

First Business Bank, N.A. dba



2006

ANNUAL REPORT

TABLE OF CONTENTS

	Page
OUR MISSION STATEMENT	1
MESSAGE TO SHAREHOLDERS	2
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
Statements of Condition	4
Statements of Operations	5
Statements of Changes in Shareholders' Equity	6
Statements of Cash Flows	7 and 8
Notes to Financial Statements	9-28
BOARD OF DIRECTORS	29
FIRST BUSINESS BANK, N.A. OFFICERS	29
PROFESSIONAL CONSULTANTS	28

First Business Bank, N.A. dba



MISSION STATEMENT

Ramona National Bank is dedicated to serving the needs of individual, professional and business clients in San Diego County. We deliver a complete line of deposit and loan products designed to grow and nurture our banking relationships. We exceed our client, community and shareholder expectations.

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

Numerous significant events occurred during 2006, which positively affected the future of your bank.

An entirely new senior management team was put into place. The team includes: John F. McGrath, President and Chief Executive Officer; Nathan Rogge, Executive Vice President and Chief Operating Officer; Paula Berggren, Executive Vice President and Chief Credit Officer; William Roche, Executive Vice President and Chief Financial Officer; Jocelyn Brown, Vice President and SBA Department Manager; and Richard Arroyo, Vice President and Real Estate and Construction Lender. This is an impressive array of talent which, when combined, represents over 150 years of banking experience.

Three private placement stock offerings totaling \$18,000,000 were fully subscribed by the Bank's primary shareholder, the Ernest Auerbach Family Trust, and the Bank's Board of Directors making your bank one of the best capitalized banks in the nation.

In November 2006 you, the shareholders, approved an amendment to Ramona National Bank's Articles of Association to change our name to First Business Bank, National Association dba First Business Bank, N.A. The change will enable us to more clearly refocus on our primary target market, the business and professional community of San Diego County. The First Business Bank name, logo and full implementation were successfully launched at our offices, to our customers through direct mail, and to the public through media announcements on March 26, 2007.

In addition, on April 5th of this year, the administrative offices of the Bank were moved to 4370 La Jolla Village Drive, Suite 400, San Diego. First Business Bank, N.A. has applied for a branch at this address, which will be known as the University Town Center (UTC) Office. UTC will contain a loan production office as well as a branch. Our SBA and Construction Department will continue to be housed at the La Mesa Office at 7966 La Mesa Boulevard, La Mesa, CA. The main office of the Bank remains at 1315 Main Street, Ramona, CA.

While all of the positive changes were taking place during 2006, the Bank recorded a loss of \$1,590,147. Of this, \$1,065,755 was related to operational losses due to insufficient deposits and loans variances to support overhead and the recruitment of new management. Total provisions for loan loss in 2006 were \$524,392. This loan loss provision includes \$405,000 that was provided in the fourth quarter of 2006, which is reserved against one borrower. Management expects the Bank to be profitable in the first quarter of 2007.

First Business Bank, N.A. ended the year with total loans of \$34 million, the same as prior year, after reaching a low of \$27 million during the year. Total deposits finished 2006 at \$42 million likewise about the same as one year ago. Total assets of First Business Bank, N.A. grew from \$49 million to \$66 million or 22% due primarily to the increase in capital.

It's a privilege to serve you.



John Farkash,
Chairman



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



INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
First Business Bank, N.A.
dba Ramona National Bank
Ramona, California

We have audited the accompanying statements of condition of First Business Bank, N.A., dba Ramona National Bank as of December 31, 2006 and 2005, and the related statements of operations, 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 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 First Business Bank, N.A., dba Ramona National Bank at December 31, 2006 and 2005, 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
March 17, 2007

