



2005

ANNUAL REPORT

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OUR MISSION STATEMENT

Ramona National Bank is a provider of superior and traditional banking resources to individuals and businesses located in San Diego County, Orange County and portions of Riverside County. We are a community bank where the highest levels of service and attentiveness to customers are offered with a welcoming and friendly style that reflects our approach as neighbors while also providing above average returns to our stockholders.

**CHAIRMAN OF THE BOARD'S AND PRESIDENT'S
MESSAGE TO SHAREHOLDERS**

The year ending December 31, 2005 was both difficult and transitional for Ramona National Bank. We experienced management changes, unprofitability and, as previously reported, entered into a Consent Order with the Office of the Comptroller of the Currency, the Bank's national regulator. Since year end, however, we have successfully completed a number of the Consent Order requirements, including the hiring of a new President and Chief Executive Officer (CEO), John McGrath, who is moving quickly to build our executive management team and is leading our efforts to achieve ongoing profitability and a reasonable return to our shareholders.

John, who joined us this February, brings over 35 years of banking experience to Ramona National Bank, including successful tenures as President and CEO of Heritage Bank of Commerce; President and Chief Operating Officer of the Bank of San Francisco; and President and CEO of Sacramento First National Bank. John replaces our former Interim President and CEO, Shelly Hicks, who acted in this capacity for six months. Shelly has now resumed her duties as Executive Vice President and Chief Financial Officer. The Board is indeed grateful to Shelly for accepting this additional responsibility and acknowledges her for a job well done.

In 2005, Ramona National Bank recorded a disappointing \$523,672 loss or \$.63 loss per share after showing a modest \$60,776 profit in 2004. Our marketing efforts did not generate sufficient deposit and loan volumes to offset our operating cost increase which was primarily incurred opening our La Mesa office.

However, the Bank was able to grow total assets by over \$9 million or 24% during the year, ending at \$49 million. Asset growth was predominantly provided by the increase in our deposit base, which rose by more than \$10 million or 33% for the year. Loans also improved growing to \$34 million an increase of 8% from the previous year end.

In addition to enlisting new management, your Board of Directors completed a private placement for \$500,000 in new capital in the first quarter of 2006 and has plans to raise additional investment in the upcoming third quarter. Meanwhile, capital continues to exceed regulatory requirements. At the end of the year, shareholders' equity was \$6.2 million. The Bank's total risk-based capital as of December 31, 2005 was 17%, compared to a regulatory requirement of 12%.

Your Board of Directors is pleased with our new leadership and increased shareholder support, and is committed to satisfying all provisions of the Consent Order, while remaining committed to providing you with the highest levels of community bank service.

It's a privilege to serve you.



John Farkash,
Chairman



John F. McGrath,
President & C.E.O.

MANAGEMENT'S STATEMENT ON RESPONSIBILITY FOR ACCOUNTING & FINANCIAL REPORTING

The information contained in the following statements of condition and the related statements of income, changes in shareholders' equity, and cash flows have been prepared by management. Management has the primary responsibility for ascertaining that these financial statements present fairly the financial position and the results of operations and cash flows of Ramona National Bank as of and for the years ended December 31, 2005 and 2004.

These financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts that are based on best estimates and judgments with appropriate consideration given to materiality. Management has made these estimates and judgments based on extensive experience and a substantive understanding of the underlying events and transactions.

In fulfilling its responsibility for the reliability and integrity of financial information, management has established and maintains accounting procedures and related internal control systems. Management believes that these procedures and systems provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorizations and are properly recorded to permit the preparation of reliable financial statements in conformity with accounting principles generally accepted in the United States of America, and that material errors or irregularities are either prevented or detected within a timely period by employees in the normal course of performing their assigned duties. Ramona National Bank's independent accountants review and test the established internal control systems to the extent necessary to express an opinion on the accompanying financial statements.



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Ramona National Bank
Ramona, California

We have audited the accompanying statements of condition of Ramona National Bank as of December 31, 2005 and 2004, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit of the 2005 financial statements in accordance with auditing standards generally accepted in the United States of America and our audit of the 2004 financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 Ramona National Bank at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hutchinson and Bloodgood LLP

