



Bank On It, Inc.
2008 ANNUAL REPORT



Community Bank
of San Joaquin

A Subsidiary of Bank On It, Inc.



Community Bank
of San Joaquin

A Subsidiary of Bank On It, Inc.

OUR COMMITMENT

Community Bank of San Joaquin's
commitment is to be a superior performing
financial institution that provides
a competitive return to its shareholders.

This is accomplished by offering
a variety of quality financial products
and delivering a level of service
exceeding customers' expectations.

BANK ON IT, INC. AND SUBSIDIARY

CONTENTS

	PAGE
LETTER TO SHAREHOLDERS.....	4
INDEPENDENT AUDITOR'S REPORT	5
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	6
CONSOLIDATED STATEMENTS OF OPERATIONS	7
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY	8
CONSOLIDATED STATEMENTS OF CASH FLOWS.....	9
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....	10 – 31
SHAREHOLDER RELATIONS	32

This Annual Report, including the Consolidated Financial Statements and the related Notes, contains forward-looking statements about the Company within the meaning of the United States Private Securities Litigations Reform Act of 1995. These forward-looking statements generally can be identified by phrases such as the Company or its management “believes,” “expects,” “anticipates,” “foresees,” “estimates” or other words of similar import. Broadly speaking, forward-looking statements include forecasts of future financial results and condition, expectations for future operations and business, and any assumptions underlying those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual outcomes and results might differ significantly from forecasts and expectations.

Bank On It, Inc.

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Stockton, CA 95207-5715

Tel: (209) 956-7000
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April 13, 2009

To Our Shareholders:

Bank On It, Inc., parent company of Community Bank of San Joaquin (the Bank), reported a net loss of \$3,117,291 or \$2.20 per share for the period ending December 31, 2008 compared to net income of \$950,210 or \$0.64 per share reported in 2007.

Deteriorating real estate values as well as the onset of an unprecedented economic recession led to the recording of \$5.7 million in loan loss provisions in 2008 compared to \$445,000 reported in 2007. Additional operating expenses of approximately \$1.0 million were incurred relating primarily to the management and disposition of problem assets.

Management was aggressive in setting loan loss reserves for 2008 and is proactively monitoring the remaining portfolio so any additional weaknesses can be identified early and addressed accordingly.

Despite the losses incurred, at December 31, 2008, the Bank's regulatory capital position remained strong; exceeding by \$6.0 million the minimum regulatory calculation for "well capitalized".

Community Bank of San Joaquin never originated or invested in the "toxic assets" that have had such a significant impact on our economy. We are not asking for bailout funds, and plan to weather this economic storm independently.

In 2009, the Bank will continue to devote significant resources to identifying and resolving problem assets as well as working closely with our banking regulators to resolve all regulatory concerns. We will also focus on increasing our core deposit base and continue improving efficiencies within the Bank.

Thank you for your support in these difficult economic times.

Sincerely,



Rudy G. Croce
Chairman
Bank On It, Inc



Jane Butterfield
President, Chief Executive Officer
Bank On It, Inc.

Parent company of Community Bank of San Joaquin

INDEPENDENT AUDITOR'S REPORT

MOSS ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

To the Board of Directors and Shareholders
Bank On It, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Bank On It, Inc. and Subsidiary (the Company), as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for the two years ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bank On It, Inc. and Subsidiary as of December 31, 2008 and 2007, and the consolidated results of their operations and their consolidated cash flows for the two years ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Stockton, California

March 27, 2009

CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31,	
	2008	2007
Cash and due from banks	\$ 3,892,623	\$ 2,803,034
Federal funds sold	<u>12,195,000</u>	<u>575,000</u>
Cash and cash equivalents	16,087,623	3,378,034
Interest-bearing deposits in banks	-	3,660,004
Securities available-for-sale	23,588,748	25,406,381
Securities held-to-maturity	7,223,198	7,245,048
Trading securities	-	1,523,657
FHLB stock and other investments, at cost	764,388	676,439
Loans, net	86,575,894	98,621,035
Premises and equipment, net	711,226	831,574
Foreclosed real estate	3,741,891	-
Accrued interest receivable and other assets	<u>4,545,376</u>	<u>3,184,776</u>
Total assets	<u>\$ 143,238,344</u>	<u>\$ 144,526,948</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits		
Demand deposits	\$ 23,544,871	\$ 14,237,484
Interest-bearing checking	11,997,652	13,264,332
Money market checking	16,376,660	17,668,820
Savings deposits	4,708,682	4,293,668
Time deposits	<u>51,695,885</u>	<u>62,739,214</u>
Total deposits	108,323,750	112,203,518
Federal Home Loan Bank borrowings	16,250,000	11,250,000
Junior subordinated debt	4,124,000	4,124,000
Accrued interest payable and other liabilities	<u>667,776</u>	<u>355,636</u>
Total liabilities	<u>129,365,526</u>	<u>127,933,154</u>
Commitments and contingencies (Note 13)		
Shareholders' equity		
Preferred stock, no par value; 200,000 shares authorized and none issued or outstanding	-	-
Common stock, no par value; 2,300,000 shares authorized; 1,482,356 and 1,412,010 shares issued and outstanding at December 31, 2008 and 2007, respectively	16,112,775	15,794,760
Retained (deficit) earnings	(2,713,360)	626,324
Accumulated other comprehensive income, net of tax	473,403	172,710
Total shareholders' equity	<u>13,872,818</u>	<u>16,593,794</u>
Total liabilities and shareholders' equity	<u>\$ 143,238,344</u>	<u>\$ 144,526,948</u>

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,	
	2008	2007
INTEREST INCOME		
Interest and fees on loans	\$ 6,274,962	\$7,831,481
Interest on securities	1,559,906	1,149,639
Interest on federal funds sold	115,135	188,976
Interest-bearing deposits in banks and money market funds	131,239	252,647
	<u>8,081,242</u>	<u>9,422,743</u>
INTEREST EXPENSE		
Interest expense on deposits	2,455,569	3,326,517
Interest on borrowings	667,410	437,332
	<u>3,122,979</u>	<u>3,763,849</u>
Net interest income	4,958,263	5,658,894
PROVISION FOR LOAN LOSSES	5,710,000	445,000
Net interest income after provision for loan losses	(751,737)	5,213,894
NON-INTEREST INCOME		
Service charges and fees	391,581	324,731
Trust income	228,783	175,793
Gain on sale of foreclosed real estate	79,431	-
Gain on trading securities	12,890	56,719
Gain on sale of loans	-	62,194
Loss on sale of securities, net	(3,337)	(5,014)
Other	6,473	3,984
	<u>715,821</u>	<u>618,407</u>
NON-INTEREST EXPENSES		
Salaries and employee benefits	2,678,869	2,367,356
Occupancy and equipment	857,570	797,548
Write-down of foreclosed real estate	355,662	-
Other operating	1,484,274	1,198,187
	<u>5,376,375</u>	<u>4,363,091</u>
Net operating (loss) income before (benefit) provision for income tax	(5,412,291)	1,469,210
(BENEFIT) PROVISION FOR INCOME TAXES	(2,295,000)	519,000
Net (loss) income	<u><u>\$(3,117,291)</u></u>	<u><u>\$ 950,210</u></u>
NET (LOSS) INCOME PER SHARE – BASIC	<u><u>\$ (2.20)</u></u>	<u><u>\$ 0.64</u></u>
NET INCOME PER SHARE – DILUTED		<u><u>\$ 0.62</u></u>

