THE PRIVATE BANK OF THE PENINSULA

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2004 AND 2003 AND

FOR THE YEAR ENDED DECEMBER 31, 2004

AND THE PERIOD FROM OCTOBER 1, 2003

(DATE OPERATIONS COMMENCED)

TO DECEMBER 31, 2003

AND

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
The Private Bank of the Peninsula

We have audited the accompanying balance sheet of The Private Bank of the Peninsula as of December 31, 2004 and 2003 and the related statements of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2004 and the period from October 1, 2003 (date operations commenced) to December 31, 2003. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Private Bank of the Peninsula as of December 31, 2004 and 2003 and the results of its operations and its cash flows for the year ended December 31, 2004 and the period from October 1, 2003 (date operations commenced) to December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Perry-Smith LLP

January 21, 2005

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THE PRIVATE BANK OF THE PENINSULA

BALANCE SHEET

December 31, 2004 and 2003

	2004	2003
ASSETS		
Cash and cash equivalents	$ 525,906	$ 277,982
Federal funds sold	5,410,000	10,345,000
Total cash and cash equivalents	5,935,906	10,622,982
Available-for-sale investment securities (Note 2)	15,372,000	12,518,000
Loans, less allowance for loan losses of $365,483 in 2004 and $34,540 in 2003 (Notes 3 and 9)	28,983,449	2,734,252
Bank property and equipment, net (Note 4)	619,886	649,195
Cash surrender value of life insurance policies (Note 5)	2,577,371	
Accrued interest receivable and other assets	383,760	147,124
	$ 53,872,372	$ 26,671,553
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 8,633,084	$ 1,259,418
Interest bearing (Note 6)	30,358,666	8,557,476
Total deposits	38,991,750	9,816,894
Accrued interest payable and other liabilities	128,712	48,730
Total liabilities	39,120,462	9,865,624
Commitments (Note 9)		
Shareholders' equity (Note 10):		
Preferred stock – no par value; 5,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock - no par value; 5,000,000 shares authorized; 1,843,000 shares issued and outstanding	18,418,025	18,418,025
Additional paid-in capital	101,065	
Accumulated deficit	(3,674,445)	(1,618,018)
Accumulated other comprehensive (loss) income (Note 2)	(92,735)	5,922
Total shareholders' equity	14,751,910	16,805,929
	$ 53,872,372	$ 26,671,553

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

THE PRIVATE BANK OF THE PENINSULA

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2004 and the Period from October 1 (Date Operations Commenced) to December 31, 2003

	2004	2003
Interest income:		
Interest and fees on loans	$ 779,445	$ 8,101
Interest on Federal funds sold	108,652	43,311
Interest on investment securities	304,235	10,767
Total interest income	1,192,332	62,179
Interest expense:		
Interest on deposits (Note 6)	241,041	9,966
Net interest income	951,291	52,213
Provision for loan losses (Note 3)	330,943	34,540
Net interest income after provision for loan losses	620,348	17,673
Non-interest income:		
Service charges, fees and other income	8,402	1,398
Net realized loss on sales and calls of investment securities	(4,531)	
Appreciation in cash surrender value of insurance contracts (Note 5)	96,371	
Total non-interest income	100,242	1,398
Non-interest expenses:		
Salaries and employee benefits (Note 11)	1,515,988	375,981
Occupancy and equipment (Notes 4 and 9)	551,013	137,760
Other (Notes 4 and 13)	710,016	228,569
Total other expenses	2,777,017	742,310
Loss before provision for income taxes	(2,056,427)	(723,239)
Provision for income taxes (Note 7)	-	-
Net loss	$ (2,056,427)	$ (723,239)
Basic loss per share	$ (1.12)	$ (0.39)
Weighted average number of shares outstanding	1,843,000	1,843,000

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

THE PRIVATE BANK OF THE PENINSULA

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended December 31, 2004 and the Period from October 1, 2003 (Date Operations Commenced) to December 31, 2003