Glendale, California
January 27, 2006

**RAMONA NATIONAL BANK
STATEMENTS OF CONDITION
DECEMBER 31,**

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and amounts due from banks	\$ 915,996	\$ 830,234
Federal funds sold	<u>5,200,000</u>	<u>110,507</u>
Cash and cash equivalents	<u>6,115,996</u>	<u>940,741</u>
Interest-bearing deposits due from banks	6,698,670	4,821,015
Investment securities available-for-sale (Note 2)	1,067,349	1,304,526
Stock investments, at cost (Note 3)	<u>352,750</u>	<u>259,750</u>
Total investments	<u>8,118,769</u>	<u>6,385,291</u>
Loans, net (Note 4)	33,636,664	31,491,074
Premises and equipment, net (Note 6)	471,085	294,183
Other assets and accrued interest receivable	<u>399,606</u>	<u>278,131</u>
Total assets	<u>\$ 48,742,120</u>	<u>\$ 39,389,420</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand, non-interest bearing	\$ 8,550,165	\$ 7,365,197
Money market, NOW, and savings accounts	19,580,505	16,525,450
Time certificates: (Note 7)		
Under \$100,000	7,607,720	3,789,505
\$100,000 or greater	<u>6,590,610</u>	<u>4,173,710</u>
Total deposits	42,329,000	31,853,862
Federal funds purchased	--	690,000
Other liabilities and accrued interest payable	<u>217,316</u>	<u>110,880</u>
Total liabilities	<u>42,546,316</u>	<u>32,654,742</u>
Commitments and contingencies (Note 10)		
Shareholders' equity: (Note 14)		
Common stock, par value \$5.00; authorized 10,000,000 shares; issued and outstanding 836,634 shares and 836,534 shares as of December 31, 2005 and 2004, respectively	4,183,170	4,182,670
Additional paid-in capital	4,080,032	4,079,532
Accumulated deficit	(2,045,954)	(1,522,282)
Accumulated other comprehensive loss	<u>(21,444)</u>	<u>(5,242)</u>
Total shareholders' equity	<u>6,195,804</u>	<u>6,734,678</u>
Total liabilities and shareholders' equity	<u>\$ 48,742,120</u>	<u>\$ 39,389,420</u>

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

**RAMONA NATIONAL BANK
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31,**

	<u>2005</u>	<u>2004</u>
Interest and dividend income:		
Loans, including fees earned	\$ 2,806,043	\$ 1,441,695
Investment securities:		
Interest	45,381	47,692
Dividends from bank stock	16,600	12,975
Federal funds sold	195,658	19,840
Balances due from banks	<u>173,172</u>	<u>131,943</u>
Total interest and dividend income	<u>3,236,854</u>	<u>1,654,145</u>
Interest expense on deposits	(1,135,388)	(361,737)
Interest expense on Federal funds purchased	<u>(176)</u>	<u>(2,961)</u>
Total interest expense	<u>(1,135,564)</u>	<u>(364,698)</u>
Net interest income	2,101,290	1,289,447
Provision for loan losses (Note 4)	<u>(255,000)</u>	<u>(146,000)</u>
Net interest income after provision for loan losses	1,846,290	1,143,447
Non-interest income (Note 8)	357,207	465,118
Non-interest expense (Note 8)	<u>(2,726,369)</u>	<u>(1,547,789)</u>
(Loss) income before provision for income taxes	(522,872)	60,776
Provision for income taxes	<u>(800)</u>	<u>- -</u>
Net (loss) income	<u>\$ (523,672)</u>	<u>\$ 60,776</u>
(Loss) earnings per share:		
Basic (loss) earnings per share	<u>\$ (0.63)</u>	<u>\$ 0.08</u>
Diluted (loss) earnings per share	<u>\$ (0.63)</u>	<u>\$ 0.08</u>

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

RAMONA NATIONAL BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	<u>Common Stock</u>		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2003	700,000	\$3,500,000	\$3,446,924	\$(1,583,058)	\$ (7,009)	<u>\$ 5,356,857</u>
Exercise of stock options	400	2,000	2,000			4,000
Issuance of stock, Net of expenses of \$50,062	136,134	680,670	630,608			1,311,278
Comprehensive income:						
Net income	--	--	--	60,776	--	60,776
Change in net unrealized gain on investment securities available-for-sale, after tax effects	--	--	--	--	1,767	<u>1,767</u>
Total comprehensive income						<u>62,543</u>
Balance at December 31, 2004	836,534	4,182,670	4,079,532	(1,522,282)	(5,242)	6,734,678
Exercise of stock options	100	500	500			1,000
Comprehensive income:						
Net loss	--	--	--	(523,672)	--	(523,672)
Change in net unrealized loss on investment securities available-for-sale, after tax effects	--	--	--	--	(16,202)	<u>(16,202)</u>
Total comprehensive loss						<u>(539,874)</u>
Balance at December 31, 2005	<u>836,634</u>	<u>\$4,183,170</u>	<u>\$4,080,032</u>	<u>\$(2,045,954)</u>	<u>\$ (21,444)</u>	<u>\$ 6,195,804</u>