**FIRST BUSINESS BANK, N.A., dba
RAMONA NATIONAL BANK**

**STATEMENTS OF CONDITION
DECEMBER 31, 2006 AND 2005**

	2006	2005
ASSETS		
Cash and amounts due from banks	\$ 2,234,719	\$ 915,996
Federal funds sold	<u>8,233,048</u>	<u>3,200,000</u>
Cash and cash equivalents	<u>10,467,767</u>	<u>4,115,996</u>
Interest-bearing deposits due from banks	12,937,767	8,698,670
Investment securities available-for-sale (Note 3)	7,616,068	1,067,349
Stock investments, at cost (Note 4)	<u>878,450</u>	<u>352,750</u>
Total investments	<u>21,432,285</u>	<u>10,118,769</u>
Loans, net (Note 5)	32,238,125	33,636,664
Premises and equipment, net (Note 7)	354,233	471,085
Other assets and accrued interest receivable	<u>670,287</u>	<u>399,606</u>
Total assets	<u>\$ 65,162,697</u>	<u>\$ 48,742,120</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand, non-interest bearing	\$ 8,433,775	\$ 8,550,165
Money market, NOW, and savings accounts	24,939,046	19,580,505
Time certificates (Note 8):		
Under \$100,000	4,546,659	7,607,720
\$100,000 or greater	<u>4,088,718</u>	<u>6,590,610</u>
Total deposits	42,008,198	42,329,000
Other liabilities and accrued interest payable	<u>438,184</u>	<u>217,316</u>
Total liabilities	<u>42,446,382</u>	<u>42,546,316</u>
Commitments and contingencies (Note 12)		
Shareholders' equity (Note 16):		
Common stock, par value \$5.00; authorized 10,000,000 shares; issued and outstanding 2,641,534 shares and 836,634 shares as of December 31, 2006 and 2005, respectively	13,207,670	4,183,170
Additional paid-in capital	13,157,036	4,080,032
Accumulated deficit	(3,636,101)	(2,045,954)
Accumulated other comprehensive loss	<u>(12,290)</u>	<u>(21,444)</u>
Total shareholders' equity	<u>22,716,315</u>	<u>6,195,804</u>
Total liabilities and shareholders' equity	<u>\$ 65,162,697</u>	<u>\$ 48,742,120</u>

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

**FIRST BUSINESS BANK, N.A., dba
RAMONA NATIONAL BANK**

**STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Interest and dividend income:		
Loans, including fees earned	\$ 2,760,519	\$ 2,806,043
Investment securities:		
Interest	89,675	45,381
Dividends from bank stock	22,364	16,600
Federal funds sold	306,515	148,275
Interest-bearing balances due from banks	<u>593,329</u>	<u>220,555</u>
Total interest and dividend income	<u>3,772,402</u>	<u>3,236,854</u>
Interest expense on deposits	<u>(1,258,793)</u>	<u>(1,135,564)</u>
Net interest income	2,513,609	2,101,290
Provision for loan losses (Note 5)	<u>(524,392)</u>	<u>(255,000)</u>
Net interest income after provision for loan losses	1,989,217	1,846,290
Non-interest income (Note 10)	293,841	357,207
Non-interest expense (Note 10)	<u>(3,872,405)</u>	<u>(2,726,369)</u>
Loss before provision for income taxes (Note 11)	(1,589,347)	(522,872)
Provision for income taxes	<u>(800)</u>	<u>(800)</u>
Net loss	<u>\$ (1,590,147)</u>	<u>\$ (523,672)</u>
Loss per share:		
Basic loss per share	<u>\$ (1.15)</u>	<u>\$ (0.63)</u>
Diluted loss per share	<u>\$ (1.15)</u>	<u>\$ (0.63)</u>