	Common Stock				Accumulated Other Comprehensive	Total	Total
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Income (Loss)	Shareholders' Equity	Comprehensive Loss
Sale of common stock, net of stock offering costs of $11,975	1,843,000	$ 18,418,025				$ 18,418,025	
Pre-opening expenses, net of interest income totaling $20,590				$ (894,779)		(894,779)	
Comprehensive loss:							
Net loss				(723,239)		(723,239)	$ (723,239)
Other comprehensive income:							
Net change in unrealized gains on available-for-sale investment securities					$ 5,922	5,922	5,922
Total comprehensive loss							$ (717,317)
Balance, December 31, 2003	1,843,000	18,418,025		(1,618,018)	5,922	16,805,929	
Comprehensive loss:							
Net loss				(2,056,427)		(2,056,427)	$ (2,056,427)
Other comprehensive loss:							
Net change in unrealized losses on available-for-sale investment securities					(98,657)	(98,657)	(98,657)
Total comprehensive loss							$ (2,155,084)
Stock based compensation (Notes 1 and 10)			$ 101,065			101,065	
Balance, December 31, 2004	1,843,000	$ 18,418,025	$ 101,065	$ (3,674,445)	$ (92,735)	$ 14,751,910	

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

THE PRIVATE BANK OF THE PENINSULA

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2004 and the Period from October 1, 2003 (Date Operations Commenced) to December 31, 2003

	2004	2003
Cash flows from operating activities:		
Net loss	$ (2,056,427)	$ (723,239)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on sale of available-for-sale investment securities	4,531	
Provision for loan losses	330,943	34,540
Depreciation, amortization and accretion	286,634	26,971
Deferred loan origination costs, net	(39,779)	(5,867)
Net increase in cash value of life insurance policies	(96,371)	
Stock option compensation expense	101,065	
Increase in accrued interest receivable and other assets	(236,636)	(47,124)
Increase in accrued interest payable and other liabilities	79,982	48,730
Net cash used in operating activities	(1,626,058)	(665,989)
Cash flows from investing activities:		
Purchase of available-for-sale investment securities	(12,113,045)	(12,511,997)
Proceeds from sales or calls of available-for-sale investment securities	5,498,357	
Proceeds from maturities of available-for-sale investment securities	3,500,000	
Net increase in loans	(26,540,361)	(2,762,925)
Purchase of premises and equipment	(99,825)	(79,781)
Purchase of life insurance policies	(2,481,000)	
Net cash used in investing activities	(32,235,874)	(15,354,703)
Cash flows from financing activities:		
Net increase in demand, interest bearing and savings deposits	25,109,118	8,861,200
Net increase in time deposits	4,065,738	955,694
Net cash provided by financing activities	29,174,856	9,816,894
Decrease in cash and cash equivalents	(4,687,076)	(6,203,798)
Cash and cash equivalents at beginning of period	10,622,982	16,826,780
Cash and cash equivalents at end of year	$ 5,935,906	$ 10,622,982

(Continued)

THE PRIVATE BANK OF THE PENINSULA

STATEMENT OF CASH FLOWS
(Continued)
For the Year Ended December 31, 2004 and the Period from October 1, 2003 (Date Operations Commenced) to December 31, 2003

	2004	2003
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 238,629	$ 9,688
Non-cash investing activities:		
Net change in unrealized gain on available-for-sale investment securities	$ (98,657)	$ 5,922
Cash flows from pre-opening activities:		
Pre-opening expenses, net of interest income totaling $20,590		$ (894,779)
Additions to other assets		(100,000)
Purchases of property and equipment		(596,466)
Proceeds from sale of stock		18,430,000
Stock offering costs		(11,975)
Cash and cash equivalents at date operations commenced		$ 16,826,780

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

On September 6, 2002, the organizers of The Private Bank of the Peninsula (the "Bank") filed an application with the Federal Deposit Insurance Corporation. The application was approved on March 21, 2003 and the Bank opened for business on October 1, 2003. The Bank provides financial products and services to customers who are predominately small and middle-market businesses, professionals and individuals residing in San Mateo and Santa Clara Counties.

The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of 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 these estimates.

Cash and Cash Equivalents

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

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 at fair value. All securities are classified as available-for-sale and there were no transfers between categories.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

Gains and losses on the sale of securities are computed using 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. In addition, unrealized losses that are other than temporary are recognized in earnings for all investments.

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 issues 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.

Loans

Loans are stated at principal balances outstanding. 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.

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. 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.

Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, potential losses inherent in the portfolio taken as a whole and economic conditions in the Bank's service area.