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

**RAMONA NATIONAL BANK
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,**

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Net (loss) income	\$ (523,672)	\$ 60,776
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Provision for loan losses	255,000	146,000
Depreciation and amortization	134,790	89,703
Gain on sale of SBA loans	(60,515)	(224,738)
Increase in other assets and accrued interest receivable	(110,732)	(85,235)
Increase in other liabilities and accrued interest payable	<u>106,437</u>	<u>51,819</u>
Net cash (used in) provided by operating activities	<u>(198,692)</u>	<u>38,325</u>
Cash flows from investing activities		
Purchases of investment securities	--	(490,159)
Proceeds from maturities and principal payments received from investment securities	210,231	282,494
Net purchases of bank stock	(93,000)	(17,100)
Net (purchases) maturities of interest bearing due from banks	(1,877,655)	1,091,178
Net funding of loans	(2,340,075)	(18,817,585)
Purchases of premises and equipment	<u>(311,692)</u>	<u>(160,355)</u>
Net cash used in investing activities	<u>(4,412,191)</u>	<u>(18,111,527)</u>
Cash flows from financing activities		
Net increase in demand deposits, NOW, money market, and savings accounts	4,240,023	6,868,946
Net increase in certificates of deposit	6,235,115	4,296,792
Net (decrease) increase in Federal funds purchased	(690,000)	690,000
Exercise of stock options	1,000	4,000
Net proceeds from issuance of stock	<u>--</u>	<u>1,311,278</u>
Net cash provided by financing activities	<u>9,786,138</u>	<u>13,171,016</u>
Net increase (decrease) in cash and cash equivalents	5,175,255	(4,902,186)
Cash and cash equivalents at beginning of period	<u>940,741</u>	<u>5,842,927</u>
Cash and cash equivalents at end of year	<u>\$ 6,115,996</u>	<u>\$ 940,741</u>
Supplementary information		
Interest paid	<u>\$ 1,115,354</u>	<u>\$ 351,732</u>
Income taxes paid	<u>\$ 800</u>	<u>\$ 800</u>

The accompanying notes are an integral part of these financial statements

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ramona National Bank (“the Bank”) is organized under the laws of the United States of America and operates as a commercial bank in the State of California. The Bank was organized on March 15, 2001 and commenced operations on December 18, 2001. It provides a variety of financial services to small businesses, professionals and individuals in Ramona and the surrounding communities in the County of San Diego. The Bank engages in substantially all the business operations customarily conducted by independent commercial banks in California. Its primary deposit products are non-interest bearing checking, money market, savings, and term certificate of deposit accounts. The Bank offers a full range of commercial, real estate, SBA, home improvement/home equity, automobile, other installment and term loans. The deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to the maximum legal limits and the Bank is a member of the Federal Reserve System (“FRB”).

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for financial statements and conform to practices within the banking industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year then ended. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation allowance for the deferred tax asset.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash, amounts due from banks, and Federal funds sold.

Interest-Bearing Deposits Due From Banks

Interest-bearing deposits due from banks mature within 36 months and are carried at fair market value, which approximates cost.

Investment Securities

Investment securities are required to be classified into three categories for financial reporting purposes: held-to-maturity, trading, or available-for-sale. Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Trading securities are recorded at market value with the unrealized aggregate gain or loss being reflected in earnings. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of income tax effect. The Bank classified its entire securities portfolio as available-for-sale as of December 31, 2005 and 2004.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (continued)

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses realized upon the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment in Bank Stock

Federal Reserve Bank stock, Federal Home Loan Bank stock and Pacific Coast Bankers' Bank stock are carried at cost.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Fair value is based on commitments on hand from investors or prevailing market prices. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

The Bank grants real estate, commercial, SBA and consumer loans to customers. The ability of the Bank's debtors to honor their contracts is dependent upon the general economic conditions of the Bank's servicing area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances. Loans, as reported, have been reduced by net deferred loan fees and the allowance for loan losses.

Loan fees, net of origination costs, are deferred and amortized as an adjustment of the loan's yield over the life of the loan using methods that approximate the interest method. Amortization is discontinued when a loan is placed on non-accrual status.

Interest income is accrued daily, as earned on all loans, based on the principal amount of loans outstanding. The accrual of interest income on loans is discontinued, if as a result of its evaluation of the loan portfolio, management determines that the borrower's ability to meet contractual principal and/or interest obligations is doubtful, generally loans 90 days or more past due. Interest income previously accrued on such loans is reversed against current period interest income. Thereafter, interest income is not recognized until such loans become current as to principal and interest and management expects future payment to be made on schedule.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the ability to collect the loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (continued)

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the ability to collect loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation process requires the use of current estimates, which may vary from the ultimate losses experienced in the future. The estimates are susceptible to significant revision as more information becomes available. As adjustments become necessary, they are charged to operations in the period in which they become known.

A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when; (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (1 to 10 years). Leasehold improvements are capitalized and amortized over the term of the lease or the estimated useful life of the improvements, whichever is shorter. The straight-line method of depreciation is followed for financial reporting purposes, while both accelerated and straight-line methods are followed for income tax purposes.

Maintenance and repair costs are expensed as incurred, while renewals and betterments are capitalized.

Servicing Asset

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. As of December 31, 2005, the Bank had servicing rights on several real estate and commercial SBA loans previously sold to a third party. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying asset. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Stratifying rights determine impairment by predominant characteristics, such as interest rates and terms.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing Asset (continued)

Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Stock Option Plan

Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation,” as amended by SFAS No. 148, “Accounting for Stock Based Compensation - Transition and Disclosure,” encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25 (APB No. 25), “Accounting for Stock Issued to Employees,” whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee or a director must pay to acquire the stock. Stock options issued under the Bank’s stock option plan have no intrinsic value at the grant date, and under Opinion No. 25 no compensation cost is recognized for them. Under the Bank’s stock option plan, compensation cost is recognized to the extent that the quoted market price of the stock on the date of grant exceeds the amount that the employee is required to pay.

