



June 14, 2010

Dear Shareholder:

You are cordially invited to attend the 2010 Annual Meeting of Shareholders, which will be held at 5:30 p.m. on Monday, July 26, 2010, in the first floor Conference Room located at 8365 North Fresno Street, Suite 160 (across from Premier Valley Bank's headquarters located at 8355 North Fresno Street, Suite 180), Fresno, California 93720.

Please find enclosed the Notice of 2010 Annual Meeting of Shareholders, Proxy Statement and Form of Proxy. Included as an appendix to the Proxy Statement is the Bank's Audited Consolidated Financial Statements for the years ended December 31, 2009 and 2008 with independent auditor's report. The accompanying Notice of 2010 Annual Meeting of Shareholders and Proxy Statement provide information pertaining to the matters to be considered and acted upon at the meeting.

Your continuing support of Premier Valley Bank is appreciated, and we hope you will attend the Annual Meeting. Whether or not you are personally present, it is very important that your shares be represented at the meeting. Accordingly, please promptly sign, date and mail the enclosed proxy, or vote by internet or by phone as indicated therein. If you wish to vote in accordance with the Board of Directors' recommendations, it is not necessary to specify your choices. You may simply sign, date and return the enclosed proxy.

Sincerely,

A handwritten signature in cursive script that reads "J. Mike McGowan".

J. Mike McGowan
President and Chief Executive Officer

PREMIER VALLEY BANK

Notice of Annual Meeting of Shareholders

The 2010 Annual Meeting of Shareholders of Premier Valley Bank (the "Bank") will be held in the first floor Conference Room located at 8365 North Fresno Street, Suite 160 (across from Premier Valley Bank's headquarters located at 8355 North Fresno Street, Suite 180), Fresno, California 93720, on Monday, July 26, 2010, at 5:30 p.m. for the following purposes:

1. To elect the following nine nominees to serve as directors of the Bank until the next Annual Meeting of Shareholders and until their successors shall be elected and qualified:

Jerry E. Cook	Michael S. Mathiesen
Mateo F. De Soto, M.D.	J. Mike McGowan
Surinder P. Dhillon, M.D.	Thomas G. Richards
Linda F. East	Joe Williams
Richard H. Lehman	

2. To consider and transact such other business as may properly be brought before the Meeting.

Shareholders of record as of June 1, 2010 are entitled to notice of and to vote at the Meeting.

Provisions of the By-Laws of the Bank govern nominations for election of members of the Board of Directors, as follows:

Nominations for election of members of the Board of Directors may be made by the Board of Directors or by any shareholder of the Bank entitled to vote for the election of directors. Notice of intention to make any nominations must be made in writing and must be delivered or mailed to the President of the Bank not less than 21 days nor more than 60 days prior to any meeting of shareholders called for the election of directors; provided, however, that if less than 21 days notice of the meeting is given to shareholders, such notice of intention to nominate must be mailed or delivered to the President of the Bank not later than the close of business on the tenth day following the day on which the notice of meeting was mailed. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of capital stock of the Bank owned by each proposed nominee; (d) the name and residence address of the notifying shareholder; (e) the number of shares of capital stock of the Bank owned by the notifying shareholder; (f) the number of shares of capital stock of any bank, bank holding company, savings and loan association or other depository institution owned beneficially by the nominee or by the notifying stockholder and the identities and locations of any such institutions; (g) whether the proposed nominee has ever been convicted of or pleaded nolo contendere to any criminal offense involving dishonesty or breach of trust, filed a petition in bankruptcy or been adjudged bankrupt; and (h) a statement regarding the nominee's compliance with the requirements set forth in Section 2.4 of the Bank's By-Laws. Nominations not made in accordance with these requirements may, in the discretion of the Chairman of the meeting, be disregarded and upon the Chairman's instructions, the inspectors of election can disregard all votes cast for each such nominee.

Nominees for the Board of Directors must meet certain qualifications set forth in Section 2.4 of the Bank's By-Laws which prohibit the election as a director of any person who is a director, officer, employee, agent, nominee, material consulting accountant, analyst, attorney or policy decision maker for any other financial institution, lender or bank holding company or affiliate or subsidiary thereof; or who has been or is the assignee or nominee of anyone who has any contract, arrangement or

understanding with any other financial institution, lender or bank holding company, or affiliate or subsidiary thereof, or with any officer, director, employee, agent, nominee, material consulting accountant, analyst, attorney or policy decision maker thereof, pursuant to which that person could be called upon to reveal or in any way utilize information obtained as a director or will, directly or indirectly, attempt to effect or encourage any action of the Bank; or who is not the owner of record of at least 10,000 shares of the Bank's stock; provided, however, that the Board of Directors, in its sole discretion, may permit a person who does not satisfy one or more of the qualifications listed above to serve as a member of the Board of Directors following the Board's determination that such action will not compromise the business plan or strategic focus of the Bank.

All shareholders are cordially invited to attend the meeting in person. To ensure your representation at the meeting, you are requested to date, execute and return the enclosed proxy card (or vote by internet or by phone as indicated therein), without delay, in the enclosed postage-paid envelope whether or not you plan to attend the meeting. Any shareholder present at the meeting may vote personally on all matters properly brought before the meeting if the shareholder held his or her shares on the record date. If you elect to vote personally at the meeting, your proxy will not be used.

BY ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in black ink, appearing to read "Michael W. Martinez", written in a cursive style.

Michael W. Martinez
Secretary

June 14, 2010
Fresno, California

**WHETHER OR NOT YOU PLAN TO ATTEND THIS MEETING,
PLEASE SIGN AND RETURN THE ENCLOSED PROXY
AS PROMPTLY AS POSSIBLE IN THE ENCLOSED
POSTAGE-PAID ENVELOPE.**

PROXY STATEMENT OF PREMIER VALLEY BANK

8355 North Fresno Street, Suite 180, Fresno, California 93720

- Telephone (559) 438-2002 • Fax (559) 432-0572
- Web site www.premiervalleybank.com

INFORMATION CONCERNING PROXY

This Proxy Statement is furnished in connection with the solicitation of proxies to be used by the Board of Directors of Premier Valley Bank (the "Bank") at the Annual Meeting of Shareholders of the Bank to be held at 8365 North Fresno Street, Suite 160, Fresno, California 93720, on Monday, July 26, 2010, at 5:30 p.m., and at any adjournments or postponements thereof (the "Meeting").

A proxy for voting your shares at the Meeting is enclosed. Any shareholder who executes and delivers a proxy has the right to revoke it at any time before it is voted by filing with the Secretary of the Bank an instrument revoking said proxy or a duly executed proxy bearing a later date. In addition, the powers of the proxyholders will be revoked if the person executing the proxy is present at the Meeting and advises the Chairman of his or her election to vote in person. Unless revoked, all shares represented by a properly executed proxy received prior to the Meeting will be voted as specified by each shareholder in the proxy. If no specifications are given by a shareholder, then the proxy will be voted in favor of election of nominees specified, for approval of authority of the proxy holders to vote in favor of a motion to adjourn the Meeting, and in favor of such other business as may properly come before the Meeting, as described below.

The proxy also confers discretionary authority to vote the shares represented thereby on any matter that was not known at the time this Proxy Statement was mailed which may properly be presented for action at the Meeting and may include action with respect to procedural matters pertaining to the conduct of the Meeting and election of any person to any office for which a bona fide nominee is named herein, if such nominee is unable to serve or for good cause will not serve. The proxy holders will have discretion to vote for adjournment of the Meeting to a later time or date for the purpose of soliciting additional proxies on any of the proposals, except a proxy will not be voted in favor of adjournment for the purpose of soliciting additional proxies on any proposal on which the shareholder has directed a vote "against" or "withhold."

The enclosed proxy is being solicited by the Bank's Board of Directors and the cost of the solicitation is being borne by the Bank. The principal solicitation of proxies is being made by mail, although additional solicitation may be made by telephone, e-mail, facsimile or personal visits by directors, officers and employees of the Bank.

This Proxy Statement and the accompanying proxy are being mailed to shareholders on or about June 14, 2010.

PURPOSES OF THE MEETING

The Meeting is being held for the following purposes:

1. To elect nine directors (the entire Board of Directors) to serve until the next Annual Meeting of Shareholders and until their successors shall be elected and qualified.
2. To consider and transact such other business as may properly be brought before the Meeting.

VOTING SECURITIES

Shareholders of record as of June 1, 2010 (the "Record Date") will be entitled to notice of and to vote at the Meeting. As of such date, the Bank had 12,702,336 shares of common stock outstanding.

Each shareholder of record is entitled to one vote, in person or by proxy, for each share held on all matters to come before the Meeting, except that shareholders may have cumulative voting rights with respect to the election of directors.

Cumulative voting allows the shareholder to cast a number of votes equal to the number of directors to be elected, nine, multiplied by the number of votes held by the shareholder on the Record Date. This total number of votes may be cast for one nominee or may be distributed among as many candidates as the shareholder desires.

Pursuant to California law, no shareholder may cumulate votes for a candidate unless such candidate or candidates' name or names have been placed in nomination prior to the voting and the shareholder has given notice of the shareholder's intention to cumulate the shareholder's votes at the Meeting before voting begins. If any shareholder has given such notice, all the shareholders may cumulate their votes for the candidates who have been nominated.

Discretionary authority to cumulate votes is solicited in this Proxy Statement. The Board of Directors does not, at this time, intend to give such notice or to cumulate the votes it may hold pursuant to the proxies solicited herein unless the required notice by a shareholder is given at the Meeting. In the event such notice is provided, the votes represented by proxies delivered pursuant to this Proxy Statement may be cumulated and allocated among the nominees in the discretion of the proxyholders, in accordance with the recommendations of the Board of Directors.

The nine candidates receiving the highest number of votes will be elected. Broker non-votes (i.e., shares held by brokers or nominees which are represented at the Meeting but with respect to which the broker or nominee is not authorized to vote on a particular proposal) and abstentions will not be counted, except for quorum purposes, and will have no effect on the election of directors.

PRINCIPAL SHAREHOLDER

As of June 1, 2010, J. Mike McGowan, a director of the Bank who is also the Bank's President and Chief Executive Officer, controls, directly or indirectly, approximately 15.4% of the Bank's outstanding shares of common stock. To the knowledge of the Bank's management, no other person owned, directly or indirectly, more than five percent of the Bank's issued and outstanding shares of common stock as of such date.

**PROPOSAL ONE:
ELECTION OF DIRECTORS**

The By-Laws of the Bank provide the procedure for nomination and election of the Board of Directors. This procedure is printed in full in the Notice of 2010 Annual Meeting of Shareholders accompanying this Proxy Statement. Nominations not made in accordance with the procedures may be disregarded by the Chairman of the Meeting, and upon his instructions, the Inspector of Elections shall disregard all votes cast for such nominees.

Votes will be cast in such a way as to effect the election of all nominees or as many as possible under the rules of cumulative voting to the extent the proxyholders have discretionary authority to do so. If any nominee should become unable or unwilling to serve as a director, either (i) the proxies will be voted for such substitute nominees as shall be designated by the Board of Directors or (ii) the number of nominees may be reduced. The Board of Directors presently has no knowledge that any of the nominees will be unable or unwilling to serve. The nine nominees receiving the highest number of votes at the Meeting will be elected.