Loans determined to be impaired or classified are individually 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, (3) where the Bank has not experienced losses, the loss experience of peer banks. Management also computes specific and expected loss reserves for loan commitments. These estimates are particularly susceptible to changes in the economic environment and market conditions.

The Bank's Loan Committee reviews the adequacy of the allowance for loan losses at least 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 Loan Committee 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 credit losses and loan growth. The allowance for loan losses at December 31, 2004 reflects management's estimate of possible losses in the portfolio.

Bank Property and Equipment

Bank property and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures and equipment are estimated to be five to ten years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. 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.

Income Taxes

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. 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 asset will not be realized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings (Loss) Per Share

Basic earnings (loss) per share (EPS), which excludes dilution, is computed by dividing income (loss) 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. However, diluted EPS are not presented when a net loss occurs because the conversion of potential common stock is antidilutive.

Stock Split

On May 18, 2004, the Board of Directors approved a ten-for-one stock split for all common stock shareholders of record as of that date. As such, all share, basic loss per share and stock option information has been retroactively adjusted as if the stock split had occurred prior to October 1, 2003 (date operations commenced).

Stock-Based Compensation

The Bank has a stock-based compensation plan, The Private Bank of the Peninsula 2003 Stock Option Plan, which is described more fully in Note 10. The Bank accounts for this plan under the recognition and measurement principles of FASB Statement No. 123 (Revised), *Accounting for Stock-Based Compensation*. Under the fair value recognition provisions of FASB 123 (Revised), stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period.

Pre-opening Expenses

During the organizational period, the Bank incurred the following pre-opening expenses:

Salaries and benefits	$ 360,880
Professional fees	297,747
Rent	110,368
Other	125,784
	$ 894,779

Pre-opening expenses of $894,779, net of interest income totaling $20,590, were charged to accumulated deficit at the date the Bank commenced operations. Stock offering costs totaling $11,975 were charged against stock proceeds, providing net capital of $18,418,025 from the sale of common stock.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income (Loss)

Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income (loss). Unrealized gains and losses on the Bank's available-for-sale investment securities are included in other comprehensive income (loss). Total comprehensive loss and the components of accumulated other comprehensive income are presented in the statement of changes in shareholders' equity.

Impact of New Financial Accounting Standards

Other-Than-Temporary Impairment of Securities

In June 2004, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue 03-1, *The Meaning of Other-than-Temporary Impairment and Its Application to Certain Investments* (EITF 03-1). EITF 03-1 includes additional guidance for evaluating and recording impairment losses on debt and equity investments, as well as disclosure requirements for investments that are deemed to be temporarily impaired. The proposed guidance indicates that an investor must have the intent and ability to hold an investment until a forecasted recovery of the fair value up to or beyond the cost of the investment in order to determine that any impairment is temporary. In September 2004, the FASB delayed the effective date of the recognition and measurement guidance of EITF 03-1, pending further deliberations. The disclosures for investments that are deemed temporarily impaired are included in Note 2 to the financial statements. Once the FASB has reached a final decision on the measurement and recognition provisions, the Bank will evaluate the impact of the adoption of EITF 03-1.

Share-Based Payments

In December 2004 the FASB issued Statement No. 123 (revised 2004) (FAS 123 (R)), *Share-Based Payments*. FAS 123 (R) requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments such as stock options granted to employees. The Bank is required to apply FAS 123 (R) on a modified prospective method during the first reporting period beginning after December 15, 2005. The Bank adopted the original provisions of FAS 123 in December 2003. Adoption of FAS 123 (R) will require the Bank to include the use of a volatility factor in calculating the fair value of options granted in the future. Management has not completed its evaluation of the effect that FAS 123 (R) will have, but believes that the effect will not significantly impact the calculation of the fair value of options granted, the Bank's financial position or its results of operations.

2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2004 and 2003 consisted of the following:

	2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Treasuries	$ 8,602,901		$ (63,433)	$ 8,539,468
Corporate bonds	6,861,834	$ 3,575	(32,877)	6,832,532
	$ 15,464,735	$ 3,575	$ (96,310)	$ 15,372,000

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Treasuries	$ 12,512,078	$ 7,948	$ (2,026)	$ 12,518,000

Net unrealized losses on available-for-sale investment securities totaling $98,657 were recorded as other comprehensive loss within shareholders' equity at December 31, 2004. Net unrealized gains on available-for-sale investment securities totaling $5,922 were recorded as other comprehensive income within shareholders' equity at December 31, 2003. Related tax assets and liabilities were not considered material for disclosure purposes.