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

**FIRST BUSINESS BANK, N.A., dba
RAMONA NATIONAL BANK**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
	Shares	Amount				
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 loss:						
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	836,634	4,183,170	4,080,032	(2,045,954)	(21,444)	<u>6,195,804</u>
Exercise of stock options	17,500	87,500	87,875	--	--	175,375
Issuance of stock, net of expense	1,787,400	8,937,000	8,933,230	--	--	17,870,230
Compensation expense on incentive stock options	--	--	55,899	--	--	55,899
Comprehensive loss:						
Net loss	--	--	--	(1,590,147)	--	(1,590,147)
Change in net unrealized loss on investment securities available-for-sale, after tax effects	--	--	--	--	9,154	<u>9,154</u>
Total comprehensive loss	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(1,580,993)</u>
Balance at December 31, 2006	<u>2,641,534</u>	<u>\$13,207,670</u>	<u>\$13,157,036</u>	<u>\$(3,636,101)</u>	<u>\$ (12,290)</u>	<u>\$ 22,716,315</u>

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

**FIRST BUSINESS BANK, N.A., dba
RAMONA NATIONAL BANK**

**STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Net loss	\$ (1,590,147)	\$ (523,672)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	524,392	255,000
Provision for losses on unfunded commitments	25,000	5,000
Depreciation and amortization	140,546	134,790
Gain on sale of SBA loans	--	(60,515)
Stock based compensation	55,899	--
Increase in other assets and accrued interest receivable	(278,363)	(110,732)
Increase in other liabilities and accrued interest payable	<u>196,315</u>	<u>101,437</u>
Net cash used in operating activities	<u>(926,358)</u>	<u>(198,692)</u>
Cash flows from investing activities		
Purchase of investment securities	(6,746,482)	--
Proceeds from maturities and principal payments received from investment securities	214,150	210,231
Net purchase of bank stock	(525,700)	(93,000)
Net purchases of interest bearing due from banks	(4,239,097)	(3,877,655)
Net repayment (funding) of loans	874,148	(2,340,075)
Purchases of premises and equipment	<u>(23,694)</u>	<u>(311,692)</u>
Net cash used in investing activities	<u>(10,446,675)</u>	<u>(6,412,191)</u>
Cash flows from financing activities		
Net increase in demand deposits, NOW, money market, and savings accounts	5,242,152	4,240,023
Net increase (decrease) in certificates of deposit	(5,562,953)	6,235,115
Net decrease in Federal funds purchased	--	(690,000)
Proceeds from exercise of stock options	175,375	1,000
Net proceeds from issuance of stock	<u>17,870,230</u>	<u>--</u>
Net cash provided by financing activities	<u>17,724,804</u>	<u>9,786,138</u>
Net increase in cash and cash equivalents	6,351,771	3,175,255
Cash and cash equivalents, beginning of year	<u>4,115,996</u>	<u>940,741</u>
Cash and cash equivalents, end of year	<u>\$ 10,467,767</u>	<u>\$ 4,115,996</u>

**FIRST BUSINESS BANK, N.A., dba
RAMONA NATIONAL BANK**

**STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Supplementary information		
Interest paid	<u>\$ 1,257,074</u>	<u>\$ 1,115,354</u>
Net transfers of loans to held for investment from held for sale	<u>199,327</u>	<u>-</u>
Change in unrealized loss on available-for-sale securities net of income taxes (benefit) of (\$7,233) and \$10,745, respectively, recorded in other comprehensive loss	<u>9,154</u>	<u>(16,202)</u>
Income taxes paid	<u>\$ 800</u>	<u>\$ 800</u>

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

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

First Business Bank, N.A., dba 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 under the name Ramona National Bank. During 2006, the Bank changed its name from Ramona National Bank to First Business Bank, N.A., dba Ramona National Bank. The Bank 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 19 months and are carried at fair market value, which approximates cost.

Reclassification

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation. Such reclassifications have no effect on net loss and shareholders’ equity as previously reported.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or loss, net of income tax effect. The Bank classified its entire securities portfolio as available-for-sale as of December 31, 2006 and 2005.

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. This stock can only be sold back to the issuing institution at par value.

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 adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans.

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 of deferred fees is discontinued when a loan is placed on non-accrual status.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (continued)

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.

Unearned income on installment loans is recognized as income over the term of the loans using a method that approximates the interest method.