See accompanying notes

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Two years ended December 31, 2008

	Common Stock		Comprehensive	Retained	Accumulated	Total
	Shares	Amount	(Loss) Income	(Deficit)	Other	Shareholders'
				Earnings	Comprehensive	Equity
					Income (Loss)	
Balances, January 1, 2007	1,344,918	\$ 14,636,892		\$ 863,641	\$ (160,408)	\$15,340,125
Cumulative effect adjustment from adoption of SFAS 159 and reclassification adjustment	-	-	\$ (77,962)	(77,962)	-	(77,962)
Stock options exercised	-	-	-	-	-	-
Stock dividend and cash paid for fractional shares	67,092	1,107,018	-	(1,109,565)	-	(2,547)
Equity compensation	-	50,850	-	-	-	50,850
Comprehensive income						
Net income	-	-	950,210	950,210	-	950,210
Other comprehensive income						
Unrealized gain on available-for-sale securities, net of tax of \$232,486	-	-	329,859	-	329,859	329,859
Reclassification adjustment for net loss realized and reported in net income, net of tax of \$1,755	-	-	3,259	-	3,259	3,259
	-	-	<u>3,259</u>	-	<u>3,259</u>	<u>3,259</u>
Total comprehensive income			<u>\$ 1,205,366</u>			
Balances, December 31, 2007	1,412,010	15,794,760		626,324	172,710	16,593,794
Stock dividend and cash paid for fractional shares	70,346	221,590	-	(222,393)	-	(803)
Equity compensation	-	96,425	-	-	-	96,425
Comprehensive loss						
Net loss	-	-	(3,117,291)	(3,117,291)	-	(3,117,291)
Other comprehensive income						
Unrealized gain on available-for-sale securities, net of tax of \$211,214	-	-	300,693	-	300,693	300,693
	-	-	<u>300,693</u>	-	<u>300,693</u>	<u>300,693</u>
Total comprehensive loss	-	-	<u>\$ (2,816,598)</u>	-	-	-
Balances, December 31, 2008	<u>1,482,356</u>	<u>\$16,112,775</u>		<u>\$ (2,713,360)</u>	<u>\$ 473,403</u>	<u>\$13,872,818</u>

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (3,117,291)	\$ 950,210
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Provision for loan losses	5,710,000	445,000
Depreciation, amortization and accretion, net	229,452	313,764
Net gain in trading securities	(12,890)	(56,719)
Net gain on sale of loans	-	(62,194)
Net loss on sale of securities	3,337	5,014
FHLB stock dividends	(36,087)	(26,536)
Equity compensation	96,425	50,850
Decrease in unearned loan fees	(53,350)	(181,942)
Increase in accrued interest receivable and other assets	(1,304,700)	(1,236,235)
Write-down of foreclosed real estate	355,662	-
Increase (decrease) in accrued interest payable and other liabilities	100,927	(751)
Net cash from operating activities	<u>1,971,485</u>	<u>200,461</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of securities available-for-sale	(2,053,563)	(16,338,332)
Purchases of FHLB stock and other investments	(55,900)	(162,764)
Purchases of securities held-to-maturity	-	(2,353,240)
Purchases of trading securities	-	(1,485,595)
Decrease in interest-bearing deposits in banks	3,660,004	268,480
Proceeds from sale of available-for-sale securities	-	962,924
Proceeds from maturities, principal pay-downs and calls of available-for-sale securities	4,365,089	6,909,705
Proceeds from maturities, sales, principal pay-downs and calls of trading securities	1,533,210	3,420,260
Net decrease (increase) in loans	2,290,938	(13,465,245)
Purchases of premises and equipment	(121,103)	(505,202)
Net cash from investing activities	<u>9,618,675</u>	<u>(22,749,009)</u>
CASH FLOWS FROM FINANCIAL ACTIVITIES:		
Proceeds from FHLB borrowings	5,000,000	11,250,000
Cash dividends paid for fractional shares	(803)	(2,547)
Net increase (decrease) in demand and interest-bearing deposits, money market and savings	7,163,561	(7,308,357)
Net (decrease) increase in time deposits	(11,043,329)	9,328,059
Net cash from financing activities	<u>1,119,429</u>	<u>13,267,155</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,709,589	(9,281,393)
CASH AND CASH EQUIVALENTS, beginning of year	3,378,034	12,659,427
CASH AND CASH EQUIVALENTS, end of year	<u>\$16,087,623</u>	<u>\$ 3,378,034</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	\$ 3,128,168	\$ 3,748,895
Income taxes	\$ 164,000	\$ 733,024
NON-CASH INVESTING AND FINANCING ACTIVITIES:		

During 2008, the Company recognized an unrealized gain on available-for-sale securities of \$511,907. As a result, the net deferred tax asset was decreased \$211,214 and equity was increased by \$300,693.

During 2008, the Company transferred \$4,097,553 in loans to foreclosed real estate. As of December 31, 2008, there was an allowance of \$355,662 against the foreclosed real estate balance. There were no foreclosed assets in 2007.

During 2007, the Company recognized an unrealized gain on available-for-sale securities of \$567,362. As a result, the net deferred tax asset was decreased \$234,244 and equity was increased by \$333,118.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Bank On It, Inc. (the Company) was formed on August 4, 1998, in the state of Delaware as B.O.I., Inc. and reincorporated by merging with a California corporation formed for that purpose on March 26, 1999. The Company was formed for the sole purpose of organizing a community-based California bank subsidiary, Community Bank of San Joaquin (the Bank). The Bank is a California State chartered bank, which opened for business on November 5, 1999, and operates two branches in Stockton, California. The Bank offers a wide range of deposit accounts, loan types and specialized services and provides general consumer and commercial banking services primarily to individuals, small-to-medium size businesses and professionals. Upon the approval of the state and federal regulatory agencies, the Bank began offering trust and investment services in September 2001.

In 2006, the Company formed a wholly-owned unconsolidated subsidiary, Bank On It, Inc. Statutory Trust I (the Trust) for the purpose of issuing preferred beneficial interests in the Company's subordinated debentures (Note 8).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

Use of estimates – In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

The allowance for loan losses is the most significant accounting estimate reflected in the Company's consolidated financial statements. The allowance for loan losses includes charges to reduce the recorded balances of loans receivable to their estimated net realizable value, as appropriate. The allowance is based on estimates, and ultimate losses may vary from current estimates. The Company provides for estimated losses on loans receivable and real estate when any significant and permanent decline in value occurs. These estimates for losses are based on individual assets and their related cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. Although management of the Company believes the estimates underlying the calculation of specific allowances are reasonable, there can be no assurances that the Company could ultimately realize these values. In addition to providing valuation allowances on specific assets where a decline in value has been identified, the Company establishes general valuation allowances for losses based on the overall portfolio composition, general market conditions, concentrations, and prior loss experience.

Other significant management judgments and accounting estimates reflected in the Company's consolidated financial statements include:

- Decisions regarding the timing and placement of loans on non-accrual;
- Determination, recognition, and measurement of impaired loans;
- Determination and evaluation of deferred tax assets and liabilities;
- Determination of the fair value of stock option awards; and
- Determination of the fair value of financial instruments.

Concentrations of credit risk – Assets and liabilities that subject the Company to concentrations of credit risk consist of loans and deposits. Most of the Company's customers are located within San Joaquin County and the surrounding areas. The Company's primary lending products are discussed in Note 5 to the consolidated financial statements. The Company did not have any significant concentrations in its business with any one customer

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of credit risk – (continued)

or industry. The Company obtains what it believes to be sufficient collateral to secure potential losses on loans. The extent and value of collateral varies based upon the details underlying each loan agreement.