NOMINEES FOR DIRECTOR

The persons named below have been nominated by the current Board of Directors for election as directors to serve until the next Annual Meeting and until their successors are duly elected and qualified. For information pertaining to stock ownership of each of the nominees, reference can be made to the “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT” section of this Proxy Statement.

Name	Age	Position With Bank	Director Since	Principal Occupation, Business Experience During Past Five Years and Other Information
Jerry E. Cook	62	Director	2001	General Partner, Cook Land Company, a developer and owner of commercial, agricultural and industrial properties.
Mateo F. De Soto, M.D.	60	Director	2001	President and CEO, Bio-Behavioral Medical Clinics, Inc., a provider of mental health services; President and CEO, Sante Community Physicians, IPA, a provider of medical services.
Surinder P. Dhillon, M.D.	59	Director	2002	Physician, internal medicine; Medical Director, Cedar Vista Psychiatric Hospital and Fresno County Mental Health Clinic; member, Board of Directors, Fresno-Madera Medical Society.
Linda F. East	58	Director	2002	President and owner, East Financial Services, a mortgage brokerage firm.

Name	Age	Position With Bank	Director Since	Principal Occupation, Business Experience During Past Five Years and Other Information
Richard H. Lehman	61	Director	2001	Partner, Lehman Levi Pappas & Sadler, LLC, and owner, Lehman Consulting, Inc., professional services companies specializing in governmental relations and advocacy.
Michael S. Mathiesen	72	Director	2002	Investment advisor; Senior Vice President, Morgan Stanley.
J. Mike McGowan	63	President, CEO and Director	2001	President and CEO, Premier Valley Bank since 2001; consultant to Premier Valley Bank organizing group from 2000 to 2001; Chairman, President and CEO, ValliCorp Holdings, Inc. and ValliWide Bank (formerly Bank of Fresno) from 1990 to 1997.
Thomas G. Richards	64	Chairman of the Board	2001	President, The Penstar Group, a real estate development and construction company.
Joe Williams	73	Director	2001	Chief Executive Officer, Richard Heath & Associates, a management consulting firm.

There are no family relationships among any of the Bank's Executive Officers, directors or director nominees.

No director or nominee chosen by the Board of Directors is a director of any company with a class of securities registered pursuant to section 12 of the Securities Exchange Act of 1934, as amended, or subject to the requirements of section 15(d) of such Act or of any company registered as an investment company under the Investment Company Act of 1940, as amended.

EXECUTIVE OFFICERS OF THE BANK

Set forth below is certain information with respect to the Executive Officers of the Bank.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Officer Since</u>
J. Mike McGowan	63	President and Chief Executive Officer	2001
Michael W. Martinez	50	Executive Vice President, Chief Operating Officer and Chief Financial Officer; Secretary	2001
David H. Wogan	62	Executive Vice President and Chief Credit Officer	2001

A brief summary of the background and business experience of the Executive Officers of the Bank who have not previously been described is set forth below:

Michael W. Martinez has served as the Bank's Executive Vice President, Chief Operating Officer and Financial Officer since January 2004, and prior to that he served as the Bank's Executive Vice President and Chief Financial Officer since the Bank commenced business in 2001. Prior to that he was President and Chief Executive Officer of Six Rivers National Bank from 1998 to 2001, and Senior Vice President and Chief Financial Officer of Six Rivers National Bank from 1992 to 1998.

David H. Wogan has served as the Bank's Executive Vice President and Chief Credit Officer since the Bank commenced business in 2001. Prior to that he was Executive Vice President and Sales Manager for Consumer and Business Banking at AmSouth Bank in New Orleans, Louisiana from 1999 to 2000 and Executive Vice President and Division Manager with Deposit Guaranty National Bank in New Orleans, Louisiana from 1997 to 1999.

INFORMATION PERTAINING TO ELECTION OF DIRECTORS

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of June 1, 2010 pertaining to beneficial ownership of the Bank's common stock (the sole class of stock outstanding) by current directors of the Bank, nominees to be elected to the Board of Directors, the Executive Officers named in the Summary Executive Compensation Table, and all directors and Executive Officers of the Bank as a group. As used throughout this Proxy Statement, the terms "Officer" and "Executive Officer" refer to the President and Chief Executive Officer; the Executive Vice President, Chief Operating and Financial Officer; and the Executive Vice President and Chief Credit Officer. The information in the following table has been obtained from the Bank's records or from information furnished directly by the individual or entity to the Bank.

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

Name and Address of Beneficial Owner¹	Relationship with Bank	Amount and Nature of Beneficial Ownership^{2,10}	Exercisable Options³	Percent of Class²
Jerry E. Cook	<i>Director</i>	464,141 ⁽⁴⁾	2,630	3.7%
Mateo F. De Soto, M.D.	<i>Director</i>	391,979 ⁽⁵⁾	18,144	3.1%
Surinder P. Dhillon, M.D.	<i>Director</i>	84,731	18,144	0.7%
Linda F. East	<i>Director</i>	76,286	25,039	0.6%
Richard H. Lehman	<i>Director</i>	245,694	18,144	1.9%
Michael W. Martinez	<i>Executive Vice President, Chief Operating and Financial Officer; Corporate Secretary</i>	218,420 ⁽⁶⁾	128,373	1.7%
Michael S. Mathiesen	<i>Director</i>	248,717	18,144	2.0%
J. Mike McGowan	<i>President, Chief Executive Officer and Director</i>	2,029,923 ⁽⁷⁾	524,423	15.4%
Thomas G. Richards	<i>Chairman of the Board</i>	372,616	70,482	2.9%
Joe Williams	<i>Director</i>	284,240 ⁽⁸⁾	2,630	2.2%
David H. Wogan	<i>Executive Vice President and Chief Credit Officer</i>	<u>132,291⁽⁹⁾</u>	<u>71,553</u>	<u>1.0%</u>
All directors and Executive Officers as a group (11 in number)		4,549,038	897,706	33.5%

- (1) The address for all persons is c/o Premier Valley Bank, 8355 North Fresno Street, Suite 180, Fresno, California 93720.
- (2) Includes shares beneficially owned (including options exercisable within 60 days of the Record Date as shown in the “Exercisable Options” column and restricted shares granted as described below), both directly and indirectly together with associates. Subject to applicable community property laws and shared voting and investment power with a spouse, the persons listed have sole voting and investment power with respect to such shares unless otherwise noted.
- (3) Indicates number of shares subject to options currently exercisable or exercisable within 60 days of the Record Date.
- (4) Includes 119,589 shares held by TJC Partners and/or Cook Land Company, in both of which Mr. Cook is a general partner.
- (5) Includes 108,845 shares held by Corral de Tierra, LLC, of which Dr. De Soto is President and majority owner.
- (6) Includes 5,052 shares held by Mr. Martinez’ dependent children, 4,190 shares owned as a participant in the Bank’s Retirement Plan, and 28,785 unvested, restricted shares for which Mr. Martinez has voting rights.
- (7) Includes 178,893 shares held by Mr. McGowan’s spouse and dependent children and 34,673 shares owned as a participant in the Bank’s Retirement Plan.
- (8) Includes 7,679 shares held by Mr. Williams’ children and grandchildren, as to which Mr. Williams disclaims beneficial ownership.
- (9) Includes 1,104 shares owned as a participant in the Bank’s Retirement Plan and 28,785 unvested, restricted shares for which Mr. Wogan has voting rights.
- (10) Includes 5,220 unvested restricted shares granted to each of the outside directors in 2010 for which the Director has voting rights; for Mr. McGowan, the amount includes 62,610 unvested restricted shares for which he has voting rights.

CORPORATE GOVERNANCE MATTERS

Committees of The Board of Directors

Audit and Finance Committee

The Audit and Finance Committee reviews, in accordance with procedures approved by the Board of Directors, all reports of examination of Premier Valley Bank made by regulatory authorities, and causes to be made, also in accordance with procedures approved by the Board, third party examinations and audits of the Bank. The Committee regularly reports to the Board its findings, conclusions and recommendations, if any, relating to the adequacy of internal controls and procedures in accordance with applicable laws, regulations and financial accounting principles. The Committee is also responsible for reviewing, approving and monitoring policies and performance related to the Bank's investment portfolio and asset/liability management. The Board of Directors has adopted an Audit Charter which provides that only independent directors may serve on the Audit and Finance Committee. The members of the Audit and Finance Committee are Richard H. Lehman (Chairman), Surinder P. Dhillon, M.D., Linda F. East and Joe Williams. All Committee members would be deemed independent under the Nasdaq standards for audit committee members. During 2009, the Audit and Finance Committee met four times.

Loan Committee

The Loan Committee is responsible for establishing loan policies and procedures, reviewing the Bank's loan portfolio, approving loans in excess of certain established amounts and ensuring the Bank maintains an adequate reserve for potential loan losses. Furthermore, under the Director Loan Committee Charter which is approved by the Board of Directors, the Committee has general oversight responsibility for Premier Valley Bank's policy and performance under the Community Reinvestment Act. The members of the Loan Committee are Jerry E. Cook (Chairman), Mateo F. De Soto, M.D., Michael S. Mathiesen, J. Mike McGowan and Thomas G. Richards. During 2009, the Loan Committee met twenty-three times.

Compensation Committee

The Compensation Committee reviews compensation recommendations by the Chief Executive Officer for Executive Officers other than the Chief Executive Officer, and can, at its discretion, grant stock options, restricted stock shares and other forms of incentive compensation to key officers of the Bank and its affiliates who are primarily responsible for the management and growth of the Bank's business. In conducting its review of compensation, the Committee takes into consideration the overall performance of the Bank and the Chief Executive Officer's evaluation of individual officer performance, with final decisions on base salary adjustments made in conjunction with the Chief Executive Officer. The Board of Directors has adopted a Compensation Committee Charter which provides that only independent directors may serve on the Compensation Committee. The members of the Compensation Committee are Joe Williams (Chairman), Jerry E. Cook and Michael S. Mathiesen. During 2009, the Compensation Committee met five times.

Committee Charters

The Board of Directors has adopted charters for the Directors' Audit and Finance, Loan and Compensation Committees. A copy of each may be requested by contacting Rebecca Lingar,

Assistant Corporate Secretary, Premier Valley Bank, 8355 North Fresno Street, Suite 180, Fresno, California, 93720, telephone (559) 256-6414 or each may be found on the Bank's website at www.premiervalleybank.com.

Attendance at Meetings

During 2009, the Bank's Board of Directors met twelve times for regularly scheduled and special meetings. Each director attended at least 75 percent of the aggregate of: (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings of Board committees on which that director served.