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.

The allowance for possible loan losses is a reserve established through a provision for possible loan losses charged to expense, which represents, in management's judgment the known and inherent credit losses existing in the loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses inherent in the loan portfolio. The allowance for possible loan losses includes allowance allocations calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 114, "*Accounting by Creditors for Impairment of a Loan*," as amended by SFAS No. 118, "*Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures*," and allowance allocations calculated in accordance with SFAS No. 5, "*Accounting for Contingencies*." The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Bank's control, including the performance of the Bank's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Bank's allowance for possible loan losses consists of three elements: (i) specific valuation allowances established for probable losses on specific loans; (ii) historical valuation allowances calculated based on historical loan loss experience for similar loans with similar characteristics and trends; and (iii) unallocated general valuation allowances determined based on general economic conditions and other qualitative risk factors both internal and external to the Bank.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (continued)

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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.

Loan Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into other income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. 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.

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 (3 – 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.

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

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.

Advertising Cost

Advertising costs are accrued then paid as incurred.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Option Plan

The Bank has a stock option incentive plan that includes, among other awards, both incentive and nonqualified stock options, and authorizes the issuance of stock options to salaried employees and non-employee directors (See Note 15).

In December 2004, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 123R (Revised 2004), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123R supersedes APB No. 25 and amends FASB Statement No. 95, *Statement of Cash Flows*. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense through the income statement based on their fair values at issue date. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow required under current guidelines.

The Bank adopted the provisions of SFAS 123R, effective January 1, 2006, using the modified prospective method and began recording compensation expense associated with stock-based awards in accordance with SFAS No. 123R. Stock-based compensation expense was \$55,899 for the year ended December 31, 2006 net of related tax benefits.

As a result of the adoption of SFAS No. 123R and based on the stock-based compensation awards outstanding as of December 31, 2006, the Bank expects to recognize additional pre-tax compensation cost as follows:

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
<u>\$68,881</u>	<u>\$65,270</u>	<u>\$62,478</u>	<u>\$51,624</u>	<u>\$21,474</u>	<u>\$249,727</u>

Future levels of compensation cost recognized related to stock-based compensation awards (including the aforementioned expected costs during the period of adoption) may be impacted by new awards and/or modifications, repurchases and cancellations of existing awards before and after the adoption of this standard.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for options granted in 2006 and 2005, to arrive at the fair value for each grant:

	<u>2006</u>	<u>2005</u>
Dividend yield	0%	0%
Expected volatility	15.52%	.80%
Risk-free interest rate	5.11%	4.48%
Expected term	6 years	10 years

The expected volatility is based on the historical stock price volatility of other comparable independent banks. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Bank's history and expectation of dividend payouts.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Option Plan (continued)

The following table illustrates the effect on the Bank's net loss and loss per share, had the Bank applied the fair value recognition provision of SFAS 123R for the year ended December 31, 2005:

	<u>Year Ended December 31, 2005</u>	
Net loss:		
As reported	\$	(523,672)
Pro forma	\$	(549,422)
Total stock-based employee compensation expense determined under the fair value method	\$	25,750
Basic loss per share:		
As reported	\$	(0.63)
Pro forma	\$	(0.66)
Diluted loss per share:		
As reported	\$	(0.63)
Pro forma	\$	(0.66)

Loss Per Share

Basic loss per share represents the Net loss divided by the weighted average number of common shares actually outstanding during the period. Diluted 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 the 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, 2006, and 2005, respectively, were 1,376,899, and 836,579 for basic and 1,376,899 and 836,579 for diluted loss per share.

Comprehensive Income

Generally accepted accounting principles 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 statement of condition, such items, along with net income, are components of comprehensive income. The components of other comprehensive loss and related tax effects are as follows:

	<u>Years Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Change in unrealized holding Gains (losses) on available- for-sale securities	\$ 16,387	\$ (26,947)
Tax effect	(7,233)	10,745
Unrealized gain (loss), net of tax effects	<u>\$ 9,154</u>	<u>\$ (16,202)</u>

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 June 2006, the FASB issued FASB Interpretation No. 48 "*Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)*" which is effective for fiscal years beginning after December 15, 2006 with earlier adoption encouraged. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Bank is currently evaluating the potential impact of this interpretation.