Proceeds and gross realized losses from the sale or call of available-for-sale investment securities totaled $5,498,357 and $4,531, respectively, for the year ended December 31, 2004. There were no called or sold available-for-sale investment securities in 2003.

The amortized cost and estimated fair value of investment securities at December 31, 2004 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.

	Amortized Cost	Estimated Fair Value
Within one year	$ 5,515,630	$ 5,471,876
After one year through five years	9,949,105	9,900,124
	$ 15,464,735	$ 15,372,000

2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

Investment securities with unrealized losses at December 31, 2004 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months	
	Fair Value	Unrealized Losses
Debt securities:		
U.S. Treasuries	$ 8,539,000	$ (63,433)
Corporate bonds	4,531,000	(32,877)
	$ 13,070,000	$ (96,310)

Management periodically evaluates each investment security with unrealized losses for other-than-temporary impairment relying primarily on industry analyst reports, observation of market conditions and interest rate fluctuations. Management believes it will be able to collect all amounts due according to the contractual terms of the underlying investment securities and that the noted decline in fair value is due only to interest rate fluctuations.

3. LOANS

Outstanding loans are summarized below:

	December 31,	
	2004	2003
Commercial	$ 4,198,050	$ 1,194,190
Construction	4,232,924	
Real estate – residential	9,660,932	400,000
Real estate – commercial	11,134,998	1,168,500
Other	76,382	235
	29,303,286	2,762,925
Deferred loan origination costs, net	45,646	5,867
Allowance for loan losses	(365,483)	(34,540)
	$ 28,983,449	$ 2,734,252

For the year ended December 31, 2004 and the period from October 1, 2003 (date operations commenced) to December 31, 2003, the Bank had no impaired loans or loans placed on nonaccrual status or losses charged to the allowance or recoveries.

Salaries and employee benefits totaling $99,535 have been deferred as loan origination costs for the year ended December 31, 2004. Salaries and benefits related to loan origination were not significant in 2003.

4. BANK PROPERTY AND EQUIPMENT

Bank property and equipment consisted of the following:

	December 31, 2004	December 31, 2003
Furniture and equipment	$ 534,964	$ 513,832
Leasehold improvements	241,108	162,415
	776,072	676,247
Less accumulated depreciation and amortization	156,186	27,052
	$ 619,886	$ 649,195

Depreciation included in occupancy and equipment expense totaled $129,134 and $27,052 for the year ended December 31, 2004 and the period from October 1, 2003 (date operations commenced) to December 31, 2003.

5. CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES

During 2004, the Bank purchased single-premium life insurance policies on the lives of two key executives. Income earned on these policies, net of expenses, totaled $96,371 for the year ended December 31, 2004.

6. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31, 2004	December 31, 2003
NOW accounts	$ 3,558,497	$ 1,590,435
Savings	189,464	34,941
Money market	21,589,273	5,976,406
Time, $100,000 or more	3,709,950	700,897
Other time	1,311,482	254,797
	$ 30,358,666	$ 8,557,476

6. INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2005	$ 4,812,103
2006	45,524
2007	20,391
2008	7,850
2009	135,564
	$ 5,021,432

Interest expense recognized on interest-bearing deposits for the year ended December 31, 2004 and the period from October 1, 2003 (date operations commenced) to December 31, 2003 consisted of the following:

	2004	2003
NOW accounts	$ 6,430	$ 520
Savings	317	14
Money market	200,640	8,010
Time, $100,000 or more	24,200	1,038
Other time	9,454	384
	$ 241,041	$ 9,966

At December 31, 2004, the Bank had deposits from two separate deposit relationships that each exceeded 5% of total deposits. The aggregate total of these two deposit relationships totaled $5,146,992 at December 31, 2004.