INDEBTEDNESS OF MANAGEMENT

Certain of the Bank's directors and Executive Officers, as well as members of their immediate families and associates, are customers of, and have had banking transactions with, the Bank in the ordinary course of the Bank's business, and the Bank expects to have such ordinary banking transactions with these persons in the future. In the opinion of management of the Bank, all loans and commitments to lend included in such transactions were made in the ordinary course of business on the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other persons of similar creditworthiness, and do not involve more than a normal risk of collectability or present other unfavorable features. The aggregate amount the Bank may lend to directors and Executive Officers individually or as a group must comply with the Bank's lending policies and statutory lending limits. In addition, approval of the Bank's Board of Directors is required for all such loans.

TRANSACTIONS WITH MANAGEMENT AND OTHERS

There are no existing or proposed material transactions between the Bank and any of the Bank's directors, Executive Officers, nominees for election as a director or the immediate family or associates of any of the foregoing persons.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Compensation Committee of the Board of Directors of Premier Valley Bank is comprised of three non-employee directors. In accordance with the Bank's Compensation Committee Charter, this Committee approves all of the policies under which compensation is paid or awarded to the Bank's Executive Officers.

The compensation strategy of the Bank consists of the following elements: annual base salary; cash incentive payments made for performance against pre-determined objectives; and annual grants of equity and benefits, both qualified and nonqualified. As described below, each element of the Bank's compensation strategy is designed to achieve a purpose. Each purpose is different, but in combination the Committee believes that the overall compensation strategy will allow the Bank to attract, motivate and retain a high caliber executive management team. All grants of equity awards are made under the shareholder approved Premier Valley Bank Amended and Restated 2001 Equity Incentive Plan.

The Committee has established a strategy for each element of compensation in place for the Executive team. The strategy is as follows by element:

- Base salary – target market median with adjustments on a periodic basis to ensure target is maintained.
- Incentive compensation (annual non-equity incentives) – designed to provide each Executive Incentive Plan participant with the opportunity to know in advance of the plan year as a percentage of base salary what they may receive if targets are achieved. The plan may require that objectives be determined for both the Bank overall and the individual participant, and payments result from the achievement of specific goals. Corporate and individual goals are set by the Board in advance of the plan year for plan participants and include performance levels for threshold, target and maximum payouts. Achievement that is below threshold results in no credit for that objective.
- Equity grants – considered on an annual basis. Stock option and restricted share grants are made at market value at the date of grant and are designed to tie the Executive's return to that of shareholders and to provide the Bank with a retention tool that serves as an incentive for the Executive to remain with the organization.
- Benefits – targeted at market. The Bank's strategy is not to lead the market in benefits but rather to maintain an overall package that is attractive and competitive.

The Committee believes that its principal responsibility is to incent and reward executive performance that will lead to long term enhancement of shareholder value; therefore, the Committee's judgments regarding executive compensation are primarily based upon the Committee's assessment of each Executive Officer's leadership performance and potential to enhance long term shareholder value. Key factors which affect the Committee's judgments include the nature and scope of the Executive Officers' responsibilities, their effectiveness in leading the Bank's initiatives to increase shareholder value, productivity and growth. The Committee also considers the compensation practices and performances of peer organizations that are most likely to compete with the Bank for the services of Executive Officers. Based upon all factors considered relevant, the Committee considered it appropriate and in the best interests of the shareholders to set the overall level of the Bank's salary, bonus and other incentive compensation awards in alignment with the strategy outlined above.

In determining salary amounts in 2009, the Committee intended to ensure that the Executive Officers are compensated at market median. No cash incentive payments were made in 2010 for 2009 performance as the Bank did not meet pre-determined objectives. No equity grants were made in 2009.

Basis for the Chief Executive Officer Compensation

For 2009, Mr. McGowan earned \$270,000 in salary, exclusive of option awards and other compensation, as shown in the following Summary Executive Compensation Table. The Committee considered this level of payment appropriate in view of Mr. McGowan's effectiveness in leading the Bank from its inception in 2001 through 2009.

Although present during deliberations regarding the compensation of Executive Officers, Mr. McGowan does not participate as a voting member of the Compensation Committee or in matters regarding his own compensation.

The following information is furnished with respect to each Executive Officer of the Bank.

Summary Executive Compensation Table

Name	Year	Salary (\$)	Stock Awards(1) (\$)	Option Awards(2) (\$)	Non- Equity Incentive Plan Compen- sation(3) (\$)	All Other Compen- sation(4) (\$)	Total (\$)
J. Mike McGowan	2009	\$270,000	\$ --	\$ --	\$ 7,000	\$29,444	\$306,444
	2008	\$270,000	\$ --	\$ 78,985	\$ --	\$21,179	\$370,164
Michael W. Martinez	2009	\$155,000	\$ --	\$ --	\$ 7,000	\$18,938	\$180,938
	2008	\$155,000	\$15,571	\$ 13,492	\$ --	\$16,075	\$200,138
David H. Wogan	2009	\$150,000	\$ --	\$ --	\$ 7,000	\$21,142	\$178,142
	2008	\$150,000	\$15,571	\$ 13,492	\$ --	\$16,839	\$195,902

- (1) Stock awards represent restricted share grants that vest annually over a four year period. Amounts represent the fair market value based on the price of the Bank's common stock on the date of the grant.
- (2) Reflects the fair market value of the option award at the date of the grant as determined by application of the Black-Scholes-Merton option pricing model. Assumptions for this valuation are described in Note 1 of the Bank's consolidated financial statements for the years ended December 31, 2009 and 2008.
- (3) Non-equity incentive plan compensation consists of cash payments made following the achievement of predefined Bank and/or individual goals or may from time to time include discretionary payments made at the

recommendation of the Bank's Compensation Committee. Goals-based incentives are established annually by the Board and are based on the strategic objectives of the Bank.

- (4) Other compensation consists in part of the portion of health premiums (including medical, dental, life and accidental death and dismemberment and worker's compensation) paid by the Bank on behalf of the named Executive Officers (and which are available to all employees on the same basis as the named Executive Officers). Individual items that exceed 10% of the aggregate amount of all other compensation are as follows: during 2009 the portion of health insurance premiums (as defined above) paid by the Bank for each of the Executive Officers listed above was \$7,753, \$6,797 and \$6,736 for Mr. McGowan, Mr. Martinez and Mr. Wogan, respectively. During 2008, the portion of health insurance premiums paid for each of the three named Executive Officer was \$8,468, \$7,112 and \$7,073 for Mr. McGowan, Mr. Martinez and Mr. Wogan, respectively. As part of Mr. McGowan's compensation package, the Bank pays an annual premium for life insurance for which the Bank is not the beneficiary; during the periods presented, the annual premium amounted to \$2,649. Mr. Martinez and Mr. Wogan each received a car allowance of \$7,200 during each of the periods presented. During 2009, 401(k) matches and ESOP contributions under the Premier Valley Bank Retirement Plan totaled \$12,225, \$4,941, and \$7,206, for Mr. McGowan, Mr. Martinez and Mr. Wogan, respectively. During 2008, 401(k) matches and ESOP contributions under the Premier Valley Bank Retirement Plan totaled \$3,918, \$1,763 and \$2,566 for Mr. McGowan, Mr. Martinez and Mr. Wogan, respectively.

Equity Incentive Plan

With the approval of the Bank's shareholders, the Board of Directors adopted the Premier Valley Bank Amended and Restated 2001 Equity Incentive Plan ("Plan") in order to promote the long term success of the Bank and the creation of shareholder value. The Plan authorizes the Bank to grant stock options, restricted shares and other forms of equity compensation to officers, employees and directors of the Bank.

Common Stock Dividends

During 2009, the Bank paid three 1% stock dividends and, in addition, has distributed two 1% stock dividends in 2010. Unless specifically indicated, all per share data and information related to Plan-Based Awards have been adjusted to reflect the effects of the dividends (the "Stock Dividends").

Grants of Plan-Based Awards During 2009

No awards of equity-based compensation were made during 2009.

The following table summarizes the number of exercisable and unexercisable stock options and vested and unvested stock awards held by the named Executive Officers at December 31, 2009. The number of options (and corresponding exercise prices) and shares have been adjusted for the Stock Dividends.

Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested(1) (\$)
J. Mike McGowan	334,082	-	\$ 2.32	8/15/2011		
	112,077	-	\$ 3.04	7/31/2013		
	6,895	-	\$ 4.71	8/4/2014		
	71,729	-	\$ 9.17	7/24/2015		
	33,847	11,296	\$9.97	7/19/2016		
	28,662	28,663	\$7.85	7/18/2017		
	14,188	42,564	\$4.76	7/16/2018		
Michael W. Martinez	59,402	-	\$2.32	8/15/2011		
	68,971	-	\$3.04	7/31/2013		
	44,141	-	\$9.17	7/24/2015		
					825	\$1,650
					1,650	\$3,300
					2,025	\$4,050
David H. Wogan	37,068	-	\$2.32	8/15/2011		
	34,485	-	\$3.04	7/31/2013		
	22,070	-	\$9.17	7/24/2015		
					825	\$1,650
					1,650	\$3,300
					2,025	\$4,050

- (1) Stock awards consist of restricted shares for which the market value was determined using the closing price (adjusted for the Stock Dividends) of the Bank's common stock on December 31, 2009. Restricted shares vest annually over a four year period.

Option Exercises and Stock Vested During 2009

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
J. Mike McGowan	53,353	\$10,983	-	-
Michael W. Martinez	-	-	2,325	\$6,045
David H. Wogan	-	-	2,325	\$6,045

- (1) The value realized on vesting is determined using the average closing stock price on the dates the shares vested. Share information has been adjusted for the Stock Dividends.

Pension Benefits

Name	Plan Name	Present Value of Accumulated Benefit (\$)
J. Mike McGowan	Salary Continuation Plan (1)	\$466,183

- (1) On August 1, 2006, the Bank entered into a salary continuation agreement with J. Mike McGowan which provides for certain benefits if Mr. McGowan works until normal retirement age. In the event of early retirement, involuntary termination or full disability, the agreement provides for benefits of a lesser amount which is equal to the accrued liability as of the month end preceding the separation from service. If Mr. McGowan works until the normal retirement age of 65, the agreement calls for an annual benefit in the amount of \$100,000 per year, to be paid in equal monthly installments for a period of ten years.

Equity Compensation Plan Information

Plan category	No. of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	No. of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by securities holders	1,470,573	\$4.66	187,192
Equity compensation plans not approved by security holders	N/A	N/A	N/A

Under the Premier Valley Bank Amended and Restated 2001 Equity Incentive Plan, 2,207,121 shares were made available for issuance. As of December 31, 2009, 453,342 shares had been issued upon the exercise of stock options, 103,029 shares had been issued pursuant to awards of restricted stock (of which 41,859 were issued but had not vested), and 1,470,573 shares were reserved for issuance upon exercise of outstanding stock options, leaving 187,192 shares available for future grants (all data has been adjusted for the Stock Dividends).