In February 2006, the FASB published SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The statement resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies which interest-only strips and principal-only strips are not subject to SFAS No. 133 requirements. SFAS No. 155 also establishes a requirement to evaluate interests in securitized financial assets in order to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a QSPE from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The fair value election may also be applied upon adoption of SFAS No. 155 for hybrid financial instruments that had been bifurcated under paragraph 12 of SFAS No. 133 prior to the adoption of SFAS No. 155. The Bank does not expect adoption of SFAS No. 155 will have a material affect on the financial statements results of operations or liquidity of the Bank.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncement (continued)

In March of 2006, the FASB published SFAS No. 156, *Accounting for Servicing of Financial Assets*, which amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for servicing of financial assets. SFAS No. 156 requires that all separately recognized servicing rights be initially measured at fair value, if practicable. For each class of separately recognized servicing assets and liabilities, SFAS No. 156 permits an entity to choose either of the following subsequent measurement methods: (1) the amortization of servicing assets or liabilities in proportion to and over the period of estimated net servicing income or net servicing loss or (2) the reporting of servicing assets or liabilities at fair value at each reporting date and reporting changes in fair value in earnings in the period in which the changes occur. SFAS No. 156 also requires additional disclosures for all separately recognized servicing rights. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. SFAS No. 156 is effective the earlier of the date an entity adopts the requirements of SFAS No. 156, or as of the beginning of its first fiscal year beginning after September 15, 2006. An entity should apply the requirements for recognition and initial measurement of servicing assets and servicing liabilities prospectively to all transactions after the effective date of SFAS No. 156. The Bank does not expect adoption of SFAS No. 156 will have a material affect on the financial statements results of operations or liquidity of the Bank.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*," which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but applies under other existing accounting pronouncements that require or permit fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement and, therefore, should be determined based on the assumptions that market participants would use in pricing that asset or liability. SFAS No. 157 also establishes a fair value hierarchy that distinguishes between market participant assumptions developed based on market data obtained from independent sources and the Bank's own assumptions about market participant assumptions based on the best information available. SFAS No. 157 is effective for the Bank on January 1, 2008 with earlier adoption permitted. The Bank does not expect adoption to have a significant impact on the financial statements, results of operations or liquidity of the Bank.

Note 2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain minimum reserve requirements in the form of cash on hand and balances on deposit with the Federal Reserve Bank of San Francisco. At December 31, 2006 and 2005, the Bank's minimum reserve requirements were \$24,000 and \$73,000, respectively.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 3. INVESTMENT SECURITIES, AVAILABLE FOR SALE

The following is a comparison of amortized cost and fair value of investment securities available-for-sale by contractual maturity as of December 31, 2006 and 2005:

	December 31, 2006		
	Amortized Cost	Gross Unrealized Gain/(Loss)	Estimated Fair Value
Due from one year through five years:			
Obligations of U.S. Government agencies	\$6,001,695	\$ (9,559)	\$5,992,136
Mortgage-backed securities:			
U.S. Government-sponsored agency securities	160,963	(7,145)	153,818
Due from five years through ten years:			
Mortgage-backed securities:			
U.S. Government-sponsored agency securities	165,977	(8,570)	157,407
Due from over ten years:			
Mortgage-backed securities:			
U.S. Government-sponsored agency securities	1,307,915	4,792	1,312,707
	<u>\$7,636,550</u>	<u>\$ (20,482)</u>	<u>\$7,616,068</u>

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 3. INVESTMENT SECURITIES, AVAILABLE FOR SALE (Continued)

	December 31, 2005		
	Amortized Cost	Gross Unrealized 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>

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, 2006.