7. INCOME TAXES

The provision for income taxes for the year ended December 31, 2004 and the period from October 1, 2003 (date operations commenced) to December 31, 2003 consisted of the following:

2004

Change in deferred	$ (643,000)
Change in valuation allowance	643,000
Provision for income taxes	$ -

2003

Deferred	$ 638,000
Establishment of a valuation allowance	(638,000)
Provision for income taxes	$ -

7. INCOME TAXES (Continued)

Deferred tax assets (liabilities) at December 31, 2004 and 2003 consisted of the following:

	2004	2003
Deferred tax assets:		
Net operating losses	$ 1,167,000	$ 324,000
Organization costs	301,000	381,000
Other	5,000	
Deferred tax assets before valuation allowance	1,473,000	705,000
Valuation allowance	(1,281,000)	(638,000)
Total deferred tax assets	192,000	67,000
Deferred tax liabilities:		
Accrual to cash conversion	(127,000)	(11,000)
Allowance for loan losses	(6,000)	(9,000)
Future liability of State deferred tax asset	(59,000)	(47,000)
Total deferred tax liabilities	(192,000)	(67,000)
Net deferred tax asset	$ -	$ -

A valuation allowance is provided to reduce deferred tax assets to a level which, more likely than not, will be realized. Due to the initial losses recognized during the first fifteen months of operations, a valuation allowance has been recorded for a significant portion of the Bank's deferred tax assets. The need for this valuation allowance will be periodically reviewed and benefits will be recognized when they are determined to be realizable.

At December 31, 2004, the Bank had Federal and State net operating loss carryforwards (NOLs) of $2,608,000 and $2,288,000, respectively. The Federal NOLs expire in 2023. The State NOLs expire in 2013.

8. SHORT-TERM BORROWING ARRANGEMENTS

The Bank has unsecured Federal funds lines of credit up to $1,000,000 and $4,000,000 with two of its correspondent banks. There were no borrowings outstanding under these agreements at December 31, 2004 and 2003.

9. COMMITMENTS

Operating Leases

The Bank leases its branch and administration office under a noncancelable operating lease. The lease expires in 2013 and has two, five-year renewal options.

Future minimum lease payments are as follows:

Year Ending December 31,	
2005	$ 264,828
2006	272,772
2007	280,956
2008	289,386
2009	298,068
Thereafter	1,114,200
	$ 2,520,210

Rental expense included in occupancy and equipment expense totaled $257,833 and $63,330 for the year ended December 31, 2004 and the period from October 1, 2003 (date operations commenced) to December 31, 2003.

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 in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

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

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

	December 31,	
	2004	2003
Commitments to extend credit	$ 8,347,000	$ 1,509,000
Standby letters of credit	$ 420,000	$ -

9. COMMITMENTS (Continued)

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

Commitments to extend credit consist primarily of unfunded single-family residential and commercial real estate construction loans and commercial revolving lines of credit. Construction loans are established under standard underwriting guidelines and policies and are secured by deeds of trust, with disbursements made over the course of construction. Commercial revolving lines of credit have a high degree of industry diversification. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are generally secured and are 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, 2004 and 2003. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2004, all loan commitments are for real estate mortgage and commercial loans and are generally secured by real estate with a loan-to-value ratio not to exceed 80%. In addition, the majority of the Bank's loan commitments have variable interest rates.

Significant Concentrations of Credit Risk

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

At December 31, 2004 and 2003, in management's judgment, a concentration of loans existed in real estate related loans. At these dates, approximately 70.9% and 57.0%, respectively, of the Bank's loans were real estate related. Although management believes the loans within this concentration have no more than the normal risk of collectibility, a substantial decline in the performance of the economy in general or a 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 and management believes the risks presented by the concentration is further mitigated by diversification within the Bank's real estate portfolio.

10. SHAREHOLDERS' EQUITY

Dividends

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 bank at any one time 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, 2004, no amounts were free of such restrictions.

Stock Options

The Board of Directors adopted The Private Bank of the Peninsula 2003 Stock Option Plan that was subsequently approved by the shareholders. Under this plan, 552,900 shares of common stock are reserved for issuance to employees and Directors under incentive or nonstatutory agreements. 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 four year period.