The Bank has elected to continue with the accounting methodology in Opinion No. 25 and, as a result, must make pro forma disclosures of net income and earnings per share and other disclosures, as if the fair value method of accounting had been applied. Had compensation cost for the Bank’s stock option plan been determined based on the fair value at the grant date for awards under the Plan consistent with the method prescribed by SFAS No. 123 as amended by SFAS No. 148, the Bank’s net income (loss) and earnings (loss) per share would have been reduced (increased) by the compensation cost net of taxes to the pro forma amounts indicated below:

	<u>Years Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Net (loss) income:		
As reported	\$ (523,672)	\$ 60,776
Pro forma	\$ (549,422)	\$ (51,134)
Total stock-based employee compensation expense determined under the fair value method	\$ 25,750	\$ 111,910
Basic (loss) earnings per share:		
As reported	\$ (0.63)	\$ 0.08
Pro forma	\$ (0.66)	\$ (0.07)
Diluted (loss) earnings per share:		
As reported	\$ (0.63)	\$ 0.08
Pro forma	\$ (0.66)	\$ (0.07)

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Option Plan (continued)

In accordance with Statement of Financial Accounting Standards No. 123R, beginning in 2006 the Bank will be required to record compensation cost for stock options provided to employees, directors and others in return for service to the Bank. The cost is measured at the fair value of the options when granted, and this cost is expensed over the service period, which is normally the vesting period of the options. This will apply to awards that vest after January 1, 2006, the date of adoption of SFAS No. 123R. The effect on results of operations will depend in part on the level of future option grants and the calculation of the fair value of the options granted at such future date, as well as the vesting periods provided, and so cannot currently be predicted.

Notwithstanding options granted in the future, management has evaluated the pro forma cost of the options granted through 2005. The Bank will record compensation costs for stock options granted through 2005 beginning on January 1, 2006. The estimated after tax cost of these options for each of the next five fiscal years ending December 31 is as follows:

2006	\$25,750
2007	17,257
2008	13,646
2009	10,854
2010	- -

There were 15,000 and 18,750 options granted during the years ended December 31, 2005 and 2004, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions.

	<u>2005</u>	<u>2004</u>
Dividend yield	0.00%	0.00%
Expected life	10 years	10 years
Expected volatility	0.8%	0.00%
Risk-free interest rate	4.48%	3.92%

Earnings Per Share

Basic earnings (loss) per share represent income (loss) available to common stock divided by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income (loss) that would result from the assumed conversion. Potential common shares that may be issued by the Bank relate solely to outstanding stock options and are determined using the treasury stock method. The weighted average numbers of shares outstanding for the years ended December 31, 2005, and 2004, respectively, were 836,579, and 716,330 for basic and 836,579 and 716,330 for diluted earnings (loss) per share.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The components of other comprehensive income and related tax effects are as follows:

	<u>Years Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Change in unrealized holding (losses) gains on available- for-sale securities	\$ (26,947)	\$ 1,911
Tax effect	<u>10,745</u>	<u>(144)</u>
Net of tax amount	<u>\$ (16,202)</u>	<u>\$ 1,767</u>

Income Taxes

Deferred income taxes are recognized for estimated future tax effects attributable to temporary differences between income tax and financial reporting purposes and carry forwards. A valuation allowance is established when necessary to reduce the deferred tax asset to the amount expected to be realized. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted accordingly through the provision for income taxes.

Recent Accounting Pronouncement

In December 2004, the FASB issued SFAS No. 123-R (revised 2004), *Share-Based Payment*, which is a revision of SFAS No. 123. SFAS No. 123-R supersedes APB No. 25 and amends SFAS No. 95, *Statement of Cash Flows*. This statement requires the fair value of all share-based payments to employees be recognized in the statement of income. SFAS No. 123-R is effective for the Bank beginning on January 1, 2006. The Bank expects to adopt SFAS No. 123-R using the modified prospective method, which requires the recognition of expense over the remaining vesting period for the portion of awards not fully vested as of December 31, 2005. The Bank does not expect the adoption of SFAS No. 123-R to have a significant impact on its financial position or results of operations, based on the stock options that are outstanding on December 31, 2005. The adoption of SFAS No. 123-R may become significant if the Bank issues new stock options.

In March 2004, the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") reached consensus on several issues being addressed in EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The consensus provides guidance for evaluating whether an investment is other-than-temporarily impaired and was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. The disclosure provisions of EITF 03-1 continue to be effective for the Bank's financial statements for the year ended December 31, 2005.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncement (continued)

On November 3, 2005, the FASB issued FASB Staff Position ("FSP") Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. This FSP nullifies certain requirements of EITF Issue 03-1, and supersedes EITF Topic No. D-44, *Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value*. The guidance in this FSP amends FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The FSP is effective for reporting periods beginning after December 15, 2005. The Bank does not anticipate any material impact to its financial condition or results of operations as a result of the adoption of this guidance.