Employment Contracts

During 2009, an employment agreement was in effect between the Bank and J. Mike McGowan pursuant to which Mr. McGowan agreed to serve in his capacity as President and Chief Executive Officer at an annual salary of \$270,000. In the discretion of the Board of Directors, Mr. McGowan may also be paid a cash incentive. Mr. McGowan's employment agreement automatically renews for successive one year periods unless notice of termination is given by either party at least 90 days prior to the scheduled extension date. The employment agreement provides that if Mr. McGowan's employment is terminated without cause or if a person, firm or corporation acquires control of the Bank, then Mr. McGowan will be entitled to receive a lump sum payment equal to (i) 18 months' salary in the case of termination without cause or (ii) 36 months' salary plus three times Mr. McGowan's target bonus amount for the year in question, in the case of a change in control.

During 2009, employment agreements were also in effect between the Bank and Michael W. Martinez and David H. Wogan pursuant to which Messrs. Martinez and Wogan agreed to serve in the capacity of Executive Vice President and Chief Operating and Financial Officer, in the case of Mr. Martinez, and Executive Vice President and Chief Credit Officer, in the case of Mr. Wogan, at annual salaries of \$155,000 and \$150,000, respectively. In the discretion of the Board of Directors, Messrs. Martinez and Wogan may also be paid cash incentive bonuses. Mr. Martinez' and Mr. Wogan's employment agreements automatically renew for successive one year periods unless notice of termination is given by either party at least 90 days prior to the scheduled extension date. The employment agreements provide that if Messrs. Martinez' or Wogan's employment is terminated without cause or if a

person, firm or corporation acquires control of the Bank, then Mr. Martinez and Mr. Wogan will be entitled to receive lump sum payments equal to (i) 12 months' salary in the case of termination without cause or (ii) 18 months' salary in the case of Mr. Martinez and 12 months' salary in the case of Mr. Wogan, plus the Executive's target bonus amount for the year in question, in the case of a change of control.

Premier Valley Bank Retirement Plan

The Board of Directors of the Bank has adopted a retirement plan (the "Plan") that includes both 401(k) and employee stock ownership ("ESOP") components. Participation in the Plan is available to all employees on the same terms as long as the employee meets the requisite number of hours worked each year as described in the Plan. The 401(k) component of the Plan is intended to provide a tax-deferred savings vehicle to its participants. Eligible employees may make contributions to the Plan subject to the limitations of Section 401(k) of the Internal Revenue Code of 1986. The Plan provides that the Bank will contribute to the Plan in amounts that are at the discretion of the Board of Directors. The ESOP component of the Plan is intended to provide an ownership interest in the Bank to qualifying employees and to serve as an additional savings and retirement vehicle for participants. The amount of contributions to the 401(k) Plan (in the form of matching contributions) and to the ESOP for the benefit of J. Mike McGowan, Michael W. Martinez and David H. Wogan is included in the Summary Executive Compensation Table in the column entitled "All Other Compensation".

Potential Payments Upon Termination or Change-In-Control

Potential payments to Executive Officers upon termination or change in control are described in connection with the discussion of employment agreements above.

Director Compensation for 2009

Name	Fees Earned or Paid in Cash (1) (\$)	Option Awards (2) (\$)	Total (\$)
Jerry E. Cook	\$21,000	\$ --	\$21,000
Mateo F. De Soto, M.D.	\$15,000	\$ --	\$15,000
Surinder P. Dhillon, M.D.	\$15,000	\$ --	\$15,000
Linda F. East	\$16,000	\$ --	\$16,000
Richard H. Lehman	\$20,000	\$ --	\$20,000
Michael S. Mathiesen	\$17,000	\$ --	\$17,000
Thomas G. Richards	\$25,000	\$ --	\$25,000
Joe Williams	\$18,000	\$ --	\$18,000

- (1) During 2009, the non-employee directors of Premier Valley Bank were paid \$1,000 per monthly meeting of the Board of Directors and an annual retainer that is based on the committees on which the director serves and whether or not the director serves as the chair of a committee.
- (2) Amounts reflected represent the fair market value of the award at the date of the grant, however no such awards were made during 2009. Assumptions for this valuation are described in Note 1 of the Bank's consolidated financial statements for the years ended December 31, 2009 and 2008. Stock options granted in 2006 and later vest annually over a four year period, while unvested stock options granted prior to 2006 vest monthly, generally over 36 months. Outstanding stock options, adjusted for the Stock Dividends, held by each non-employee director at December 31, 2009 are as follows: Jerry E. Cook, 15,786; Mateo F. DeSoto, M.D., 52,852; Surinder P. Dhillon, M.D., 31,300; Linda F. East, 38,195; Richard H. Lehman, 31,300; Michael S. Mathiesen, 38,195; Thomas G. Richards, 72,603; and Joe Williams, 15,786.

Grants of Plan-Based Awards During 2009

No Plan-based awards were made during 2009.

Report of the Compensation Committee on Executive Compensation

The Compensation Committee has reviewed and discussed with management of the Bank the Compensation Discussion and Analysis included in this Proxy Statement. Based on such review and discussions, the Compensation Committee has determined that the Compensation Discussion and Analysis be included in this Proxy Statement.

Joe Williams, Chairman Compensation Committee
Jerry E. Cook
Michael S. Mathiesen

SIGNIFICANT LITIGATION

The Bank is not, to its knowledge, a party to any pending or threatened litigation in which any officer or director has a material, adverse interest.

RECOMMENDATION OF THE BOARD OF DIRECTORS

You are urged to vote "for" Proposal 1: To elect the nine nominees set forth herein to serve until the next Annual Meeting of Shareholders and until their respective successors shall be elected and qualified: Jerry E. Cook, Mateo F. De Soto, M.D., Surinder P. Dhillon, M.D., Linda F. East, Richard H. Lehman, Michael S. Mathiesen, J. Mike McGowan, Thomas G. Richards, and Joe Williams. If no instruction is given, the proxyholders intend to vote for each nominee listed.

2009 AUDIT AND FINANCE COMMITTEE REPORT

The Audit and Finance Committee (the “Committee”) of the Board of Directors serves as the representative of the Board for general oversight of the Bank’s financial accounting and reporting, systems of internal control, audit process, and monitoring compliance with laws and regulations and standards of business conduct. The Board has adopted a charter for the Committee. Management of the Bank has the responsibility for preparing financial statements of the Bank as well as the Bank’s reporting process. Perry-Smith, LLP, acting as independent auditors, are responsible for expressing an opinion on the conformity of the Bank’s audited financial statements with generally accepted accounting principals.

In this context, the Committee hereby reports:

1. The Committee has reviewed and discussed the audited financial statements for fiscal year 2009 with the Bank’s management.

2. The Committee has discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61, Communication with Audit Committee.

3. The Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed the matter of independence with the independent auditors.

Based on the review and discussion referred to in paragraphs (1) through (3) above, the Committee recommended to the Board of Directors of the Bank, and the Board has approved, that the audited financial statements be included in the Bank’s 2009 Proxy Statement.

Each member of the Committee is independent as defined under the listing standards of the Nasdaq Stock Market.

Set forth below is a summary of the fees billed to the Bank by Perry-Smith, LLP for professional services rendered as the bank’s independent certified public accountants for the fiscal years ended December 31, 2009 and 2008.

Description	2009	2008
Audit Fees ⁽¹⁾	\$131,115	\$115,500
Audit Related Fees ⁽²⁾	\$ 9,269	\$ 8,566
Tax Fees ⁽³⁾	\$ 13,922	\$ 23,598

(1) Audit fees consist of fees for the audit of the Bank’s annual consolidated financial statements.

- (2) Audit related fees represent fees for professional services such as merger related services and technical accounting, consulting and research. In 2009 and 2008, audit related fees also included an analysis of, and work related to, the tax benefits derived from the Bank's Enterprise Zone lending activities.
- (3) Tax fees consist of fees for the preparation of the Bank's federal and state income tax returns and quarterly tax estimates, as well as tax advice, tax planning and other related tax services.

Audit and Finance Committee

Richard H. Lehman (Chairman),
Surinder P. Dhillon, M.D.
Linda F. East
Joe Williams

OTHER BUSINESS

If any matters not referred to in this Proxy Statement come before the Meeting, including matters incident to the conduct of the Meeting, the proxy holders will vote the shares represented by proxies in accordance with their best judgment. Management is not aware of any other business to come before the Meeting and, as of the date of the preparation of this Proxy Statement, no shareholder has submitted to management any proposal to be acted upon at the Meeting.

OTHER MATTERS

Any shareholder proposals intended to be presented for consideration at the 2011 Annual Meeting of Shareholders must be received by the Bank no later than February 12, 2011 to be considered for inclusion in the Bank's Proxy Statement for that meeting.

PREMIER VALLEY BANK

A handwritten signature in black ink, appearing to read "Michael W. Martinez", written in a cursive style.

Michael W. Martinez
Secretary

Fresno, California
June 14, 2010

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PREMIER VALLEY BANK

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

AND

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
Premier Valley Bank

We have audited the accompanying consolidated balance sheet of Premier Valley Bank and subsidiary as of December 31, 2009 and 2008 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank'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 audits 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 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 provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Premier Valley Bank and subsidiary as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Perry-Smith LLP

February 19, 2010

PREMIER VALLEY BANK
CONSOLIDATED BALANCE SHEET

December 31, 2009 and 2008
(In thousands)

	2009	2008
ASSETS		
Cash and due from banks	\$ 10,589	\$ 13,314
Federal funds sold and deposits in banks	104	1,743
Total cash and cash equivalents	10,693	15,057
Investment securities (Note 2)	55,811	66,478
Loans, less allowance for loan losses of \$6,955 in 2009 and \$5,326 in 2008 (Notes 3, 10 and 15)	366,353	369,794
Premises and equipment, net (Note 4)	3,575	3,980
Other real estate owned	3,309	170
Goodwill and other intangible assets (Note 5)	14,905	15,364
Accrued interest receivable and other assets	19,808	17,291
	\$ 474,454	\$ 488,134
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$ 121,434	\$ 104,773
Interest bearing (Note 7)	281,694	291,138
Total deposits	403,128	395,911
Borrowings (Note 9)	5,100	25,300
Accrued interest payable and other liabilities	6,560	10,781
Total liabilities	414,788	431,992
Commitments and contingencies (Note 10)	-	-
Shareholders' equity (Notes 11 and 12):		
Preferred stock – no par value; 10,000 shares authorized; none issued	-	-
Common stock – no par value; 30,000 shares authorized; issued – 12,345 shares in 2009 and 11,815 shares in 2008	54,591	52,552
Retained earnings	5,094	4,123
Accumulated other comprehensive loss, net of taxes (Note 2)	(19)	(533)
Total shareholders' equity	59,666	56,142
	\$ 474,454	\$ 488,134

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

PREMIER VALLEY BANK

CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 31, 2009 and 2008

(In thousands, except per share data)