As of December 31, 2008 and 2007, the Company had cash deposits at other financial institutions in excess of FDIC insured limits. However, as the Company places these deposits with major financial institutions and monitors the financial condition of these institutions, management believes the risk of loss to be minimal.

Principles of consolidation – The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Community Bank of San Joaquin. All material inter-company accounts and transactions have been eliminated.

In May 2006, the Company issued junior subordinated debentures through Bank On It, Inc. Statutory Trust I (the Trust), a grantor trust in which the Company owns all the common equity. The accounts of the Trust have been deconsolidated in accordance with FIN 46(R). The \$4,000,000 in junior subordinated debentures and the \$124,000 representing the Company's equity investment in the common stock of the Trust have been reflected as junior subordinated debt on the consolidated balance sheets (see Note 8).

Cash and cash equivalents – For purposes of the consolidated statements of cash flows, the Company considers cash, due from banks, money market funds, federal funds sold and securities purchased under agreements to resell to be cash equivalents. All have maturities of three months or less.

Trading securities – Debt and equity securities held for sale are classified as trading securities and reported at fair value. Realized and unrealized gains and losses are recorded in non-interest income.

Securities available-for-sale – Available-for-sale securities consist of bonds, notes, mortgage-backed securities and debentures not classified as trading securities or held-to-maturity securities. Unrealized holding gains and losses, net of tax, are reported as a net amount in a separate component of shareholders' equity, accumulated other comprehensive income, until realized. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method. The amortization of premiums and accretion of discounts are recognized as adjustments to interest income over the period to maturity.

Securities held-to-maturity – Bonds, notes and debentures for which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income over the period to maturity.

Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed interest rate investments, from rising interest rates. At each consolidated financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other than temporary based on the positive and negative evidence available. Evidence evaluated includes, but is not limited to, industry analyst reports, credit market conditions, and interest rate trends. If negative evidence outweighs positive evidence that the carrying amount is recoverable within a reasonable amount of time, the impairment is deemed to be other than temporary and the security is written down in the period in which such determination is made.

Loans and loan fees – Loans are reported at their principal outstanding balance net of charge-offs. Loan origination fees and certain direct loan origination costs are deferred and the net amounts are amortized to interest income by a method that approximates a level yield over the contractual life of the underlying loans.

Allowance for loan losses – The allowance for loan losses is established through a provision for loan losses charged to operations. The adequacy of the allowance for loan losses is periodically evaluated by the Company in order to maintain the allowance at a level that, in the opinion of management, is adequate to absorb losses

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for loan losses – (continued)

inherent in existing loans and overdrafts. Management's evaluation of the adequacy of the allowance is based on a consideration of the Company's historical loss experience, known and inherent risks in the loan portfolio, including adverse circumstances that may affect the ability of the borrower to repay interest and/or principal, the estimated value of any underlying collateral, and an analysis of the levels and trends of delinquencies and charge-offs. Actual results could differ from those estimates.

When a loan or portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. Impaired loans, as defined, are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. The general component relates to non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired if, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. Generally, the Company measures impaired loans based on the present value of expected future cash flows discounted at the historical effective interest rate, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral.

Income recognition on loans – Interest on loans, other than discounted installment loans, is credited to income based on the principal amount outstanding on a daily basis. Interest on discounted installment loans is recognized by a method which approximates the effective interest method. Interest accruals are discontinued on certain loans when collection of principal or interest is considered doubtful, or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

Premises and equipment – Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line basis. The estimated lives used in determining depreciation are:

Leasehold improvements	5 years
Furniture, fixtures and equipment	3 – 10 years
Computer equipment	3 years

Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease. The straight-line method of depreciation is followed for all assets for financial reporting purposes, but accelerated methods are used for tax purposes. Deferred income taxes have been provided for the resulting temporary differences.

Foreclosed real estate – Real estate acquired through, or in lieu of, loan foreclosure is expected to be sold and is recorded at the date of foreclosure at the lower of the recorded investment in the loan or its fair value less estimated costs to sell (fair value) establishing a new cost basis. After foreclosure, valuations are periodically performed by management with any subsequent write-downs recorded as a valuation allowance and charged against operating expenses. Operating expenses of such properties, net of related income, are included in other expenses. Gains and losses on the disposition of foreclosed real estate are included in non-interest income and expenses. The Company

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreclosed real estate – (continued)

may make loans to facilitate the sale of foreclosed real estate. Gains and losses on financed sales are recorded in compliance with the sales treatment outlined in SFAS No. 66, *Accounting for Sale of Real Estate*.

Servicing assets – Periodically, the Company sells loans and retains the servicing rights. The gain or loss on sale of loans depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Company generally estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions – credit losses, prepayment speeds, forward yield curves and discount rates commensurate with the risks involved.

No loans were sold during 2008. During 2007, the Company sold approximately \$809,000 in loans for which it retained the servicing responsibilities. The Company recognized pre-tax gains of \$62,194 as a result of these sales. The servicing asset recorded in connection with these sales was \$49,649 as of December 31, 2007 and is reflected in other assets on the consolidated balance sheets. As of December 31, 2008 and 2007, approximately \$18,025 and \$4,454, respectively, has been amortized. The Company evaluated the servicing asset for impairment at December 31, 2008 and 2007, and determined that no valuation allowance was needed.

Total loans serviced for others were approximately \$2 million and \$5 million as of December 31, 2008 and 2007, respectively. Total servicing assets included in other assets were \$167,505 and \$203,128 at December 31, 2008 and 2007, respectively.

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 Company, (2) the transferee obtains the right (free of conditions that prevent it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income taxes – The Company uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis (temporary differences). Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the year 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 through the provision for income taxes in the year of enactment.

A valuation allowance is established to the extent that it is more likely than not that the benefits associated with the deferred tax assets will not be fully realized.

The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. The Company had no unrecognized tax benefits which would require an adjustment to the January 1, 2007, beginning retained earnings. The Company had no unrecognized tax benefits at January 1, 2007, or at December 31, 2007 and 2008.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2008 and 2007, the Company recognized no interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction and the state of California. With few exceptions, the Company is no longer subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2005.

Stock dividend – On November 20, 2008, the Board of Directors approved a 5% stock dividend on the Company's common stock. On November 15, 2007, the Board of Directors approved a 5% stock dividend on the Company's common stock. All references made to the number of shares and options authorized, issued and outstanding for 2008 and 2007 have been adjusted to reflect the stock dividends on a retrospective basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive (loss) income – Comprehensive (loss) income includes net (loss) income and other comprehensive (loss) income. The Company's primary source of comprehensive (loss) income is unrealized gains and losses on securities available-for-sale. Reclassification adjustments result from gains or losses on securities that are realized and included in net income of the current period that also had been included in other comprehensive (loss) income as unrealized holding gains or losses in the period in which they arose. Total comprehensive (loss) income and the components of accumulated other comprehensive (loss) income are presented in the Consolidated Statements of Shareholders' Equity. For the years ended December 31, 2008 and 2007, \$0 and \$3,259, respectively, was reclassified out of comprehensive (loss) income into earnings.