Note 2. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available-for-sale by contractual maturity are as follows:

	December 31, 2005		
	Amortized Cost	Gross Unrealized Gain/(Loss)	Estimated Fair Value
Due from one year through five years: Obligations of U.S. Government agencies	\$ 493,560	\$ (15,380)	\$ 478,180
Mortgage-backed securities: U.S. Government-sponsored agency securities	207,410	(7,810)	199,600
Due from five years through ten years: Mortgage-backed securities: U.S. Government-sponsored agency securities	220,320	(10,981)	209,339
Due from over ten years: Mortgage-backed securities: U.S. Government-sponsored agency securities	182,928	(2,698)	180,230
	<u>\$1,104,218</u>	<u>\$ (36,869)</u>	<u>\$1,067,349</u>

Note 2. INVESTMENT SECURITIES (Continued)

	December 31, 2004		
	Amortized Cost	Gross Unrealized Gain/(Loss)	Estimated Fair Value
Due from one year through five years:			
Obligations of U.S. Government agencies	\$ 491,549	\$ 536	\$ 492,085
Mortgage-backed securities:			
U.S. Government-sponsored agency securities	40,338	45	40,383
Due from five years through ten years:			
Mortgage-backed securities:			
U.S. Government-sponsored agency securities	560,063	(10,071)	549,992
Due from over ten years:			
Mortgage-backed securities:			
U.S. Government-sponsored agency securities	222,500	(434)	222,066
	<u>\$1,314,450</u>	<u>\$ (9,924)</u>	<u>\$1,304,526</u>

The maturities of mortgage-backed securities will differ from contractually stated maturities because the mortgages underlying the securities amortize regularly and may prepay without penalty.

The following table presents available-for-sale investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous loss position for 12 or more months as of December 31, 2005.

Security Description	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities:	\$ 16,088	\$ 92	\$ 573,081	\$ 21,397	\$ 589,169	\$ 21,489
U.S. Government-sponsored agency:	478,180	15,380	--	--	478,180	15,380
	<u>\$ 494,268</u>	<u>\$ 15,472</u>	<u>\$ 573,081</u>	<u>\$ 21,397</u>	<u>\$1,067,349</u>	<u>\$ 36,869</u>

Note 3. STOCK INVESTMENTS

Stock investments include the following at December 31 and are recorded at cost:

	<u>2005</u>	<u>2004</u>
Federal Reserve Bank stock	\$ 194,850	\$ 160,750
Federal Home Loan Bank (FHLB) stock	97,900	39,000
Pacific Coast Bankers' Bank stock	<u>60,000</u>	<u>60,000</u>
	<u>\$ 352,750</u>	<u>\$ 259,750</u>

As a member of the FHLB system, the Bank is required to maintain an investment in FHLB stock in an amount equal to the greater of 1% of its outstanding mortgage loans or 5% of advances from the FHLB. There were no advances from the FHLB as of December 31, 2005 or 2004. No ready market exists for FHLB stock, and it has no quoted market value.

All stock is evaluated for impairment based on an estimate of the ultimate recoverability of par value.

Note 4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Bank's loan portfolio is as follows:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Loans held-for-sale	\$ 199,327	\$ 321,991
Real estate	23,122,953	21,786,325
Commercial	8,615,146	7,010,182
SBA commercial	551,356	804,201
Installment	<u>1,827,361</u>	<u>1,996,403</u>
	34,316,143	31,919,102
Less:		
Allowance for loan losses	572,330	320,468
Deferred net loan fees	41,498	38,524
Discount on retained SBA loans	<u>65,651</u>	<u>69,036</u>
Loans, net	<u>\$ 33,636,664</u>	<u>\$ 31,491,074</u>

There were \$238,820 and \$125,000 in loans past due over 90 days and \$305,192 and \$0 placed on non-accrual status during the years ended December 31, 2005 and 2004, respectively. Loans serviced for others are not included in the accompanying statements of condition. The unpaid principal balances of loans serviced for others were \$2,686,558 and \$2,717,508 at December 31, 2005 and 2004, respectively.

Note 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Activity in the allowance for loan losses follows:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Balance at beginning of year	\$ 320,468	\$ 179,800
Provision charged to expense	255,000	146,000
Loans charged-off	(6,224)	(6,153)
Recoveries	<u>3,086</u>	<u>821</u>
Balance at end of year	<u>\$ 572,330</u>	<u>\$ 320,468</u>

The following is a summary of the recorded investment in impaired loans:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Impaired loans with a valuation allowance	\$ 305,192	\$ --
Impaired loans without a valuation allowance	<u>--</u>	<u>--</u>
Total impaired loans	<u>\$ 305,192</u>	<u>\$ --</u>
Corresponding valuation allowance	<u>\$ 76,298</u>	<u>\$ --</u>

No additional funds are committed to be advanced in connection with impaired loans.

For the years ended December 31, 2005 and 2004, the average recorded investment in impaired loans amounted to \$343,756 and \$0, respectively. No interest on impaired loans was recognized as income in 2005 or 2004.

Note 5. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank may grant loans to certain officers, directors and companies with which they are associated. These loans which were made in accordance with the Bank's general lending policies, totaled \$545,550 and \$528,179 at December 31, 2005 and 2004, respectively. During 2005, new loans (including draw downs on revolving lines of credit and advances) aggregated \$60,538 and repayments aggregated \$43,167.