	2009	2008
Interest income:		
Loans	\$ 20,245	\$ 23,017
Investment securities	2,941	4,054
Federal funds sold and deposits in banks	81	281
Total interest income	23,267	27,352
Interest expense:		
Deposits (Note 7)	3,552	6,916
Borrowings	10	78
Total interest expense	3,562	6,994
Net interest income	19,705	20,358
Provision for loan losses (Note 3)	5,390	5,375
Net interest income after provision for loan losses	14,315	14,983
Noninterest income:		
Service charges	1,600	1,550
Other	1,028	1,350
Total noninterest income	2,628	2,900
Noninterest expenses:		
Salaries and employee benefits (Notes 3 and 16)	6,273	7,838
Occupancy and equipment (Notes 4 and 10)	1,492	1,564
Other (Note 13)	6,654	7,520
Total noninterest expenses	14,419	16,922
Income before income taxes	2,524	961
Income taxes (Note 8)	724	(50)
Net income	\$ 1,800	\$ 1,011
Basic earnings per share (Note 11)	\$ 0.15	\$ 0.08
Diluted earnings per share (Note 11)	\$ 0.15	\$ 0.08

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

PREMIER VALLEY BANK

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2009 and 2008

(In thousands)

	<u>2009</u>	<u>2008</u>
Net income	\$ 1,800	\$ 1,011
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale investment securities	1,886	(3,399)
Less: Reclassification adjustment for realized losses included in net income	<u>(31)</u>	<u>(2,539)</u>
Other comprehensive income (loss), before income taxes	1,917	(860)
Income taxes	<u>(755)</u>	<u>321</u>
Other comprehensive income (loss)	<u>1,162</u>	<u>(539)</u>
Comprehensive income	<u>\$ 2,962</u>	<u>\$ 472</u>

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

PREMIER VALLEY BANK

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2009 and 2008

(In thousands)

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss (Net of Taxes)</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, January 1, 2008	11,779	\$ 52,166	\$ 5,728	\$ 6	\$ 57,900
Cumulative effect of adoption of EITF 06-4	-	-	(42)	-	(42)
Net income	-	-	1,011	-	1,011
Other comprehensive loss	-	-	-	(539)	(539)
Proceeds from exercise of stock options and related tax benefit (Note 11)	60	220	-	-	220
Cash dividends – \$.20 per share (Note 11)	-	-	(2,374)	-	(2,374)
Restricted stock awarded and related compensation expense (Note 11)	34	152	-	-	152
Stock option compensation expense (Note 11)	-	235	-	-	235
Shares issued pursuant to dividend reinvestment plan	47	258	-	-	258
Repurchase of common stock	<u>(105)</u>	<u>(479)</u>	<u>(200)</u>	<u>-</u>	<u>(679)</u>
Balance, December 31, 2008	11,815	52,552	4,123	(533)	56,142
Effect of adoption of ASC 320-10-35 (Note 2)	-	-	648	(648)	-
Net income	-	-	1,800	-	1,800
Other comprehensive income	-	-	-	1,162	1,162
Proceeds from exercise of stock options and related tax benefit (Note 11)	58	143	-	-	143
Restricted stock awarded and related compensation expense (Note 11)	-	193	-	-	193
Restricted shares forfeited	(5)	-	-	-	-
Stock option compensation expense (Note 11)	-	180	-	-	180
Shares issued pursuant to stock dividends	481	1,432	(1,432)	-	-
Shares issued pursuant to dividend reinvestment plan	34	156	-	-	156
Repurchase of common stock	<u>(38)</u>	<u>(65)</u>	<u>(45)</u>	<u>-</u>	<u>(110)</u>
Balance, December 31, 2009	<u>12,345</u>	<u>\$ 54,591</u>	<u>\$ 5,094</u>	<u>\$ (19)</u>	<u>\$ 59,666</u>

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

PREMIER VALLEY BANK

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2009 and 2008

(In thousands)

	2009	2008
Cash flows from operating activities:		
Net income	\$ 1,800	\$ 1,011
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Decrease in unamortized deferred fees, net	(242)	(128)
Amortization of investment securities premiums, net	19	146
Federal Home Loan Bank stock dividends	-	(112)
Provision for loan losses	5,390	5,375
Depreciation and amortization	881	972
Loss on sale of available-for-sale investment securities	-	20
Impairment (recovery) charge recognized on investment securities	(420)	2,519
Gain on sale of equipment	-	(7)
Gain on sale of loans	(13)	(120)
Net loans originated for sale	(7,537)	(301)
Proceeds from loan sales	155	1,514
Share-based compensation	373	387
Excess tax benefit from exercise of stock options	5	57
Provision for deferred income taxes	(1,175)	(624)
Increase in accrued interest receivable and other assets	(5,908)	(3,008)
(Decrease) increase in accrued interest payable and other liabilities	(4,221)	4,344
	<u>(10,893)</u>	<u>12,045</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities:		
Activity in available-for-sale investment securities:		
Proceeds from calls	840	5,814
Proceed from sales	-	5,808
Proceeds from maturities and principal repayments	16,788	22,532
Purchases	(5,095)	(10,494)
Decrease (increase) in loans	8,827	(44,840)
Purchase of premises and equipment	(32)	(146)
Purchase of life insurance policies	(2,000)	-
	<u>19,328</u>	<u>(21,326)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Net increase (decrease) in demand, interest bearing checking and savings deposits	23,755	(21,942)
Net (decrease) increase in time deposits	(16,538)	14,804
Proceeds from Federal Home Loan Bank borrowings	5,100	25,300
Repayments of Federal Home Loan Bank borrowings	(25,300)	(1,750)
Proceeds from exercise of stock options, including tax benefit	138	220
Shares issued pursuant to dividend reinvestment plan	156	258
Repurchase of common stock	(110)	(679)
Payment of cash dividends	-	(2,374)
	<u>(12,799)</u>	<u>13,837</u>
Net cash (used in) provided by financing activities		
(Decrease) increase in cash and cash equivalents	(4,364)	4,556
Cash and cash equivalents at beginning of year	<u>15,057</u>	<u>10,501</u>
Cash and cash equivalents at end of year	<u>\$ 10,693</u>	<u>\$ 15,057</u>

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

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Premier Valley Bank (the "Bank") commenced operations on June 1, 2001 as a California state chartered bank with its deposits insured to the fullest extent allowable by the FDIC. Prior to 2005, the Bank engaged in the general commercial banking business with an emphasis on serving the needs of small and medium size businesses, professionals and the general public in the greater Fresno area. During 2005, the Bank expanded its Central California operations by opening a loan production office in Modesto and a full-service branch in Merced. The Modesto loan production office was converted to a full-service branch in October 2007. In 2008, the Bank elected to participate in the FDIC sponsored Transaction Account Guarantee Program. Under this program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

In March 2005, the Bank completed the acquisition of Yosemite Bank (YB) and its wholly owned subsidiary, YB Real Estate, Inc. (YBRE). Yosemite Bank has served the Sierra since 1977 with branches in Mariposa, Groveland, Oakhurst and Coarsegold offering a full range of commercial banking services to individuals and small businesses in those communities. YB was merged into the Bank and the acquired branches now operate as the Yosemite Division of Premier Valley Bank. YBRE has formerly been engaged in real estate investment and development activities in Merced County, California, but is currently inactive. The acquisition of YB was accounted for under the purchase method of accounting and, accordingly, YB's results of operations have been included in the consolidated financial statements since the date of acquisition.

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

Management reviewed all events occurring from December 31, 2009 to February 19, 2010, the date the consolidated financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.

Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and its wholly owned subsidiary, YBRE. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

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. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to the prior years' balances to conform to classifications used in 2009.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and due from banks, Federal funds sold and interest bearing deposits in banks are considered to be cash equivalents. Generally, Federal funds are sold for one day periods.

Investment Securities

Investment securities are classified into one of the following categories:

- Available-for-sale securities reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of income taxes, as other comprehensive income (loss) within shareholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

All investment securities held at December 31, 2009 and 2008 were classified as available-for-sale.

Management determines the appropriate classification of investment securities at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value.

Gains or losses on the sale of investment securities are computed using the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

An investment security is considered impaired if its fair value is less than its carrying value. Investment securities are evaluated for other than temporary impairment when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Bank to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary and management does not intend to sell the security or it is more likely than not that management will not be required to sell the security before recovery of its amortized cost basis, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that management will be required to sell the security before recovery of its amortized cost basis, the entire impairment loss is recognized as a charge to earnings.

Investments in Bank Stock

The Bank has invested in the capital stock of the Federal Home Loan Bank System and Pacific Coast Bankers' Bancshares. These investments are carried at cost. At December 31, 2009 and 2008, these investments totaled \$3,368,000 and are carried on the balance sheet in accrued interest receivable and other assets.

Loans

Loans are stated at principal balances outstanding. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered to be impaired and the future collectibility of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectibility of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

The Bank has purchased loans and acquired loans through a business combination for which differences exist between the contractual cash flows and the cash flows expected to be collected due, at least in part, to credit quality. When the Bank acquires such loans, the yield that may be accreted (accretable yield) is limited to the excess of the Bank's estimate of undiscounted cash flows expected to be collected over the Bank's initial investment in the loan. At the time of purchase the excess of contractual cash flows over cash flows expected to be collected are not recognized as an adjustment to yield, loss or a valuation allowance. However, subsequent increases in cash flows expected to be collected generally are recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected are recognized as an impairment. The Bank does not "carry over" or create a valuation allowance in the initial accounting for loans acquired under these circumstances. At December 31, 2009 and 2008, there were no loans being accounted for under this policy.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (including both principal and interest) in accordance with the contractual terms of the loan agreement. An impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical matter, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent.

Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized against interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

Loan Sales and Servicing Rights

The Bank accounts for the transfer and servicing of financial assets based on the financial and servicing assets it controls and liabilities it has incurred, derecognizes financial assets when control has been surrendered and derecognizes liabilities when extinguished.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government Guaranteed Loans

Included in the loan portfolio are loans which are 75% to 90% guaranteed by the Small Business Administration (SBA). The guaranteed portion of these loans may be sold to a third party, with the Bank retaining the unguaranteed portion. The Bank generally receives a premium in excess of the adjusted carrying value of the loan at the time of sale. The Bank may be required to refund a portion of the sales premium if the borrower defaults or the loan prepays within ninety days of the settlement date. The Bank's investment in the loan is allocated between the retained portion of the loan, the servicing asset, the interest only (IO) strip and the sold portion of the loan based on their relative fair values on the date the loan is sold. The gain on the sold portion of the loan is recognized as income at the time of sale. The carrying value of the retained portion of the loan is discounted based on the estimated value of a comparable non-guaranteed loan. The servicing asset and IO strip are recognized as discussed above. Significant future prepayments of these loans will result in the recognition of additional amortization of related servicing assets and an adjustment to the carrying value of \$69,000 and \$84,000 as of December 31, 2009 and 2008, respectively. The amount of loans being serviced for others at December 31, 2009 and 2008 totaled \$3,826,000 and \$4,254,000, respectively.

Allowance for Loan Losses

The allowance is established through a provision for loan losses which is charged to income. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. The allowance for loan losses at December 31, 2009 and 2008 reflects management's estimate of probable losses in the portfolio. The determination of the adequacy of the allowance is based on estimates made by management, including consideration of the composition of the loan portfolio, specifically identified problem loans, potential losses inherent in the portfolio taken as a whole and local and national economic conditions.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses, and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

Loans determined to be impaired or classified are individually evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans based on several factors, including the Bank's historical loss experience and management's assessment of the loss experience of peer banks. These estimates are particularly susceptible to changes in the economic environment and market conditions.