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:	\$ - -	\$ - -	\$ 458,685	\$ 17,267	\$ 458,685	\$ 17,267
U.S. Government- sponsored agency:	3,507,471	3,308	483,443	12,077	3,990,914	15,385
	<u>\$ 3,507,471</u>	<u>\$ 3,308</u>	<u>\$ 942,128</u>	<u>\$ 29,344</u>	<u>\$4,449,599</u>	<u>\$ 32,652</u>

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 4. STOCK INVESTMENTS

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

	2006	2005
Federal Reserve Bank stock	\$ 699,250	\$ 194,850
Federal Home Loan Bank (FHLB) stock	119,200	97,900
Pacific Coast Bankers' Bank stock	60,000	60,000
	\$ 878,450	\$ 352,750

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, 2006 or 2005. 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 5. LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	December 31,	
	2006	2005
Loans held-for-sale	\$ - -	\$ 199,327
Real estate	19,921,891	22,657,599
SBA real estate	2,321,820	465,354
Commercial	6,947,493	8,615,146
SBA commercial	2,612,268	551,356
Installment	1,626,150	1,827,361
	33,429,622	34,316,143
Less:		
Allowance for loan losses	1,088,905	572,330
Deferred net loan fees	43,437	41,498
Discount on retained SBA loans	59,155	65,651
Loans, net	\$ 32,238,125	\$ 33,636,664

Loans serviced for others are not included in the accompanying statements of condition. The unpaid principal balances of loans serviced for others were \$1,482,727 and \$2,686,558 at December 31, 2006 and 2005, respectively.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Activity in the allowance for loan losses follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 572,330	\$ 320,468
Provision charged to expense	524,392	255,000
Loans charged-off	(8,084)	(6,224)
Recoveries	<u>267</u>	<u>3,086</u>
Balance at end of year	<u>\$ 1,088,905</u>	<u>\$ 572,330</u>

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

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Impaired loans with a valuation allowance	\$ 1,163,009	\$ 305,192
Impaired loans without a valuation allowance	<u>- -</u>	<u>- -</u>
Total impaired loans	<u>\$ 1,163,009</u>	<u>\$ 305,192</u>
Corresponding valuation allowance	<u>\$ 455,669</u>	<u>\$ 76,298</u>

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

For the years ended December 31, 2006 and 2005, the average recorded investment in impaired loans amounted to \$323,463 and \$343,756, respectively. No interest on impaired loans was recognized as income in 2006 or 2005.

The unpaid principal balance of loans past due over 90 days and still accruing interest was \$0 and \$238,820 at December 31, 2006 and 2005, respectively. The unpaid principal balance of loans placed on non-accrual was \$192,610 at December 31, 2006 and \$305,192 at December 31, 2005.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 6. 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 \$514,938 and \$545,550 at December 31, 2006 and 2005, respectively. During 2006, new loans (including draw downs on revolving lines of credit and advances) aggregated \$36,054 and repayments aggregated \$66,666.

Deposits from related parties held by the Bank at December 31, 2006 and 2005 totaled \$7,620,673 and \$1,361,897, respectively.

Note 7. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consist of the following:

	December 31,	
	2006	2005
Furniture, fixtures and equipment	\$ 526,183	\$ 518,003
Leasehold improvements	330,623	320,054
	856,806	838,057
Less accumulated depreciation and amortization	(502,573)	(366,972)
	\$ 354,233	\$ 471,085

Depreciation and amortization expense for the periods ended December 31, 2006 and 2005 amounted to \$140,546 and \$134,790, respectively.

Note 8. DEPOSITS

The following summarizes the maturities of time certificates:

	December 31,	
	2006	2005
Due within one year	\$ 7,574,665	\$ 12,530,915
Due after one year to three years	1,060,712	1,667,415
	\$ 8,635,377	\$ 14,198,330

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 9. LINES OF CREDIT

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 has a \$1,000,000 time deposit at the institution pledged against the line. The Bank had no outstanding advances from this line of credit at December 31, 2006 and 2005. The line is renewable on an annual basis.