Deposits from related parties held by the Bank at December 31, 2005 and 2004 totaled \$1,361,897 and \$1,052,400, respectively.

Note 6. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consist of the following:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Furniture, fixtures and equipment	\$ 518,003	\$ 439,183
Leasehold improvements	<u>320,054</u>	<u>89,735</u>
	838,057	528,918
Less accumulated depreciation and amortization	<u>(366,972)</u>	<u>(234,735)</u>
	<u>\$ 471,085</u>	<u>\$ 294,183</u>

Depreciation and amortization expense for the periods ended December 31, 2005 and 2004 amounted to \$134,790 and \$89,703, respectively.

Note 7. DEPOSITS

The following summarizes the maturities of time certificates:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Due within one year	\$ 12,530,915	\$ 6,841,706
Due after one year to three years	<u>1,667,415</u>	<u>1,121,509</u>
	<u>\$ 14,198,330</u>	<u>\$ 7,963,215</u>

Note 8. NON-INTEREST INCOME AND EXPENSE

	<u>Years Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Non-interest income consists of the following:		
Customer service charges	\$ 142,859	\$ 112,915
Gain on sale of SBA loans	60,515	224,738
Pass-thru sale of loan fees	42,525	43,750
Mortgage banking fees	24,009	14,037
Other non-interest income	<u>87,299</u>	<u>69,678</u>
	<u>\$ 357,207</u>	<u>\$ 465,118</u>

Note 8. NON-INTEREST INCOME AND EXPENSE (Continued)

	<u>Years Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Non-interest expense consists of the following:		
Salaries and employee benefits	\$ 1,465,912	\$ 788,473
Occupancy and equipment	224,561	140,189
Depreciation and amortization	134,790	89,703
Legal and other professional	276,268	66,555
Advertising and promotion	57,422	49,160
Data processing	153,052	113,960
Other general and administrative	<u>414,364</u>	<u>299,749</u>
	<u>\$ 2,726,369</u>	<u>\$ 1,547,789</u>

Note 9. INCOME TAXES

The Bank recorded a current provision for state income tax expense in the amount of \$800 for each the years ended December 31, 2005 and 2004. No other current or deferred provisions for income taxes were recorded in 2005 or 2004. The provision for income taxes is different from the income tax benefit that would result by applying statutory tax rates to the pretax loss because of the valuation allowance established against the deferred tax asset.

The components of the net deferred tax assets are as follows:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Deferred tax asset:		
Allowance for loan losses	\$ 214,000	\$ 108,000
Start-up expenses	33,000	69,000
Net operating loss carryforward	600,000	490,000
Non-accrual interest	12,000	--
Depreciation and amortization	35,000	12,000
Charitable contribution carryforward	6,000	5,000
Unrealized loss on investments	<u>9,000</u>	<u>4,000</u>
	909,000	688,000
Valuation allowance	<u>(855,000)</u>	<u>(628,000)</u>
	54,000	60,000
Deferred tax liabilities:		
Cash basis of reporting for tax purpose	<u>(54,000)</u>	<u>(60,000)</u>
Net deferred tax asset	<u>\$ --</u>	<u>\$ --</u>

At December 31, 2005, the Bank had net operating loss carryforwards of approximately \$1,460,000 for federal tax purposes and \$1,456,000 for state tax purposes, which are available to offset future taxable income. The federal net operating loss carryforward begins to expire in the year 2021. The state net operating loss carry forward begins to expire in the year 2013.

Note 10. OTHER COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Bank leases its Ramona banking premises from Mr. Ernest Auerbach, its principal shareholder, under a lease expiring on August 31, 2010. The Bank obtained three independent appraisals regarding the fair market rent, which supports its determination that the terms of the lease are no less favorable to the Bank than could have been obtained from unaffiliated third parties.

The Bank leases its La Mesa location from the Auerbach Realty Group, LLC, an affiliate of its principal shareholder, Mr. Ernest Auerbach. This lease expires on February 28, 2010. The Bank obtained an independent review regarding the fair market rent to support its determination that the terms of the lease are no less favorable to the Bank than could have been obtained from unaffiliated third parties.

The minimum annual rents are being charged to expense on a straight-line basis over the lease terms. Future minimum rental payments for years ending December 31 are as follows:

2006	\$ 115,155
2007	115,155
2008	115,155
2009	115,155
2010	44,357
Thereafter	<u> --</u>
	<u>\$ 504,977</u>

The Ramona lease contains two five-year options to extend. The La Mesa lease contains three five-year options to extend. Rental expense for the period ended December 31, 2005 and 2004 amounted to \$108,117 and \$52,511, respectively.

Employment Agreements

The Bank has entered into various employment agreements with key officers. The employment agreements provide for specified minimum compensation and benefit payments. Employment may be terminated for good cause, as defined, without incurring obligations. In the event of termination for other than good cause, the key officers are entitled to severance compensation.