The Bank's Board of Directors reviews the adequacy of the allowance for loan losses at least quarterly, including consideration of the relative risks in the portfolio and current economic conditions.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Losses Related to Undisbursed Loan Commitments

The Bank maintains a separate allowance for losses related to undisbursed loan commitments. Management estimates the amount of probable losses by applying the loss factors used in the allowance for loan loss methodology to an estimate of the expected usage and applies the factor to the unused portion of undisbursed lines of credit. This allowance totaled \$137,000 and \$132,000 at December 31, 2009 and 2008, respectively, and is included in accrued interest payable and other liabilities on the balance sheet.

Premises and Equipment

Premises and equipment are carried at cost. Depreciation is determined using the straight line method over the estimated useful lives of the related assets. The useful lives of premises are estimated to be forty years. The useful lives of furniture, fixtures and equipment are estimated to be two to ten years. Leasehold improvements are amortized over the estimated life of the asset or the life of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amounts of such assets may not be fully recoverable.

Other Real Estate Owned

Other real estate owned is comprised of properties acquired through foreclosures in full or partial satisfaction of indebtedness. Upon acquisition of these properties, the assets are recorded at fair value less estimated selling costs. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Initial losses on properties acquired through full or partial satisfaction of debt are treated as credit losses and charged to the allowance for loan losses at the time of acquisition. Subsequent declines in value from the recorded amounts, routine holding costs and gains or losses upon disposition, if any, are included in noninterest expense as incurred.

Core Deposit Intangible

The core deposit intangible represents the estimated fair value of the deposit relationships acquired in the acquisition of YB and is being amortized by the straight line method over an estimated life of eight years. Management evaluates the recoverability and remaining useful life annually to determine whether events or circumstances warrant a revision to the intangible asset or the remaining period of amortization. There were no such events or circumstances in 2009 or 2008.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Business combinations involving the Bank's acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Goodwill represents the excess of the cost of YB over the net of the amounts assigned to assets acquired and liabilities assumed in the acquisition of YB. The value of goodwill is ultimately derived from the Bank's ability to generate earnings after the acquisition. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed at least annually for impairment. There was no impairment resulting from management's assessment during 2009 or 2008.

Derivative Instruments

The Bank uses interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various loans for asset/liability management purposes. These derivative instruments are recognized on the balance sheet at their estimated fair value. On the date the derivative contract is originated, the Bank designates the derivative as a hedge of fair value of a recognized asset or liability or of an unrecognized firm commitment "fair value" hedge. Changes in the fair value of a derivative instrument that is highly effective and that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on firm commitments), are recorded in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities on the balance sheet. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Bank discontinues hedge accounting prospectively, as discussed below. The Bank discontinues hedge accounting prospectively when (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of a hedged item; (2) the derivative expires or is sold, terminated or exercised; (3) a hedged firm commitment no longer meets the definition of a firm commitment; or (4) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments (Continued)

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the derivative will continue to be carried on the balance sheet at its fair value, and the hedged asset or liability will no longer be adjusted for changes in fair value. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the derivative will continue to be carried on the balance sheet at its fair value, and any asset or liability that was recorded pursuant to recognition of the firm commitment will be removed from the balance sheet and recognized as a gain or loss in current period earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with changes in its fair value recognized in current period earnings.

Income Taxes

Deferred tax assets and liabilities are recognized for the income tax consequences of temporary differences between the financial statement and tax bases of existing assets and liabilities. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On the balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

The Bank uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options and restricted stock, result in the issuance of common stock which shares in the earnings of the Bank. The treasury stock method is applied to determine the dilutive effect of stock options and restricted stock in computing diluted earnings per share. Earnings per share is retroactively adjusted for stock dividends and splits for all periods presented.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-Based Compensation

The Bank has one share-based compensation plan, the Premier Valley Bank Amended and Restated 2001 Equity Incentive Plan (the "Plan"), which is shareholder approved and, among other things, permits the grant of stock options and restricted stock of up to 2,184,000 shares of the Bank's common stock. The Plan is designed primarily to attract and retain employees and directors. The amount, frequency and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. New shares are issued upon option exercise or restricted share grants. The Plan does not provide for the settlement of awards in cash. Under the Plan, 185,000 shares of common stock are reserved for future issuance to employees and directors under incentive and nonstatutory agreements, including restricted stock awards. The Plan requires that the option or share price may not be less than the fair market value of the stock at the date the option or share award is granted, and that the stock must be paid in full at the time the option is exercised. All options expire on a date determined by the Board of Directors, but not later than ten years from the date of grant. The vesting period is determined by the Board of Directors and is generally over a three to five year period.

Restricted stock awards are grants of shares of common stock that are subject to forfeiture until specific conditions or goals are met. Conditions may be based on continuing employment or achieving specified performance goals. During the period of restriction, participants holding restricted stock have full voting and dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors.

The Bank measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. Management estimates the fair value of each option award as of the date of grant using a Black-Scholes-Merton option pricing model. Expected volatility is based on historical volatility of the Bank's common stock. The Bank uses the "simplified" method to determine the expected term of the Bank's options due to the lack of sufficient historical data. The risk free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. For options granted during 2008 and 2009, an expected dividend yield of 3.20% and 4.0% was used as an approximation of the dividend yield for cash dividends declared in 2008 and stock dividends declared in 2009. In addition to these assumptions, management makes estimates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the Plan.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-Based Compensation (Continued)

The fair value of each option has been estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following assumptions:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Dividend yield	4.0%	3.20%
Expected volatility	58.85%	39.57%
Risk free interest rate	1.83%	3.48%
Expected option life	6 years	6 years

Comprehensive Income

Comprehensive income is reported in addition to net income. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income items that historically have not been recognized in the calculation of net income. Unrealized gains or losses on the Bank's available-for-sale investment securities are included in other comprehensive income or loss. Total comprehensive income and the components of other comprehensive income are presented in the statement of comprehensive income.

Adoption of New Financial Accounting Standards

FASB Accounting Standards Codification™ (ASC or Codification)

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting standards ASC 105-10 (previously SFAS No. 168), *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles*. With the issuance of ASC 105-10, the FASB Accounting Standards Codification ("the Codification" or "ASC") becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities. This change is effective for financial statements issued for interim or annual periods ended after September 15, 2009. Accordingly, all specific references to generally accepted accounting principles (GAAP) refer to the Codification and not to the pre-Codification literature.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Financial Accounting Standards (Continued)

FASB Clarifies Other-Than-Temporary Impairment

In April 2009, the FASB issued ASC No. 320-10-35 (previously FSP 115-2 and 124-2 and EITF 99-20-2), *Recognition and Presentation of Other-Than-Temporary-Impairment*. This standard (i) changes previously existing guidance for determining whether an impairment to debt securities is other than temporary and (ii) replaces the previously existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under this standard, declines in fair value below cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses for both held-to-maturity and available-for-sale securities. The amount of impairment related to other factors is recognized in other comprehensive income. The Bank adopted the provisions of this standard on January 1, 2009 and it resulted in a reclassification between retained earnings and accumulated other comprehensive loss (see Note 2).

FASB Clarifies Application of Fair Value Accounting

In April 2009, the FASB issued ASC 820-10 (previously FSP FAS 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This standard affirms the objective of fair value when a market is not active, clarifies and includes additional factors for determining whether there has been a significant decrease in market activity, eliminates the presumption that all transactions are distressed unless proven otherwise, and requires an entity to disclose a change in valuation technique. This standard was effective for interim and annual periods ended after June 15, 2009. The Bank adopted the provisions of this standard on April 1, 2009 and it did not have a material impact on its financial condition or results of operations.

Measuring Liabilities at Fair Value

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (ASC Topic 820) — Measuring Liabilities at Fair Value*. This update provides amendments for the fair value measurement of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. It also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This update was effective for the first reporting period (including interim periods) beginning after August 2009. The Bank adopted the provisions of this update on October 1, 2009 and it did not have a material impact on the Bank's financial condition or results of operations.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Financial Accounting Standards (Continued)

Business Combinations

In December 2007, the FASB issued ASC Topic 805 (previously SFAS 141(R)), *Business Combinations*. This standard broadens the guidance for business combinations and extends its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. The acquirer is no longer permitted to recognize a separate valuation allowance as of the acquisition date for loans and other assets acquired in a business combination. It also requires acquisition-related costs and restructuring costs that the acquirer expected but was not obligated to incur to be expensed separately from the business combination. It also expands on required disclosures to improve the ability of the users of the financial statements to evaluate the nature and financial effects of business combinations. The Bank will apply the provisions of this standard to any business combination that closes after January 1, 2009.

Subsequent Events

In May 2009, the FASB issued ASC 855-10 (previously SFAS No. 165), *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of this standard on July 1, 2009 required management to disclose the date through which it evaluated subsequent events but had no effect on the Bank's financial position or results of operations.

Impact of New Financial Accounting Standards

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued ASC Topic 860 (previously SFAS No. 166), *Accounting for Transfers of Financial Assets, an amendment of SFAS No. 140*. This standard amends the derecognition accounting and disclosure guidance included in previously issued standards. This standard eliminates the exemption from consolidation for qualifying special-purpose entities (SPEs) and also requires a transferor to evaluate all existing qualifying SPEs to determine whether they must be consolidated in accordance with ASC Topic 810. This standard also provides more stringent requirements for derecognition of a portion of a financial asset and establishes new conditions for reporting the transfer of a portion of a financial asset as a sale. This standard is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. Management is assessing the impact this standard may have on the Bank's financial condition and results of operations, but does not expect any material effect.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of New Financial Accounting Standards (Continued)

Transfers and Servicing

In December 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-16, *Transfers and Servicing (ASC Topic 860): Accounting for Transfers of Financial Assets*, which updates the derecognition guidance in ASC Topic 860 for previously issued SFAS No. 166. This update reflects the Board's response to issues entities have encountered when applying ASC 860, including: (1) requires that all arrangements made in connection with a transfer of financial assets be considered in the derecognition analysis, (2) clarifies when a transferred asset is considered legally isolated from the transferor, (3) modifies the requirements related to a transferee's ability to freely pledge or exchange transferred financial assets, and (4) provides guidance on when a portion of a financial asset can be derecognized. This update is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. Early adoption is prohibited. Management does not expect the adoption of this standard will have a material impact on the Bank's financial position or results of operations.