The Bank also has lines of credit with FRB and Federal Home Loan Bank ("FHLB"). Borrowings at FRB would be at the discount rate as set by FRB. Borrowings at FHLB would be at the prevailing rate offered by FHLB. This line of credit is collateralized by U.S. Government Agency Securities with an estimated fair value of \$6,674,000 at December 31, 2006. The Bank had no outstanding advances from these lines of credit at December 31, 2006 and 2005.

Note 10. NON-INTEREST INCOME AND EXPENSE

	<u>Years Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Non-interest income consists of the following:		
Customer service charges	\$ 178,007	\$ 142,859
Gain on sale of SBA loans	--	60,515
Pass-thru sale of loan fees	24,000	42,525
Mortgage banking fees	--	24,009
Other non-interest income	91,834	87,299
	\$ 293,841	\$ 357,207

	<u>Years Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Non-interest expense consists of the following:		
Salaries and employee benefits	\$ 2,302,975	\$ 1,465,912
Occupancy and equipment	221,169	224,561
Depreciation and amortization	140,546	134,790
Legal and other professional	420,332	276,268
Advertising and promotion	73,337	57,422
Data processing	159,891	153,052
Other general and administrative	554,155	414,364
	\$ 3,872,405	\$ 2,726,369

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 11. 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, 2006 and 2005. No other current or deferred provisions for income taxes were recorded in 2006 or 2005. 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:

	December 31,	
	2006	2005
Deferred tax asset:		
Allowance for loan losses	\$ 448,000	\$ 214,000
Start-up expenses	--	33,000
Net operating loss carryforward	1,130,000	600,000
Non-accrual interest	24,000	12,000
Depreciation and amortization	48,000	35,000
Charitable contribution carryforward	8,000	6,000
Unrealized loss on investments	5,000	9,000
	1,663,000	909,000
Valuation allowance	1,497,000	(855,000)
	166,000	54,000
Deferred tax liabilities:		
Cash basis of reporting for tax purpose	(166,000)	(54,000)
Net deferred tax asset	\$ --	\$ --

At December 31, 2006 and 2005, the Bank had net operating loss carryforwards of approximately \$2,740,000 and \$1,460,000, respectively, for federal tax purposes and \$2,760,000 and \$1,456,000, respectively, 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.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 12. 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:

2007	\$ 130,536
2008	131,463
2009	131,463
2010	<u>50,598</u>
	<u>\$ 444,060</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, 2006 and 2005 amounted to \$113,658 and \$128,348, 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.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 12. OTHER COMMITMENTS AND CONTINGENCIES (Continued)

Credit Related Financial Instruments (continued)

Undisbursed loan commitments amounted to approximately \$5,856,000 and \$9,616,000 at December 31, 2006 and 2005, respectively. Standby letters of credit total approximately \$244,000 and \$150,000 at December 31, 2006 and 2005, 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 also has lines of credit with FRB 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. The Bank had not borrowed any money under any credit lines as of December 31, 2006 and 2005.

Note 13. CONCENTRATION OF CREDIT RISK

At December 31, 2006, the Bank had \$12,937,767 in interest bearing deposits at other institutions, of which \$12,037,767 was federally insured. The Bank had \$151,898 in cash on deposit with correspondent commercial banks of which \$149,614 was 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, 2006.

Note 14. 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 made matching contributions which totaled \$16,110 and \$19,513 for 2006 and 2005, respectively.