Credit Related Financial Instruments

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

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amount of those instruments. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Note 10. OTHER COMMITMENTS AND CONTINGENCIES (Continued)

Credit Related Financial Instruments (continued)

Undisbursed loan commitments amounted to approximately \$9,616,000 and \$11,687,000 at December 31, 2005 and 2004, respectively. Standby letters of credit total approximately \$150,000 and \$75,000 at December 31, 2005 and 2004, respectively.

Since many of the loan commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include cash on deposit, property, plant and equipment, accounts receivable, inventory, and other income-producing commercial properties.

The Bank has a line of credit available to purchase Federal funds from a non-affiliated financial institution at the prevailing market rate. The line is subject to the availability of funds at the lending institution. The Bank also has lines of credit with FRB and Federal Home Loan Bank ("FHLB"). Borrowing at FRB would be at the discount rate as set by FRB. Borrowing at FHLB would be at the prevailing rate offered by FHLB. There were \$0 and \$690,000 in amounts of Federal funds purchased at December 31, 2005 and 2004, respectively.

Note 11. CONCENTRATION OF CREDIT RISK

At December 31, 2005, the Bank had \$5,200,000 in Federal funds sold to commercial banks, and \$249,255 in cash on deposit with correspondent commercial banks of which \$5,413,500 were federally insured.

The Bank's lending activities are concentrated primarily in Ramona and neighboring areas in the County of San Diego. The Bank grants real estate, commercial, SBA, and consumer loans to businesses and individuals in its service area. Approximately 67% of the loan portfolio was collateralized by commercial and residential real estate as of December 31, 2005.

At December 31, 2005, approximately \$1.8 million or 5% of the total loans outstanding consisted of construction loans derived from one referral source. The undisbursed portion on the construction loans at December 31, 2005 was approximately \$7.0 million.

Note 12. 401(k) PLAN

The Bank has a 401(k) Plan whereby employees automatically become eligible to participant at the beginning of the quarter following their completion of six months employment with the Bank. Employees may contribute up to 25% of their annual compensation to the 401(k) Plan each year subject to certain limits based on federal tax law. The Bank commenced matching contributions in 2005 which totaled \$19,513 for the year.

Note 13. STOCK OPTION PLAN

Under the 2001 Stock Option Plan, the Bank may grant options to its directors, officers, and employees for up to 210,000 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the plan. At December 31, 2005, 101,650 options were available for granting and 107,850 options were outstanding. The exercise price of these options may not be less than the fair market value of the common stock on the date granted. These options expire ten years after the date of grant, may be exercised in 20% increments each year and become fully vested after five years.

A summary of the status of the Bank's stock option plan as of December 31, 2005 and 2004 and changes during the years then ended are as follows:

	2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	145,350	\$ 10.00	149,100	\$ 10.00
Granted	15,000	10.05	18,750	10.00
Exercised	(100)	10.00	(400)	10.00
Forfeited	(52,400)	10.00	(22,100)	10.00
Outstanding at end of year	<u>107,850</u>	\$ 10.01	<u>145,350</u>	\$ 10.00
Options exercisable at end of year	85,510	\$ 10.01	71,640	\$ 10.00
Weighted-average fair value of options granted during the year		\$ 3.60		\$ 3.22
Weighted-average remaining contractual life of options Outstanding		6.8 years		7.5 years

Note 14. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

As of June 30, 2005, the most recent notification from the Office of the Comptroller of the Currency ("OCC") categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. However, effective December 14, 2005, the Bank has been operating under an OCC consent order that deems the Bank as not "well capitalized" and requires the Bank to maintain specific capital levels (See note 16).

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum capital ratios as set forth in the following table. The Bank's actual capital amounts and ratios as of December 31, 2005 and 2004 are also presented in the table. Management believes, as of December 31, 2005 and 2004, that the Bank met all capital adequacy requirements to which it is subject.

December 31, 2005

	Actual		To Be Adequately Capitalized		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Qualifying capital to risk-weighted assets	\$ 6,707,000	17.07%	\$3,144,000	8.00%	\$3,930,000	10.00%
Tier 1 capital to risk-weighted assets	\$ 6,215,000	15.82%	\$1,572,000	4.00%	\$2,358,000	6.00%
Tier 1 capital to average assets	\$ 6,215,000	12.05%	\$2,064,000	4.00%	\$2,580,000	5.00%

December 31, 2004

	Actual		To Be Adequately Capitalized		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Qualifying capital to risk-weighted assets	\$ 7,059,000	21.14%	\$2,671,000	8.00%	\$3,338,000	10.00%
Tier 1 capital to risk-weighted assets	\$ 6,738,000	20.18%	\$1,336,000	4.00%	\$2,003,000	6.00%
Tier 1 capital to average assets	\$ 6,738,000	18.13%	\$1,487,000	4.00%	\$1,858,000	5.00%

Note 15. DIVIDENDS

Under federal law, a national bank generally may not pay cash dividends in excess of the bank's net profits, if it would impair the bank's capital, if the bank is in default on the payment of any assessment due to the FDIC, or if the bank has not paid all cumulative dividends on outstanding preferred stock. In addition, unless and until a bank's additional paid in capital account is equal to its common stock account, no dividend can be declared until the bank has carried to its additional paid-in capital account not less than one-tenth of its net profits for the preceding two consecutive half-years (in the case of annual dividends). The Bank cannot legally pay dividends at this time and the Bank intends to follow a policy of retaining earnings, if any, for the purpose of increasing its net worth and reserves during its initial years of operation. Accordingly, the Bank does not anticipate that cash dividends will be declared during the early stages of its development and no assurance can be given that its earnings will permit the payment of dividends of any kind.