Stock-based compensation – The Company recognizes compensation expense for awards of stock options to employees and directors based on the grant-date fair value of those awards. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model. The assumptions used in this model include an estimate of expected volatility, which is based on the historical volatility of the price of the Company's stock, and an estimate of the expected option term, which is based on consideration of the vesting period and contractual term of the option. In addition, the Company estimates the number of options expected to be forfeited based on historical forfeiture rates. The risk-free interest rates are equal to the U.S. Treasury yield at the time of the grant and commensurate with the expected term of the grant. Expense is recognized over the vesting period of the options. Compensation expense for awards of restricted stock are based on the market value of the Company's stock on the date of grant and is recognized over the stated performance or vesting period, as outlined in the individual grant. The Company's stock compensation plan and related assumptions used in determining the fair value of awards are discussed in Note 10.

Advertising costs – The Company expenses advertising costs as they are incurred. Advertising expense was \$58,780 and \$65,655 for the years ended December 31, 2008 and 2007, respectively.

Net (loss) income per common share – Basic net (loss) income per share amounts are computed by dividing net (loss) income available to shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options and restricted stock, result in the issuance of common stock that share in the earnings of the Company. The treasury stock method is applied to determine the dilutive effect of stock options when computing diluted earnings per share. However, dilutive earnings per share amounts are not presented when a net loss occurs because the conversion of potential common stock is anti-dilutive.

Recent accounting pronouncements – In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles."* The Company expects that SFAS No. 162 will have no impact on its consolidated financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. SFAS No. 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its consolidated financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company expects SFAS No. 141(R) would have an impact on its consolidated financial statements when effective if it acquires another company, but the nature and magnitude of the specific effects will depend upon the nature, terms, and size of the acquisitions the Company consummates after the effective date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurements – On September 15, 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. SFAS 157 is effective for the year beginning January 1, 2008, with early adoption permitted on January 1, 2007. The Company elected early adoption of SFAS 157 in conjunction with the adoption of SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 provides an alternative measurement treatment for certain financial assets and financial liabilities, under an instrument-by-instrument election, that permits fair value to be used for both initial and subsequent measurement, with changes in fair values recognized in earnings. While SFAS 159 is effective beginning January 1, 2008, earlier adoption is permitted as of January 1, 2007, provided that the entity also adopts all of the requirements of SFAS 157.

Reclassifications – Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 3 – CASH AND DUE FROM BANKS

Cash and due from banks includes balances with the Federal Reserve Bank and other correspondent banks. At times throughout the year, balances can exceed FDIC insurance limits. The Bank is required by the Federal Reserve Bank to maintain specified reserves. The average reserve requirements are based on a percentage of the Bank's deposit liabilities. In addition, the Federal Reserve Bank requires the Bank to maintain a certain minimum balance at all times. As of December 31, 2008, the required cash reserve was \$82,000.

NOTE 4 – SECURITIES

The amortized cost and estimated fair value of securities available-for-sale as of December 31, 2008 and 2007, are as follows:

	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	\$ 4,978,405	\$ 231,462	\$ -	\$ 5,209,867
Mortgage-backed securities	17,804,412	582,475	(8,006)	18,378,881
	<u>\$ 22,782,817</u>	<u>\$ 813,937</u>	<u>\$ (8,006)</u>	<u>\$23,588,748</u>
	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	\$ 5,258,741	\$ 129,993	\$ -	\$ 5,388,734
Mortgage-backed securities	19,853,616	200,817	(36,786)	20,017,647
	<u>\$ 25,112,357</u>	<u>\$ 330,810</u>	<u>\$ (36,786)</u>	<u>\$25,406,381</u>

The Company had no sales of available-for-sale securities in 2008. The Company recognized proceeds of \$962,924 from the sale of available-for-sale securities in 2007. Gross realized gains and gross realized losses for the year ended December 31, 2007, on available-for-sale securities were \$7,391 and \$4,731, respectively.

NOTE 4 – SECURITIES (CONTINUED)

The amortized cost and estimated fair value of securities held-to-maturity as of December 31, 2008 and 2007, are as follows:

	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	\$ 7,223,198	\$ 200,158	\$ (7,814)	\$ 7,415,542
	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	\$ 7,245,048	\$ 78,799	\$ (6,509)	\$ 7,317,338

Information pertaining to securities with gross unrealized losses at December 31, 2008 and 2007, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position follows:

Description of Securities	2008					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$ 712,765	\$ (6,947)	\$ 38,962	\$ (1,059)	\$ 751,727	\$ (8,006)
Obligations of states and political subdivisions	526,235	(7,814)	-	-	526,235	(7,814)
Total temporarily impaired securities	\$1,239,000	\$ (14,761)	\$ 38,962	\$ (1,059)	\$1,277,962	\$ (15,820)
	2007					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$ 429,704	\$ (2,251)	\$2,927,907	\$ (34,535)	\$3,357,611	\$ (36,786)
Obligations of states and political subdivisions	-	-	843,426	(6,509)	843,426	(6,509)
Total temporarily impaired securities	\$ 429,704	\$ (2,251)	\$ 3,771,333	\$ (41,044)	\$4,201,037	\$ (43,295)

Certain investment securities shown above currently have fair values less than amortized cost and therefore contain unrealized losses. The Company has evaluated these securities and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any company or industry specific event. These temporary unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. At December

NOTE 4 – SECURITIES (CONTINUED)

31, 2008, there were 12 investment securities with unrealized losses. The Company anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment.

The amortized cost and estimated fair value of debt securities at December 31, 2008, by contractual maturity or call date are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or pre-pay obligations with or without call or pre-payment penalties.

	<u>Available-for-sale</u>		<u>Held-to-maturity</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ 1,728,566	\$ 1,763,605	\$ 255,182	\$ 255,732
Due after one year through five years	4,509,285	4,724,697	5,249,905	5,413,844
Due after five years through ten years	1,096,755	1,113,726	1,718,111	1,745,966
Due after ten years	<u>15,448,211</u>	<u>15,986,720</u>	<u>-</u>	<u>-</u>
	<u>\$ 22,782,817</u>	<u>\$ 23,588,748</u>	<u>\$ 7,223,198</u>	<u>\$ 7,415,542</u>

Securities having a carrying value of \$9,071,405 and \$5,984,322 were pledged at December 31, 2008 and 2007, respectively, as collateral for uninsured deposits held by the Company's trust department and deposits awaiting investment or distribution by the Company's trust department. Uninsured deposits held by the Company's trust department totaled \$7,682,538 and \$5,531,859, respectively, at December 31, 2008 and 2007. At December 31, 2008 and 2007, there were no deposits awaiting investment or distribution by the Company's trust department.

NOTE 5 – LOANS

Major classifications of loans are summarized as follows:

	<u>DECEMBER 31,</u>	
	<u>2008</u>	<u>2007</u>
Commercial	\$31,801,848	\$34,503,259
Real estate	56,954,431	64,829,664
Consumer	<u>789,832</u>	<u>1,095,147</u>
	89,546,111	100,428,070
Deferred loan fees and costs, net	(15,351)	(68,701)
Allowance for loan losses	<u>(2,954,866)</u>	<u>(1,738,334)</u>
	<u>\$86,575,894</u>	<u>\$98,621,035</u>

NOTE 5 – LOANS (CONTINUED)

Changes in the allowance for loan losses were as follows:

	YEAR ENDED DECEMBER 31,	
	2008	2007
Balance at beginning of year	\$ 1,738,334	\$ 1,296,801
Provision for loan losses	5,710,000	445,000
Loans charged-off	(4,502,060)	(31,250)
Recoveries of loans previously charged-off	8,592	27,783
	\$ 2,954,866	\$ 1,738,334

The average outstanding balances of impaired loans were \$6,674,927 and \$420,209 for the years ended December 31, 2008 and 2007, respectively. Interest income recognized on impaired loans totaled \$171,671 and \$47,505 during 2008 and 2007, respectively. The Company had outstanding balances of \$3,425,289 and \$3,069,087 in impaired loans at December 31, 2008 and 2007, respectively. As of December 31, 2008, \$699,249 of the impaired loan total had specific reserves of \$349,625 and the remaining impaired balance of \$2,726,040 was determined to require no specific reserve under SFAS No. 114. As of December 31, 2007, \$1,671,348 of the impaired loan total had specific reserves of \$363,000 and the remaining impaired balance of \$1,397,739 was determined to require no specific reserve under SFAS No. 114. There were loans on non-accrual status in the amount of \$3,313,043 and \$1,531,350 as of December 31, 2008 and 2007, respectively. Forgone interest on non-accrual loans at December 31, 2008 and 2007, was \$77,893 and \$37,425, respectively. At December 31, 2008 and 2007, there were no loans over 90 days past due that were still accruing interest.