Note 15. STOCK OPTION PLAN

Under the 2001 Stock Option Plan (the 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, 2006, 57,698 options were available for granting and 134,302 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.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 15. STOCK OPTION PLAN (Continued)

A summary of the status of the Bank's stock option plan as of December 31, 2006 and 2005 and changes during the years then ended are as follows:

	2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	107,850	\$ 10.01	145,350	\$ 10.00
Granted	95,802	10.00	15,000	10.05
Exercised	(17,500)	10.02	(100)	10.00
Forfeited	(51,850)	10.00	(52,400)	10.00
	<u>134,302</u>	<u>\$ 10.00</u>	<u>107,850</u>	<u>\$ 10.01</u>
Outstanding at end of year				
Options exercisable at end of year	46,400	\$ 10.01	85,510	\$ 10.01
Weighted-average fair value of options granted during the year		\$ 3.10		\$ 3.60
Weighted-average remaining contractual life of options Outstanding		8.05 years		6.8 years

Note 16. SHAREHOLDERS' EQUITY

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 December 31, 2006, the most recent notification from the Office of the Comptroller of the Currency ("OCC") categorized the Bank as "adequately capitalized" under the regulatory framework for prompt corrective action. As of December 31, 2006, the Bank's capital level and ratios indicate that it is "well capitalized" under the regulatory framework for prompt corrective action. However, the OCC categorized the Bank as "adequately capitalized" due to the Bank operating under an OCC consent order, effective December 14, 2005 (the "Consent Order"). 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. In addition, the OCC consent order requires the Bank to maintain specific capital levels (See note 18).

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 16. SHAREHOLDERS' EQUITY (Continued)

Minimum Regulatory Capital Requirements (continued)

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, 2006 and 2005 are also presented in the table. Management believes, as of December 31, 2006 and 2005, that the Bank met all capital adequacy requirements to which it is subject.

	December 31, 2006					
	Actual		To Be Adequately Capitalized		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Qualifying capital to risk-weighted assets	\$23,208,000	61.28%	\$3,029,920	8.00%	\$3,787,400	10.00%
Tier 1 capital to risk-weighted assets	\$22,727,000	60.01%	\$1,514,960	4.00%	\$2,272,440	6.00%
Tier 1 capital to average assets	\$22,727,000	35.11%	\$2,589,200	4.00%	\$3,236,500	5.00%

	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%

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

Note 17. 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 18. REGULATORY MATTERS

Effective December 14, 2005, the Bank executed Consent Order (see Note 16) 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 35.11%, and the Qualifying Capital to Risk-weighted Assets was 61.28%, as of December 31, 2006. Management will continue to work closely with the OCC in order to comply with the terms of the Consent Order.

**FIRST BUSINESS BANK, N.A. dba
RAMONA NATIONAL BANK**

NOTES TO FINANCIAL STATEMENTS

**FIRST BUSINESS BANK, N.A.
BOARD OF DIRECTORS**

JOHN FARKASH
Chairman of Board;
President
Farkash Construction Company

LESTER MACHADO
D.D.S., M.D.
Secretary of the Board;
Oral and Maxillofacial Surgeon

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

WILLIAM EHLEN
Iron Horse Investments, LLC
Retired Banking Executive

JOHN F. McGRATH
President & CEO
First Business Bank, N.A.

OFFICERS

John F. McGrath
President
Chief Executive Officer

Jocelyn Brown
Vice President
SBA Lending Officer

Melanie Hamilton
Vice President
Branch Manager, Ramona

William Roche, III
Executive Vice President
Chief Financial Officer

Richard Arroyo
Vice President
Commercial Loan Officer

Becki Coombs
Assistant Vice President
Loan Service Center Manager

Nathan Rogge
Executive Vice President
Chief Operating Officer

Gabriele Distler
Vice President
SBA Loan Officer

Shelley Schwaesdall
Assistant Vice President
Operations Officer, Ramona

Paula Berggren
Executive Vice President
Chief Credit Officer

Susan Donovan
Vice President of Operations
Compliance Officer
Assistant Corporate Secretary

Aracely Scott
Assistant Vice President
Branch Manager, La Mesa

Maria Faccione
Vice President
Relationship Manager

Joy Childers
Assistant Vice President
Operations Supervisor

STOCK EXCHANGE LISTING

The 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.fbbank.com