A summary of the activity within the plan, adjusted to give effect to stock splits, follows:

	2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Incentive Stock Options				
Options outstanding, beginning of year	154,750	$ 10.00		
Options granted	7,000	$ 11.20	154,750	$ 10.00
Options cancelled	(500)	$ 10.00		
Options outstanding, end of year	161,250	$ 10.05	154,750	$ 10.00
Options exercisable, end of year	38,563	$ 10.00	-	

10. SHAREHOLDERS' EQUITY (Continued)

Stock Options (Continued)

	2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Nonstatutory Stock Options				
Options outstanding, beginning of year	113,400	$ 10.00		
Options granted	10,000	$ 12.85	113,400	$ 10.00
Options outstanding, end of year	123,400	$ 10.23	113,400	$ 10.00
Options exercisable, end of year	28,350	$ 10.00	-	

A summary of options outstanding at December 31, 2004 follows:

Range of Exercise Prices	Number of Options Outstanding December 31, 2004	Weighted Average Remaining Contractual Life	Number of Options Exercisable December 31, 2004
$10.00 to $12.85	284,650	3.72 years	66,913

The weighted average fair value of options granted during the year ended December 31, 2004 and the period ended December 31, 2003 was $1.93 and $1.48, respectively.

The fair value of each option is estimated on the date of grant using an option-pricing model and the following assumptions:

	2004	2003
Dividend yield (not applicable)		
Expected volatility (not applicable)		
Risk-free interest rate	3.43%	3.21%
Expected option life	5 years	5 years

During the year ended December 31, 2004, total compensation cost recognized in the statement of operations for stock-based compensation awards was $101,065.

10. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by the FDIC. 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. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Bank meets all its capital adequacy requirements as of December 31, 2004 and 2003.

To be categorized as well capitalized, under the regulatory framework for prompt corrective actions, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below.

	2004		2003	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
The Private Bank of the Peninsula	$ 14,844,645	27.7%	$ 16,800,000	73.9%
Minimum requirement for "Well-Capitalized" institution	$ 2,676,799	5.0%	$ 1,137,000	5.0%
Minimum regulatory requirement	$ 2,141,439	4.0%	$ 910,000	4.0%
Tier 1 Risk-Based Capital Ratio				
The Private Bank of the Peninsula	$ 14,844,645	37.1%	$ 16,800,000	263.3%
Minimum requirement for "Well-Capitalized" institution	$ 2,400,847	6.0%	$ 383,000	6.0%
Minimum regulatory requirement	$ 1,600,565	4.0%	$ 255,000	4.0%
Total Risk-Based Capital Ratio				
The Private Bank of the Peninsula	$ 15,210,128	38.0%	$ 16,835,000	263.9%
Minimum requirement for "Well-Capitalized" institution	$ 4,001,413	10.0%	$ 638,000	10.0%
Minimum regulatory requirement	$ 3,201,131	8.0%	$ 510,000	8.0%

11. EMPLOYEE RETIREMENT PLAN

The Bank adopted The Private Bank of the Peninsula 401(k) Profit Sharing Plan and Trust, effective October 28, 2003. All employees 21 years of age or older with one year of service are eligible to participate in the plan. Eligible employees may elect to make tax deferred contributions of their salary up to the maximum amount allowed by law. The Bank may make additional contributions to the plan at the discretion of the Board of Directors. Bank contributions vest at a rate of 20% annually for all employees. Bank contributions for the year ended December 31, 2004 and the period from October 1, 2003 (date operations commenced) to December 31, 2003 totaled $11,860 and $350, respectively.

12. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including Directors and officers. These transactions include borrowings from the Bank with substantially the same terms, including rates and collateral, as loans to unrelated parties. The following is a summary of the aggregate activity involving related party borrowers during 2004:

Balance, January 1, 2004	$ -
Disbursements	2,478,000
Amounts repaid	(1,229,000)
Balance, December 31, 2004	$ 1,249,000
Undisbursed commitments to related parties, December 31, 2004	$ 708,000

13. OTHER EXPENSES

Other expenses for the year ended December 31, 2004 and the period from October 1, 2003 (date operations commenced) to December 31, 2003 consisted of the following:

	2004	2003
Data processing	$ 151,173	$ 57,989
Advertising and marketing	75,510	14,578
Supplies and printing	45,129	50,144
Professional fees	223,370	58,403
Insurance and bonding	38,982	11,805
Other	175,852	35,650
	$ 710,016	$ 228,569