2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and fair value of available-for-sale investment securities consisted of the following (in thousands):

	2009			
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	
Obligations of states and political subdivisions	\$ 21,592	\$ 512	\$ (269)	\$ 21,835
Mortgage-backed securities	25,498	856	(79)	26,275
Corporate obligations	8,753	91	(1,143)	7,701
	\$ 55,843	\$ 1,459	\$ (1,491)	\$ 55,811

Net unrealized losses on available-for-sale investment securities totaling \$32,000 were recorded, net of \$13,000 in tax benefit, as accumulated other comprehensive income, a separate component of shareholders' equity at December 31, 2009. There were no sales or transfers of available-for-sale investment securities during the year ended December 31, 2009.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	\$ 2,961	\$ 34	\$ -	\$ 2,995
U.S. Government agencies	3,003	13	-	3,016
Obligations of states and political subdivisions	21,957	400	(335)	22,022
Mortgage-backed securities	31,753	482	(770)	31,465
Corporate obligations	7,653	-	(673)	6,980
	\$ 67,327	\$ 929	\$ (1,778)	\$ 66,478

Net unrealized losses on available-for-sale investment securities totaling \$849,000 were recorded, net of \$316,000 in tax benefit, as accumulated other comprehensive income, a separate component of shareholders' equity at December 31, 2008. Proceeds from sales of available-for-sale investment securities totaled \$5,808,000. There were no transfers of available-for-sale investment securities during the year ended December 31, 2008.

The following table shows gross unrealized losses and estimated fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2009 and 2008 (in thousands):

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
<u>December 31, 2009</u>						
Obligations of states and political subdivisions	\$ 2,488	\$ (60)	\$ 1,297	\$ (209)	\$ 3,785	\$ (269)
Mortgage-backed securities	5,298	(73)	475	(6)	5,773	(79)
Corporate obligations	-	-	948	(1,143)	948	(1,143)
	\$ 7,786	\$ (133)	\$ 2,720	\$ (1,358)	\$ 10,506	\$ (1,491)
<u>December 31, 2008</u>						
Obligations of states and political subdivisions	\$ 5,722	\$ (187)	\$ 985	\$ (148)	\$ 6,707	\$ (335)
Mortgage-backed securities	6,105	(769)	305	(1)	6,410	(770)
Corporate obligations	6,234	(438)	265	(235)	6,499	(673)
	\$ 18,061	\$ (1,394)	\$ 1,555	\$ (384)	\$ 19,616	\$ (1,778)

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

Obligations of States and Political Subdivisions

Management believes that the unrealized losses on the Bank's investments in obligations of states and political subdivisions are a result of interest rate spreads. However, as the contractual cash flows of those investments are considered a general obligation of, or supported by specific revenues of state or local municipalities, the underlying municipalities are generally highly rated and supported by independent bond insurance, and the Bank intends to hold these investments to maturity or call, the Bank expects to collect all amounts due. Therefore, management does not consider these securities to be other-than-temporarily impaired at December 31, 2009.

Mortgage Backed Securities

Management believes that the unrealized losses on the Bank's investments in U.S. Government agency mortgage-backed securities is primarily due to current volatility in the housing market in general and widening spreads on mortgage bond products, as the underlying collateral for those securities is single family residences. Security positions that have been at a market loss for more than twelve months are currently paying principal and interest and the aggregate amount of remaining principal is not significant. Other security positions in a loss position as of December 31, 2009 have been in a loss position for less than twelve months and in aggregate, the pretax market loss is insignificant. Management has both the intent and ability to hold these securities to a forecast recovery and does not consider such securities to be other-than-temporarily impaired at December 31, 2009.

The Bank has invested in several private label mortgage backed securities. Management believes that the unrealized losses in these securities is primarily due to current volatility in the housing market in general and widening spreads on mortgage bond products, as the underlying collateral for those securities is single family residences. The positions held by the Bank have been in a loss position less than twelve months, are highly rated and are returning investment principal as expected. Management has both the intent and ability to hold these securities to a forecast recovery and does not consider such securities to be other-than-temporarily impaired at December 31, 2009.

Corporate Obligations

The unrealized loss on the Bank's investment in corporate obligations consists of one position that has been in an unrealized loss position for more than twelve months and two positions that have been in an unrealized loss position for less than twelve months. These unrealized losses are the result of investment spreads currently commanded for this investment class. These investments are all paying as agreed and management believes that the Bank will receive all of the contractual payments of principal and interest on these obligations by maturity or redemption, except as noted in the following in other-than-temporary impairment. Management has both the intent and ability to hold these securities to a forecast recovery and, therefore, does not consider such securities to be other-than-temporarily impaired at December 31, 2009.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

Other-Than-Temporary Impairment

During its assessment of the investment portfolio for other-than-temporary impairment of investment securities, management considers many factors. In cases where a security is of a type for which there is very little active trading, if any, management must consider other factors when conducting its evaluation. As of December 31, 2008, the Bank held one such security, a collateralized debt obligation backed by issuances of trust preferred securities of financial holding companies. Although all scheduled interest payments had been received, management considered other factors and made certain assumptions in evaluating the Bank's position. Such factors and assumptions included independent indications of the fair value of the security, adverse conditions related to the financial services industry in general, specific defaults or suspension of dividends by certain issuers who comprise a portion of the pool, the financial condition of the remaining issuers in the pool, and certain assumptions regarding the impact of past events, current conditions and the likelihood of future events, including future defaults, changes in interest rates, prepayment speeds, recovery rates on actual and prospective defaulted issuers, and the timing of cash flows, including any recoveries.

After giving consideration to the factors above and consulting with a valuation specialist, management concluded that an adverse change in estimated cash flows had occurred and the security was other-than-temporarily impaired. Management recorded an impairment charge on this security of \$2,519,000 in 2008 equal to the difference between the fair value and the carrying value of the security at December 31, 2008. The impairment charge is included in other noninterest expenses.

Subsequent to December 31, 2008, the FASB issued updated accounting standards related to how other-than-temporary impairment on debt securities should be recorded. These conclusions differ substantially from the accounting described above. Under the updated standards, only the portion of the impairment related to credit losses is included in the determination of net income, provided that management does not intend to sell the security and has also concluded it is not more likely than not that it will be required to sell the security before the recovery of its amortized cost basis. The credit loss is determined by discounting the expected cash flows at the effective interest rate implicit in the security at the date of acquisition. As a result of adopting this new standard, management estimated that the credit loss component of the previously recorded impairment was \$1,419,000 and that the impairment loss on the other components was \$1,100,000. As such, investment securities were increased by \$1,100,000, deferred tax assets were reduced by \$451,000 and retained earnings was increased by \$648,000 to properly reflect this required change in accounting principle. There was no further impairment at December 31, 2009. If future assessments do not result in other-than-temporary impairment, the favorable change in expected future cash flows will be reflected in the accretable yield of the underlying security on a prospective basis.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

Other-Than-Temporary Impairment (Continued)

The amortized cost and fair value of available-for-sale investment securities at December 31, 2009 by contractual maturity is shown below (in thousands). Expected maturities may differ from contractual maturities because the issuers of certain securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Within one year	\$ 615	\$ 623
After one year through five years	3,521	3,573
After five years through ten years	14,725	15,050
After ten years	11,484	10,290
	30,345	29,536
Investment securities not maturing at a specified date:		
Mortgage-backed securities	25,498	26,275
	\$ 55,843	\$ 55,811

Investment securities with amortized costs totaling \$15,786,000 and \$26,393,000 and fair values totaling \$16,538,000 and \$26,845,000 were pledged to secure public deposits and other borrowing arrangements at December 31, 2009 and 2008, respectively.

3. LOANS

Outstanding loans are summarized as follows (in thousands):

	December 31,	
	2009	2008
Commercial	\$ 56,136	\$ 61,318
Real estate mortgage – residential	48,075	49,248
Real estate mortgage – commercial	223,239	206,405
Real estate construction	22,508	30,013
Installment	23,911	28,939
	373,869	375,923
Deferred loan fees, net	(561)	(803)
Allowance for loan losses	(6,955)	(5,326)
	\$ 366,353	\$ 369,794

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. LOANS (Continued)

Changes in the allowance for loan losses were as follows (in thousands):

	Year Ended December 31,	
	2009	2008
Balance, beginning of year	\$ 5,326	\$ 4,986
Provision charged to income	5,390	5,375
Losses charged to the allowance	(3,928)	(5,113)
Recoveries	167	78
Balance, end of year	\$ 6,955	\$ 5,326

The recorded investment in loans that were considered to be impaired totaled \$10,625,000 and \$8,721,000 at December 31, 2009 and 2008, respectively. The Bank had recorded \$315,000 of specific reserves on \$3,383,000 of impaired loans at December 31, 2009 as compared to \$214,000 of specific reserves on impaired loans of \$353,000 at December 31, 2008. The remaining impaired loans did not require a specific reserve at December 31, 2009 or 2008. The average recorded investment in impaired loans for the years ended December 31, 2009 and 2008 was \$12,949,000 and \$7,543,000, respectively. The Bank did not recognize any interest income on impaired loans during these periods.

At December 31, 2009 and 2008, nonaccrual loans totaled \$6,766,000 and \$8,541,000, respectively. Interest forgone on nonaccrual loans totaled \$775,000 and \$477,000 for the years ended December 31, 2009 and 2008, respectively.

Salaries and employee benefits totaling \$402,000 and \$263,000 were deferred as loan origination costs for the years ended December 31, 2009 and 2008, respectively.

4. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (in thousands):

	December 31,	
	2009	2008
Land	\$ 270	\$ 270
Buildings and improvements	2,858	2,858
Furniture and equipment	2,861	2,829
Leasehold improvements	681	681
	6,670	6,638
Less accumulated depreciation and amortization	(3,095)	(2,658)
	\$ 3,575	\$ 3,980

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. PREMISES AND EQUIPMENT (Continued)

Depreciation and amortization included in occupancy and equipment expense totaled \$437,000 and \$528,000 for the years ended December 31, 2009 and 2008, respectively.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consisted of the following (in thousands):

	<u>2009</u>	<u>2008</u>
Goodwill	\$ 13,339	\$ 13,339
Core deposit intangibles	1,497	1,941
Servicing assets	<u>69</u>	<u>84</u>
	<u>\$ 14,905</u>	<u>\$ 15,364</u>

Goodwill

No goodwill is recognized for tax purposes because the purchase transaction was structured as an acquisition of stock followed by a merger qualifying as a tax free reorganization. Goodwill is evaluated annually for impairment and management determined that no impairment charge was required for the years ended December 31, 2009 or 2008.

Core Deposit Intangible

Core deposit intangible totaled \$3,606,000, net of accumulated amortization of \$2,109,000 and \$1,665,000, at December 31, 2009 and 2008, respectively. The remaining balance is being amortized over a weighted average period of 3 years. Amortization expense for the next 3 years is estimated to be approximately \$444,000 per year and \$165,000 in the final year.