The Company's customers are primarily located in San Joaquin County. At December 31, 2008, approximately 35% of the Company's loans are for general commercial uses including professional, retail and small business. Approximately 64% of the Company's loans are mortgage type loans which are collateralized by both residential and commercial real estate. Additionally, 1% of the Company's loans were made for consumer purposes. Generally, real estate loans are collateralized by real property while commercial and consumer loans are either collateralized by funds on deposit, business or personal assets. Commercial and consumer loans that are unsecured are supported by the cash flows of the borrower. Repayment is generally expected from cash flows of the borrower.

NOTE 6 – PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	DECEMBER 31,	
	2008	2007
Leasehold improvements	\$ 825,984	\$ 813,251
Furniture, fixtures and equipment	573,163	575,597
Computer equipment	1,579,818	1,555,743
Construction in progress	62,410	-
	3,041,375	2,944,591
Less accumulated depreciation and amortization	(2,330,149)	(2,113,017)
	\$ 711,226	\$ 831,574

Depreciation and amortization expense on premises and equipment totaled \$241,933 and \$325,915 in 2008 and 2007, respectively.

NOTE 7 – TIME DEPOSITS

Time deposits consist of the following:

	DECEMBER 31,	
	2008	2007
Time, under \$100,000	\$11,906,597	\$11,939,777
Time, \$100,000 and over	39,789,288	50,799,437
	\$51,695,885	\$62,739,214

Time deposits issued and their remaining maturities are as follows:

Year ending December 31,	
2009	\$49,707,843
2010	944,174
2011	276,230
2012	408,328
2013	359,310
	\$51,695,885

NOTE 8 – BORROWINGS

The Bank had outstanding secured advances from the Federal Home Loan Bank (FHLB) at December 31, 2008 and 2007, of \$16,250,000 and \$11,250,000, respectively. The weighted average interest rate on the FHLB debt was 3.00% at December 31, 2008 with borrowings of \$5,000,000 maturing in June 2009 and \$11,250,000 maturing in September 2012. At December 31, 2008, the Bank had unused borrowing capacity with the FHLB of \$22.2 million. FHLB borrowings are secured under terms of a blanket collateral agreement by a pledge of loans. Interest rates associated with these advances are determined based on prevailing rates when the lines are drawn against. The Bank also has unused, unsecured formal lines of credit totaling \$4.0 million with correspondent banks and \$10.0 million available through repurchase agreements with a broker.

On May 23, 2006, the Company formed a wholly-owned Delaware statutory business trust, Bank On It, Inc. Statutory Trust I (the Trust), which issued a 30 year, \$4.0 million subordinated debenture which matures on June 15, 2036, and \$124,000 common securities to the Company. These debentures qualify as tier I capital under Federal Reserve Guidelines (the proceeds from issuance were transferred from the Trust to the Company and from the Company to the Bank as additional capital). The interest rate on the debentures changes quarterly and interest is paid quarterly at the three-month LIBOR plus 1.43%. The rate at December 31, 2008, was 3.43%. The Company has the right to redeem the debenture in whole or in part on any interest payment date on or after June 15, 2011, at the redemption price. The debenture is subordinated to the claims of the depositors and other creditors of the Company.

NOTE 9 – INCOME TAXES

The income tax (benefit) provision consists of the following:

	YEARS ENDED DECEMBER 31,	
	2008	2007
Current		
Federal	\$(1,099,000)	\$ 540,000
State	(114,000)	154,000
	<u>(1,213,000)</u>	<u>694,000</u>
Deferred		
Federal	(506,000)	(127,000)
State	(576,000)	(48,000)
	<u>(1,082,000)</u>	<u>(175,000)</u>
Income tax (benefit) provision	<u><u>\$ (2,295,000)</u></u>	<u><u>\$ 519,000</u></u>

Deferred income taxes reflect the effect of temporary differences between the tax basis of assets and liabilities and the reported amounts of those assets and liabilities for financial reporting purposes. The Company's total deferred tax assets and liabilities consist of the following:

	DECEMBER 31,	
	2008	2007
Deferred tax assets:		
Allowance for loan losses	\$1,216,000	\$ 698,000
Net operating loss	243,000	-
Write-down on foreclosed real estate	146,000	-
Accumulated depreciation	135,000	26,000
Prepaid expenses	75,000	-
Accrued vacation	54,000	16,000
Franchise tax	18,000	54,000
Equity compensation	24,000	10,000
Other	34,000	22,000
	<u>1,945,000</u>	<u>826,000</u>
Deferred tax liabilities:		
Accrual to cash	(52,000)	(104,000)
Deferred loan costs	(100,000)	(100,000)
Accumulated accretion	(50,000)	(60,000)
FHLB Stock	(51,000)	(36,000)
Unrealized gain on securities available-for-sale	(332,000)	(122,000)
Trading securities market adjustment	-	(23,000)
Other	(114,000)	(7,000)
	<u>(699,000)</u>	<u>(452,000)</u>
Net deferred income tax asset	<u><u>\$1,246,000</u></u>	<u><u>\$ 374,000</u></u>

A valuation allowance is provided when it is more likely than not that some portion of the net deferred tax assets will not be realized. Management has assessed the realizability of net deferred tax assets and believes that it is more likely than not that all deferred tax assets will be realized in the normal course of operations.

NOTE 10 – STOCK COMPENSATION PLAN

Under the Company's 1999 Stock Incentive Plan (the "Plan"), the Company may grant options and restricted stock to employees and directors for up to 444,707 shares of common stock. Options and restricted stock vest 20% per year over five years. Options have a stated term of ten years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted-average assumptions used for grants in 2008 and 2007, respectively: no expected dividends; expected volatility ranging from 24.3% to 22.4% in 2008 and 23.7% in 2007; risk-free interest rate ranging from 2.98% to 3.12% in 2008 and 4.95% in 2007; and expected option term ranging from 70 months to 71 months in 2008 and 73 months in 2007.

During 2008 and 2007, stock compensation expense charged against income was \$96,425 and \$50,850, respectively. The total income tax benefit recognized in the income statements for share-based compensation was immaterial at December 31, 2008 and 2007.

