security and confidentiality of customer nonpublic personal information. Also, for customers that obtain a financial product such as a loan for personal, family or household purposes, a financial company is required to disclose its privacy policy to the customer at the time the relationship is established and annually thereafter, including its policies concerning the sharing of the customer's nonpublic personal information with affiliates and third parties. If an exemption is not available, a financial company must provide consumers with a notice of its information sharing practices that allows the consumer to reject the disclosure of its nonpublic personal information to third parties. Third parties that receive such information are subject to the same restrictions as the financial company on the reuse of the information. Finally, a financial company is prohibited from disclosing an account number or similar item to a third party for use in telemarketing, direct mail marketing or other marketing through electronic mail.

The federal bank regulatory agencies have also established standards for safeguarding nonpublic personal information about customers that implement provisions of the Gramm-Leach-Bliley Act. Among other things, these guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against any anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

Legislation and Proposed Changes

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, in the California legislature and before various bank regulatory agencies. Typically, the intent of this type of legislation is to strengthen the banking industry, even if it may on occasion prove to be a burden on management's plans. No prediction can be made as to

the likelihood of any major changes or the impact that new laws or regulations might have on the Company.

Conclusions

It is impossible for the Company to predict with any degree of accuracy the competitive impact the laws and regulations described above will have on commercial banking in general and on the business of the Company in particular, or to predict whether or when any of the proposed legislation and regulations described above will be adopted. The Company anticipates that banking will continue to be a highly regulated industry. Additionally, there has been a continued lessening of the historical distinction between the services offered by financial institutions and other businesses offering financial services. Also, the trend toward nationwide interstate banking is expected to continue. As a result of these factors, the Company anticipates that banks will experience increased competition for deposits and loans and, possibly, further increases in their cost of doing business.

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