Note 16. REGULATORY MATTERS

Effective December 14, 2005, the Bank executed a written Consent Order (the "Consent Order") with the Office of the Comptroller of the Currency (the "OCC") pursuant to the authority vested in it by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818. The Consent Order requires, among other actions, that the Bank (a) appoint a Compliance Committee that is responsible for monitoring and coordinating the Bank's adherence to the provisions of the Consent Order; (b) appoint an experienced, capable, and full-time Chief Executive Officer; (c) hire an independent outside management consultant to conduct and complete a study of current management and Board supervision; (d) develop and implement a written action plan; (e) continue to retain qualified and experienced management and notify the OCC of any proposed additions to or resignations from the Board or senior management; (f) continue to maintain a ratio of Tier 1 capital to Total Assets ("Tier 1 Capital Ratio") of at least 9.0%, and a Total capital to risk-weighted assets ("Qualifying Capital to Risk-weighted Assets") of at least 12.0%; (g) develop and implement a written program to improve the Bank's loan portfolio management process;

(h) refrain from extending any additional credit whatsoever for construction or land purposes until the Bank, has developed and implemented a written program to improve its construction and land loan underwriting standards and the Bank has received from the OCC a written determination of no supervisory objection to its written program; (i) adopt and implement a written program to eliminate the basis of assets criticized by the OCC within certain specified time parameters; (j) refrain from extending any additional credit to or for the benefit of any borrower who has a loan or other extension of credit from the Bank that has been criticized, with the exception of renewals meeting certain requirements; (k) maintain an adequate allowance for loan losses and develop or revise, adopt and implement a comprehensive policy for determining the adequacy of the allowance; (l) correct apparent appraisal exceptions and ensure future compliance with all applicable laws and regulations; and (m) file periodic progress reports with the OCC concerning compliance with the Consent Order.

Prior to and since the effective date of the Consent Order, the Board of Directors and Management of the Bank have taken various actions to comply with the Consent Order. Management believes that the Bank is currently in substantial compliance with the terms of the Consent Order. In that regard, the Bank's Tier 1 Capital Ratio was 12.05%, and the Qualifying Capital to Risk-weighted Assets was 17.07%, as of December 31, 2005. Management will continue to work closely with the OCC in order to comply with the terms of the Consent Order.

**RAMONA NATIONAL BANK
BOARD OF DIRECTORS**

JOHN FARKASH
Chairman of Board
Ramona National Bank;
President
Farkash Construction Company

LESTER MACHADO,
D.D.S., M.D.
Secretary of the Board
Ramona National Bank
Oral and Maxillofacial Surgeon

LAUREN BLAGG,
Ph.D., C.P.A.
Retired President & CEO
Scripps Memorial Hospitals

TIMOTHY BUZBEE
President
Coordinated Benefits
Corporation

WILLIAM EHLEN
Iron Horse Investments, LLC
Retired Banking
Executive

WILLIAM FOX
Retired
Businessman

JOSEPH E. MATRANGA
President
Matranga & Riley, CPA's

JOHN F. McGRATH
President & CEO
Ramona National Bank

G. ALEX SINCLAIR, C.P.A.
Retired
Commodity Broker

ANTON WESTBROOK
Principal
Coast Reprographic Services

OFFICERS

John F. McGrath
*President
Chief Executive Officer*

Shelly Hicks
*Executive Vice President
Chief Financial Officer*

Nathan Rogge
*Executive Vice President
Chief Operating Officer*

Tom Ferrara
*Executive Vice President
Chief Credit Officer*

Arturo C. Demarillas
*Senior Vice President
Commercial & SBA Lending Officer*

Ronald Littlefield
*Senior Vice President
Commercial Loan Officer*

Joy Childers
*Assistant Vice President
Business Development Officer*

Susan Donovan
*Assistant Vice President
Assistant Corporate Secretary*

Maria Faccione
*Assistant Vice President
Credit Analyst*

Leslie Harris
*Assistant Vice President
Loan Service Center Manager*

Becki Hicks
*Assistant Vice President
Consumer Loan Officer*

Shelley Schwaesdall
*Assistant Vice President
Operations Officer, Ramona*

Michael Vu
*Assistant Vice President
Processing Officer*

Audrey Wilson
*Assistant Vice President
Operations Officer, La Mesa*

STOCK EXCHANGE LISTING

Ramona National Bank common stock is listed on
Over the Counter ("OTC") trading as
RNBK.PK

MARKET MAKER

Western Financial Services
Richard Levinson

PROFESSIONAL CONSULTANTS

Horgan, Rosen, Beckham & Coren, L.L.P.
Legal Counsel

Hutchinson and Bloodgood LLP
Independent Accountants

Website: www.RamonaNationalBank.com



Equal Housing Lender