A summary of the status of the Company's fixed stock option plan for the years ended December 31, 2008 and 2007, is presented below:

	December 31, 2008	
	Shares	Weighted-Average Exercise Price
For the year ended December 31, 2008		
Outstanding at beginning of period	233,272	\$ 11.40
Granted	60,900	\$ 11.43
Exercised	-	\$ -
Forfeited	(5,788)	\$ 16.20
Outstanding at end of period	288,384	\$ 11.31
	December 31	
	2008	2007
Weighted-average fair value of options granted during the year	\$ 3.48	\$ 5.44
Intrinsic value of options exercised	\$ -	\$ -
Options exercisable at year end:	191,603	182,272
Weighted average exercise price	\$ 9.97	\$ 10.33
Intrinsic value	\$ -	\$1,071,000
Weighted average remaining contractual life	3.76 years	4.54 years
Options outstanding at year end:	288,384	233,272
Weighted average exercise price	\$ 11.31	\$ 11.40
Intrinsic value	\$ -	\$1,121,000
Weighted average remaining contractual life	5.42 years	5.51 years

NOTE 10 – STOCK COMPENSATION PLAN (CONTINUED)

As of December 31, 2008, there was \$341,740 of total unrecognized compensation cost related to non-vested share-based compensation arrangements under the Plan. That cost is expected to be recognized over a weighted average period of 3.63 years. Of the total options outstanding at December 31, 2008, 204,803 were incentive stock options and 83,581 were non-qualified options.

The Company granted 2,400 shares of restricted stock at in 2008. All grants were subject to a five year vesting term and had a grant date fair value of \$12.50. A total of 300 shares were forfeited during 2008. No restricted shares were released during 2008. As of December 31, 2008, there were 2,204 shares of restricted stock outstanding, none of which had vested. Unrecognized compensation expense related to restricted stock grants totaled \$25,000 as of December 31, 2008.

NOTE 11 – FAIR VALUE – ADOPTION OF SFAS 159

Effective January 1, 2007, the Company elected early adoption of SFAS No.159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). The Company also adopted the provisions of SFAS No. 157, *Fair Value Measurements* (SFAS 157), effective January 1, 2007, in conjunction with the adoption of SFAS 159. SFAS 159 generally permits the measurement of selected eligible financial instruments at fair value at specified election dates.

Upon adoption of SFAS 159, the Company elected the fair value measurement option for seven of the Company's pre-existing available-for-sale securities with a carrying cost of \$3,485,052, prior to the adoption of SFAS 159. Management believed the early adoption of SFAS 159 and 157 would help achieve an already initiated re-structuring designed to extend the overall duration of the Company's investment portfolio and smooth out future cash flows. Management also believed that maintaining a small portfolio of securities in a trading portfolio would better allow the Company to manage liquidity and take advantage of an expectation of declining interest rates, particularly short-term interest rates. In determining which securities to apply the fair value option to, management considered the expected maturity dates and future cash flows of the individual securities. Management's intent was to leave the held-to-maturity portfolio intact. In considering mortgage backed securities versus agencies, management believed the selection of non-callable agency securities allowed them to more specifically target the desired future cash flows. The initial fair value measurement at adoption resulted in a \$77,962 cumulative-effect adjustment to the opening balance of retained earnings at January 1, 2007. The adjustment resulted in an increase of \$77,962 in the reported balance of the trading securities. Under SFAS 159, this one-time charge to shareholders' equity was not recognized in earnings. Changes in fair value (FV) for periods subsequent to adoption are recorded in current earnings.

At various times throughout 2007, the securities which were initially selected for fair value treatment were disposed of and replaced by newly purchased securities which were also carried at fair value in the trading account. The Company realized losses totaling \$3,337 and \$7,674 during 2008 and 2007, respectively, on the disposition of the initial trading securities. The Company sold all of their trading securities during 2008. As of December 31, 2007, the Company had a total of three securities with a balance of \$1,523,657 in the trading account. Pretax changes in fair value for the year ended December 31, 2007, totaled \$56,719 and are included as a gain in other non-interest income.

NOTE 12 – EARNINGS PER SHARE

The Company computes earnings per share (EPS) in accordance with SFAS No. 128, *Earnings per Share* (SFAS 128). SFAS 128 requires the presentation of basic EPS, which does not consider the effect of common stock equivalents and diluted EPS, which considers all dilutive common stock equivalents.

NOTE 12 – EARNINGS PER SHARE (CONTINUED)

	YEAR ENDED DECEMBER 31, 2008		
	Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Net loss	\$ (3,117,291)		
Basic EPS:			
Net loss available to common shareholders	\$ (3,117,291)	1,419,912	\$ (2.20)
	YEAR ENDED DECEMBER 31, 2007		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	\$ 950,210		
Basic EPS:			
Net earnings available to common shareholders	950,210	1,482,611	\$ 0.64
Effect of dilutive securities:			
Stock options	-	54,999	
Diluted EPS:			
Net earnings available to common shareholders plus assumed conversions	\$ 950,210	1,537,610	\$ 0.62

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Lease commitments – The Company leases certain facilities where it conducts its operations under leases with terms expiring through 2011. The Company recognized rent expense of \$285,114 in 2008 and \$189,964 in 2007.

As of December 31, 2008, the approximate future minimum net rental payments under non-cancelable operating leases for premises were as follows:

2009	\$ 257,307
2010	167,663
2011	163,422
2012	139,968
2013	144,828
Thereafter	912,864
	\$1,786,052

Financial instruments with off-balance-sheet risk – In order to meet the financing needs of its customers, the Company is a party to financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend credit in the form of loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

NOTE 13 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Financial instruments whose contract amounts represent credit risk at December 31, 2008:

	Contract Amount
Letters of credit	\$ 340,000
Undisbursed loan commitments	32,519,714
	\$32,859,714

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company on extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

NOTE 14 – RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, makes loans and receives deposits from its directors, officers, principal shareholders, and their associates. In management's opinion, these transactions are on substantially the same terms as comparable transactions with other customers of the Company. Loans to directors, officers, shareholders, and affiliates are summarized below:

	YEARS ENDED DECEMBER 31,	
	2008	2007
Aggregate amount outstanding, beginning of year	\$2,812,088	\$4,745,648
New loans or advances during year	2,442,295	2,915,144
Repayments during year	(4,013,426)	(4,848,704)
Aggregate amount outstanding, end of year	\$1,240,957	\$2,812,088

The aggregate amount of deposits received from related parties at December 31, 2008 and 2007, was approximately \$18,313,299 and \$18,612,592, respectively.

NOTE 15 – EMPLOYEE BENEFIT PLAN

The Company offers a 401(k) profit sharing plan (“the Plan”) which is available to all employees who have completed three months of service with the Bank except: 1) an employee who has not attained age 21, or 2) an employee covered by a collective bargaining agreement. Eligible employees can contribute up to 15% of gross compensation to the Plan. The Company can elect to make a profit sharing contribution that would be allocated to each Plan participant based on compensation relative to other participants. Vesting of Company profit sharing contributions to the Plan occurs at a rate of 20% per year starting in the second year of service. The Company made no profit sharing contributions to the Plan for the years ended December 31, 2008 and 2007.

The Company amended the Plan effective January 1, 2006, to provide a matching contribution for all participants. The Company provides a matching contribution to each employee equal to 100% of the first 3% of employee’s salary and 50% of the next 2% for a total of 4% for participating employees. Matching contributions vest immediately. The Company made matching contributions of \$75,968 and \$67,476, respectively, for the years ended December 31, 2008 and 2007.

NOTE 16 – REGULATORY MATTERS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. 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 Company’s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company and the Bank’s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier I capital (as defined) to average assets (as defined). Management believes that the Company and the Bank meet all capital adequacy requirements to which they are subject.

NOTE 16 – REGULATORY MATTERS (CONTINUED)

The Company's (on a consolidated basis) actual capital amounts and ratios are presented in the following table:

	<u>Actual</u>		<u>For capital adequacy purposes</u>		<u>To be well capitalized under PCA</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
December 31, 2008:						
Total Risk-Based Capital						
(to Risk-Weighted Assets)	\$18,959,980	16.02%	\$9,468,508	≥ 8.0%	\$11,835,635	≥ 10.0%
Tier I Capital						
(to Risk-Weighted Assets)	\$17,484,000	14.77%	\$4,734,254	≥ 4.0%	\$ 7,101,381	≥ 6.0%
Tier I Capital						
(to Average Assets)	\$17,484,000	12.04%	\$5,722,923	≥ 4.0%	\$ 7,153,654	≥ 5.0%
December 31, 2007:						
Total Risk-Based Capital						
(to Risk-Weighted Assets)	\$22,098,000	17.76%	\$9,955,000	≥ 8.0%	\$12,444,000	≥ 10.0%
Tier I Capital						
(to Risk-Weighted Assets)	\$20,545,000	16.51%	\$4,978,000	≥ 4.0%	\$ 7,466,000	≥ 6.0%
Tier I Capital						
(to Average Assets)	\$20,545,000	14.07%	\$5,840,000	≥ 4.0%	\$ 7,300,000	≥ 5.0%

The Bank's actual capital amounts and ratios are presented in the following table:

	<u>Actual</u>		<u>For capital adequacy purposes</u>		<u>To be well capitalized under PCA</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
December 31, 2008:						
Total Risk-Based Capital						
(to Risk-Weighted Assets)	\$17,663,000	15.16%	\$9,321,680	≥ 8.0%	\$11,652,100	≥ 10.0%
Tier I Capital						
(to Risk-Weighted Assets)	\$16,187,000	13.89%	\$4,660,840	≥ 4.0%	\$ 6,991,260	≥ 6.0%
Tier I Capital						
(to Average Assets)	\$16,187,000	11.60%	\$5,579,800	≥ 4.0%	\$ 6,974,750	≥ 5.0%
December 31, 2007:						
Total Risk-Based Capital						
(to Risk-Weighted Assets)	\$20,652,000	16.66%	\$9,919,600	≥ 8.0%	\$12,399,500	≥ 10.0%
Tier I Capital						
(to Risk-Weighted Assets)	\$19,099,000	15.40%	\$4,959,800	≥ 4.0%	\$ 7,439,700	≥ 6.0%
Tier I Capital						
(to Average Assets)	\$19,099,000	13.25%	\$5,766,000	≥ 4.0%	\$ 7,207,000	≥ 5.0%

On November 17, 2008, the Bank stipulated to the entry of an order (Stipulation) with the Federal Deposit Insurance Corporation (FDIC) and the California Department of Financial Institutions (DFI) whereby the Bank agreed to a number of steps to improve various areas of the Bank's operations, including:

- Maintaining capital ratios in excess of the standard minimum requirements. Specifically, the Stipulation requires the Bank to maintain total risk-based capital, tier I capital to risk-weighted assets (tier 1 risk-based), and tier I capital to average assets (tier 1 leverage) ratios of 13.0%, 10.0% and 8.0%, respectively. As shown in the above table, the Bank has exceeded each of those ratios at all times before and after the date of the Stipulation.

NOTE 16 – REGULATORY MATTERS (CONTINUED)

- Improving the quality of the Bank's loan portfolio and various lending policies and procedures;
- Developing a three-year strategic plan to improve profitability;
- Retaining an independent consultant to review the management and personnel structure of the Bank and evaluate the adequacy of management and if additional personnel are needed; and
- Increasing oversight by the Board of Directors to ensure the Bank remains financially strong and obtaining recommendations of an independent consultant concerning the composition of the Board of Directors.

Management believes significant and ongoing progress has been made in addressing and implementing the issues noted in the Stipulation.

NOTE 17 – RESTRICTIONS ON RETAINED EARNINGS

Under current California state banking laws, the Bank may not pay cash dividends in an amount which exceeds the lesser of retained earnings of the Bank or the Bank's net earnings for its last three fiscal years (less the amount of any distributions to shareholders made during that period). If the above requirements are not met, cash dividends may only be paid with the prior approval of the Commissioner of the DFI, in an amount not exceeding the Bank's net earnings for its last fiscal year or the amount of its net earnings for its current fiscal year. Accordingly, the future payment of cash dividends will depend on the Bank's earnings and its ability to meet its capital requirements.

In addition, on November 17, 2008, the Bank stipulated to the entry of an order with the FDIC and the DFI whereby the Bank is prohibited from the payment of cash dividends without the prior written consent of the FDIC and the DFI.

NOTE 18 – FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet.

NOTE 18 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair values of the Company's financial instruments are approximately as follows:

	2008		2007	
	Carrying Amounts	Estimated Fair Values	Carrying Amounts	Estimated Fair Values
Financial assets:				
Cash and cash equivalents	\$16,087,623	\$16,087,623	\$3,378,034	\$3,378,034
Interest-bearing deposits in banks	-	-	3,660,004	3,675,118
Trading securities	-	-	1,523,657	1,523,657
Securities available-for-sale	23,588,748	23,588,748	25,406,381	25,406,381
Securities held-to-maturity	7,223,198	7,415,544	7,245,048	7,317,338
FHLB stock and other investments	764,388	764,388	676,439	676,439
Loans, net	86,575,894	88,323,273	98,621,035	98,818,705
Interest receivable	602,866	602,866	835,616	835,616
Financial liabilities:				
Non-maturity deposits	(56,627,865)	(56,627,865)	(49,464,304)	(49,464,304)
Time deposits	(51,695,885)	(51,883,122)	(62,739,214)	(63,052,897)
FHLB borrowings	(16,250,000)	(17,015,876)	(11,250,000)	(11,628,915)
Junior subordinated debt	(4,124,000)	(1,683,447)	(4,124,000)	(3,297,386)
Interest payable	(24,498)	(24,498)	(29,687)	(29,687)
Off-balance-sheet liabilities:				
Undisbursed loan commitments	-	(337,000)	-	(308,000)

SFAS No. 157, *Fair Value Measurements* (SFAS 157), defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurement. Upon the adoption of SFAS 157, there was no cumulative effect adjustment to the beginning retained earnings and no impact on the financial statements, other than in conjunction with the adoption of SFAS 159, for the year ended December 31, 2007.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. Some fair value measurements, such as available-for-sale securities are performed on a recurring basis, while others such as foreclosed real estate and impaired loans are performed on a nonrecurring basis.

NOTE 18 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes the Company's assets that were measured at fair value during the year ended December 31, 2008:

Description of Assets	December 31, 2008	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale	\$ 23,588,748	\$ -	\$ 23,588,748	\$ -
Foreclosed real estate ⁽¹⁾	3,741,891	-	-	3,741,891
Impaired loans ⁽¹⁾	3,075,664	-	-	3,075,664
Total	\$ 30,406,303	\$ -	\$ 23,588,748	\$ 6,817,555

⁽¹⁾ Nonrecurring item

Fair value measurements for impaired loans are performed pursuant to SFAS No. 114, *Accounting by Creditors for Impairment of a Loan* (SFAS 114), and are based upon either collateral values supported by appraisals, or observed market prices. The change in fair value of impaired loans that were valued based upon Level 3 inputs increased by approximately \$370,000 during 2008 due to the increase in the Company's impaired loans. The change in fair value of foreclosed real estate of \$3,741,891 resulted from the Company foreclosing on the underlying collateral of loans that were previously impaired. This loss is not recorded directly as an adjustment to current earnings or comprehensive income, but rather as an adjustment component in determining the overall adequacy of the allowance for loan losses. Such adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses recorded in current earnings.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and cash equivalents – For short-term instruments, including cash and due from banks, and interest-bearing deposits with banks, the carrying amount is a reasonable estimate of fair value.

Securities – Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as a matrix or model pricing, when market quotes are not readily accessible or available.

FHLB stock and other investments – For FHLB stock and other investments, the carrying amount is a reasonable estimate of fair value.

Impaired loans – The Company utilizes current appraisals and applies discount factors estimated and modeled for consistency by management to arrive at the estimate of fair value for all collateral dependent loans.

Foreclosed real estate – The Company utilizes current appraisals discounted for estimated selling costs to arrive at the estimate of fair value for all foreclosed real estate.

Loans – For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest receivable approximates its fair value. The Company's allowance for loan and lease losses is a reasonable estimate of the valuation allowance needed to adjust computed fair values for quality of certain loans in the portfolio.

NOTE 18 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Commitments to extend credit – The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

Deposit liabilities – The fair values disclosed for non-maturity deposits (e.g., interest and non-interest checking, statement savings, and money market accounts) are, by definition, equal to the amount payable at the reporting date (i.e., their carrying amounts). The fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of accrued interest payable approximates its fair value.

FHLB borrowings – The fair value of the borrowings is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can currently be obtained.

Junior subordinated debt – The fair value of junior subordinated debt is estimated using a discounted cash flow model.

Limitations – Fair value estimates are made at a specific point in time, based on relevant market information and other information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument.

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors.

NOTE 19 – OTHER NON-INTEREST EXPENSE

Other non-interest expense is comprised of the following:

	DECEMBER 31,	
	2008	2007
Professional fees	\$ 506,495	\$ 334,916
Foreclosed real estate	99,806	-
Data processing	235,062	231,750
Supplies	140,598	138,044
Marketing	80,062	95,477
Dues and subscriptions	58,187	57,403
Other	364,064	340,597
	<u>364,064</u>	<u>340,597</u>
Total	<u>\$1,484,274</u>	<u>\$1,198,187</u>

NOTE 20 – SUBSEQUENT EVENTS

On February 27, 2009, the FDIC proposed adopting an interim rule to impose an emergency special assessment to financial institutions of \$0.20 per \$100 of insured deposits existing as of June 30, 2009, to be collected September 30, 2009. This interim rule also provides that the FDIC may impose an additional special assessment in any quarter after June 30, 2009, to support the Deposit Insurance Fund in an additional amount of up to \$0.10 per \$100 of insured deposits.

This interim rule is subject to a comment period and regulatory approval and it is currently scheduled to be effective on April 1, 2009. Management considers that it is reasonably possible for this special assessment to be imposed during 2009. However, the amount of any assessment for the Bank will depend on the final rule and the Bank's level of insured deposits on the measurement date. No accrual for these events has been made in the financial statements as of December 31, 2008.

On March 12, 2009, the Federal Reserve Bank of San Francisco (Reserve Bank) advised the Company that an off-site review had been conducted based primarily on financial information and the most recent examination conducted jointly by the FDIC and DFI. Although the review did not identify activities that required an on-site inspection, it did result in the requirement that the Company enter into a written agreement (Agreement) between the Company and the Reserve Bank. Although that Agreement has not yet been entered into, it is anticipated that the Agreement will require, among other things, that the Company and the Bank obtain the prior approval of the Reserve Bank prior to 1) declaring or paying any dividends, 2) making any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities, 3) incurring, increasing or guaranteeing any debt, and 4) purchasing or redeeming any shares of its stock. It is also anticipated that management will be required to provide periodic reports on its progress in improving the overall financial condition of the Company.

SHAREHOLDER RELATIONS

The stock of Bank On It, Inc. (parent company of Community Bank of San Joaquin) is listed on the Over-The-Counter Bulletin Board (OTCBB) exchange. If you are interested in buying or selling Bank On It, Inc. stock, please contact one of the market makers listed.

Stock Exchange:
Over-The-Counter Bulletin Board (OTCBB)

Ticker Symbol:
BKOT

Market Makers:
Hill Thompson Magid & Co., Inc.
R. J. Dragani
(866) 291-6316

Howe Barnes Hoefler & Arnett, Inc.
Michael Hedrei
(800) 774-8723

McAdams Wright Ragen, Inc.
Joey Warmenhoven
(866) 662-0351

Additional Information:
You may obtain information about the buy/sell activity of our stock through these web sites: www.cbsjbank.com/shareholders or www.otcbb.com

Bank On It, Inc. Contact:
Jane Butterfield
CEO, President
(209) 956-7000
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ANNUAL DISCLOSURE STATEMENT
Bank On It, Inc. Annual Report

This annual report is furnished to customers of Community Bank of San Joaquin upon request, pursuant to the requirement of the Federal Deposit Insurance Corporation (FDIC) to provide an annual disclosure statement. This annual report has not been reviewed or confirmed for accuracy or relevance by the FDIC.

BOARD OF DIRECTORS

Jane Butterfield

*CEO, President, Bank On It, Inc.
CEO, Community Bank of San Joaquin*

Rudy G. Croce

*Past President
Croce & Company Accountancy Corporation*

Chair

Bank On It, Inc., Community Bank of San Joaquin

Al Davidson

*Past Chairman and Consultant
Acme Truck Parts & Equipment, Inc. and
Specialty Truck Parts, Inc. of San Jose*

Barbara M. Dondero

*Co-owner
R. & J. Dondero, Inc.*

Javad Jamshidi, M.D.

*President
Stockton MRI & Molecular Imaging Medical
Center, Inc.*

Kathleen Lagorio Janssen

*CEO
Ace Tomato Company*

Vice Chair, Secretary, Treasurer

Bank On It, Inc., Community Bank of San Joaquin

James Lagorio

*Co-owner, Farming Corporation
James A. Lagorio, Inc.*

Donald Reynolds

*Vice President
M & R Packing*

Robert Wheeler

*Past Plant Manager
General Mills, Lodi Plant*

BANK OFFICERS

Jane Butterfield

Chief Executive Officer

Karl Miller

President

John Baughn

*Executive Vice President
Manager of Information Systems*

Marti Denk

*Executive Vice President
Chief Operating Officer*

Richard Dodge, CFA

*Executive Vice President
Chief Financial Officer*

James Jimenez

*Senior Vice President
Trust and Investment Services Manager*

Jack Schuffenhauer

*Senior Vice President
Senior Relationship Manager*

Kendall Bates

*Vice President
Special Assets Manager*

Rodney Giannecchini

*Vice President
Controller*

Michael Letizia, PHR-CA

*Vice President
Human Resources and Security Manager*

Patricia L. Sloan

*Vice President
Real Estate Administration Officer*

Lori Wanner

*Vice President
Relationship Manager*

Josef Britschgi

*Assistant Vice President
Electronic Banking and Marketing Manager*

Louise Canaga

*Assistant Vice President
Branch Manager - Main*

James Havey

*Assistant Vice President
Trust and Investment Services Officer*

Tammy Heskett

*Assistant Vice President
Branch Manager - Waterloo*

Linda M. Nisnisan

*Assistant Vice President
Loan Services Manager*

Kathy M. Robbins

*Assistant Vice President
Deposit Services Manager*



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