6. INTEREST RATE SWAPS

During 2008 and 2009, the Bank entered into interest rate swap agreements to convert interest being earned on certain fixed rate loans to a variable rate in accordance with its asset/liability management objectives to mitigate interest rate risk. At December 31, 2009 and 2008, the aggregate notional amount of the interest rate swap agreements was \$44,707,000 and \$35,759,000, respectively. The increase in the fair value of the hedged asset and the fair value of the liability associated with the interest rate swap agreements was \$2,530,000 and \$5,931,000 at December 31, 2009 and 2008, respectively. As part of each swap agreement, the Bank is required to pledge collateral, either in the form of cash or investment securities, as a credit enhancement. At December 31, 2009, cash and securities of \$2,041,000 and \$1,281,000, respectively, were pledged against interest rate swaps and at December 31, 2008, cash and securities of \$1,651,000 and \$815,000, respectively, were pledged. The Bank recognized a net loss of \$1,442,000 and \$373,000 for the years ended December 31, 2009 and 2008, respectively, which represents the net monthly cash settlement of all fair value hedges. Because of the nature of the terms of the interest rate swap agreements, there was no hedge ineffectiveness for the years ended December 31, 2009 and 2008.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. INTEREST BEARING DEPOSITS

Interest bearing deposits consisted of the following (in thousands):

	December 31,	
	2009	2008
Savings	\$ 17,852	\$ 16,181
NOW accounts	29,378	28,543
Money market	153,784	149,196
Time, \$100,000 or more	54,582	47,480
Other time	26,098	49,738
	\$ 281,694	\$ 291,138

Aggregate annual maturities of time deposits are as follows (in thousands):

Year Ending December 31,	
2010	\$ 74,471
2011	3,085
2012	1,522
2013	701
2014	817
Thereafter	84
	\$ 80,680

Interest expense on interest bearing deposits for the years ended December 31, 2009 and 2008 consisted of the following (in thousands):

	2009	2008
Savings and NOW accounts	\$ 295	\$ 506
Money market	1,795	3,476
Time, \$100,000 or more	872	1,606
Other time	590	1,328
	\$ 3,552	\$ 6,916

The Bank has obtained a letter of credit from the Federal Home Loan Bank in the amount of \$334,000, to secure public deposits at December 31, 2009 and 2008.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

8. INCOME TAXES

Income taxes for the years ended December 31, 2009 and 2008 consisted of the following (in thousands):

	Federal	State	Total
<u>2009</u>			
Current	\$ 1,400	\$ 499	\$ 1,899
Deferred	(897)	(278)	(1,175)
Income taxes	\$ 503	\$ 221	\$ 724
<u>2008</u>			
Current	\$ 506	\$ 68	\$ 574
Deferred	(384)	(240)	(624)
Income taxes	\$ 122	\$ (172)	\$ (50)

Deferred tax assets (liabilities) at December 31, 2009 and 2008 consisted of the following (in thousands):

	2009	2008
Deferred tax assets:		
Allowance for loan losses	\$ 2,308	\$ 1,991
Deferred compensation	1,217	1,203
Impairment loss on securities	650	1,130
Other real estate owned	398	-
Future benefit of state tax deduction	146	71
Unrealized losses on available-for-sale investment securities	13	316
Other	178	101
Total deferred tax assets	4,910	4,812
Deferred tax liabilities:		
Core deposit intangible	(671)	(870)
Premises and equipment	(230)	(359)
Future liability of state deferred tax assets	(284)	(230)
Deferred loan fees and costs	(251)	(300)
Federal Home Loan Bank stock dividends	(184)	(184)
Total deferred tax liabilities	(1,620)	(1,943)
Net deferred tax assets	\$ 3,290	\$ 2,869

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

8. INCOME TAXES (Continued)

Income taxes differ from amounts computed by applying the statutory federal income tax rate to income before income taxes. The items comprising these differences consisted of the following (dollars in thousands):

	Year Ended December 31,			
	2009		2008	
	Amount	Rate %	Amount	Rate %
Federal income tax expense, at statutory rate	\$ 858	34.0	\$ 327	34.0
State franchise tax, net of federal tax effect	146	5.8	(114)	(11.8)
Tax exempt income from investment securities	(275)	(10.9)	(286)	(29.8)
Tax exempt income from life insurance policies	(99)	(3.9)	(94)	(9.8)
Other	94	3.7	117	12.2
	<u>\$ 724</u>	<u>28.7</u>	<u>\$ (50)</u>	<u>(5.2)</u>

The Bank files income tax returns in the U.S. federal and California jurisdictions. The Bank conducts all of its business activities in the State of California. There are currently no pending federal income tax examinations by tax authorities. Certain of the Bank's market areas are designated as "Enterprise Zones" by the State of California and the Bank receives tax credits for hiring individuals in these markets and receives an interest deduction for loans made in designated enterprise zones. The tax credits and interest deductions are significant to the Bank in reducing its effective tax rate. These positions could be challenged by the California Franchise Tax Board, and adjustments could occur. The California Franchise Tax Board is currently conducting an examination of the State of California returns for 2007 and 2008. Management does not anticipate a material unfavorable adjustment for either tax year as a result of the examinations. With few exceptions, the Bank is no longer subject to tax examinations by U.S. Federal taxing authorities for years ended before December 31, 2006, and by state and local taxing authorities for years ended before December 31, 2005. The Bank determined the unrecognized tax benefit and changes therein and the interest and penalties accrued by the Bank were \$350,000 at December 31, 2009. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2008	\$ 140,000
Additions based on tax positions related to the current year	42,000
Additions for tax positions of prior years	168,000
Reductions for tax positions of prior years	-
Settlements	-
	<u>\$ 350,000</u>
Balance at December 31, 2009	<u>\$ 350,000</u>

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

9. BORROWINGS

Advances

Advances from the Federal Home Loan Bank of San Francisco at December 31, 2009 totaled \$5,100,000 at a rate of 0.03% with a maturity of January 4, 2010. Advances from the Federal Home Loan Bank of San Francisco at December 31, 2008 totaled \$25,300,000 at a rate of .05% with a maturity of January 2, 2009.

The advances are secured by investment securities with amortized costs totaling \$9,486,000 and market values totaling \$9,596,000 at December 31, 2009 and loans totaling \$183,074,000 and \$179,534,000 at December 31, 2009 and 2008, respectively. At December 31, 2009, the Bank could borrow up to \$94,730,000 from the Federal Home Loan Bank and up to \$4,159,000 from the Federal Reserve Discount Window on either a short term or long term basis.

Other Borrowing Arrangements

The Bank has available up to \$8,000,000 under a Federal funds line of credit from one of its correspondent banks. There were no borrowings outstanding under this arrangement at December 31, 2009 or 2008.

10. COMMITMENTS AND CONTINGENCIES

Operating Lease

The Bank leases certain branch facilities under noncancelable operating leases. Rental expense, net of sublease income, included in occupancy and equipment expense totaled \$564,000 and \$530,000 for the years ended December 31, 2009 and 2008, respectively. The leases expire on various dates through 2014 and have various renewal options ranging from one to five years. Rental payments include minimum rentals plus adjustments for changing price indices.

Future minimum lease payments are as follows (in thousands):

Year Ending December 31, _____		
2010	\$	505
2011		454
2012		428
2013		202
2014		<u>56</u>
	\$	<u>1,645</u>

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

10. COMMITMENTS AND CONTINGENCIES (Continued)

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Those insured financial institutions have elected to participate in the FDIC sponsored Transaction Account Guarantee Program. Under that program, through June 30, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. Therefore, the Bank has no uninsured deposits with correspondent banks at December 31, 2009.

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The Bank's vault cash fulfilled its reserve requirement at December 31, 2009 and 2008.

Financial Instruments With Off Balance Sheet Risk

The Bank is a party to financial instruments with off balance sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

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

The following financial instruments represent off balance sheet credit risk (in thousands):

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Commitments to extend credit	\$ 57,129	\$ 89,299
Standby letters of credit	\$ 9,013	\$ 3,592

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

10. COMMITMENTS AND CONTINGENCIES (Continued)

Financial Instruments With Off Balance Sheet Risk (Continued)

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 some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case by case basis. Standby letters of credit are generally secured and are issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2009 or 2008. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used. Collateral held varies, but includes cash, accounts receivable, inventory and deeds of trust on residential real estate and income producing properties.

At December 31, 2009, 36% of total undisbursed loan commitments are secured by real estate. Of the remaining amount, 61% are undisbursed commitments on commercial loans, which may be either unsecured or secured by business assets such as cash, inventory and accounts receivable, and 3% are undisbursed commitments on personal loans. In addition, the Bank's total undisbursed commitments include both variable and fixed interest rates.

Significant Concentrations of Credit Risk

The Bank grants real estate mortgage, real estate construction, commercial and installment loans to customers primarily in Central California, between Fresno and Modesto, and in the Sierra, principally in Mariposa and Madera Counties. A substantial portion of the Bank's portfolio is secured by real estate. However, business income represents the primary source of repayment for a majority of these loans.

In management's judgment, a concentration exists in real estate related loans which represented approximately 79% and 76% the Bank's loan portfolio at December 31, 2009 and 2008, respectively. Although management believes such concentrations to have no more than the normal risk of collectibility, a continued substantial decline in the economy in general, or a continued decline in real estate values in the Bank's primary market areas in particular, could have an adverse impact on collectibility of these loans. Personal and business income represent the primary source of repayment for a majority of these loans.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. SHAREHOLDERS' EQUITY

Dividends

During 2009, the Board of Directors declared stock dividends as follows:

<u>Declaration Date</u>	<u>Record Date</u>	<u>Payable Date</u>	<u>Dividend/ Share</u>	<u>Shares Issued</u>
March 19, 2009	March 31, 2009	April 15, 2009	1%	118,000
June 18, 2009	June 30, 2009	July 15, 2009	1%	120,000
September 17, 2009	September 30, 2009	October 15, 2009	1%	121,000
December 17, 2009	December 31, 2009	January 15, 2010	1%	122,000

During 2008, the Board of Directors declared cash dividends as follows:

<u>Declaration Date</u>	<u>Record Date</u>	<u>Payable Date</u>	<u>Dividend/ Share</u>	<u>Amount Paid</u>
March 20, 2008	March 31, 2008	April 15, 2008	\$ 0.05	\$ 587,000
June 19, 2008	June 30, 2008	July 15, 2008	\$ 0.05	\$ 590,000
September 18, 2008	September 30, 2008	October 15, 2008	\$ 0.05	\$ 598,000
December 18, 2008	December 31, 2008	January 15, 2009	\$ 0.05	\$ 599,000

In 2007, the Bank adopted a stock purchase and dividend reinvestment plan. In May 2008, the Board of Directors approved an amendment to the Bank's dividend reinvestment plan. Under the amendment, participants in the plan may purchase shares directly from the Bank at a price equal to 95% of the average closing price of the Bank's common stock for the five trading days immediately preceding the applicable dividend payment date.

Common Stock Repurchase Programs

In September 2009, the Board of Directors authorized the repurchase of approximately 5% (612,000) of the Bank's outstanding common shares in an aggregate amount not to exceed \$1,800,000. Share repurchases may be made from time to time on the open market or through privately negotiated transactions. The timing of purchases and the exact number of shares purchased is dependent on market conditions. The share repurchase program does not include specific price targets or timetables and could be suspended at any time. During 2009, 16,000 shares were repurchased for \$42,000 at an average price of \$2.59 per share.

In September 2008, the Board of Directors authorized the repurchase of approximately 5% (624,000) of the Bank's outstanding common shares in an aggregate amount not to exceed \$3,000,000. Share repurchases may be made from time to time on the open market or through privately negotiated transactions. The timing of purchases and the exact number of shares purchased is dependent on market conditions. The share repurchase program does not include specific price targets or timetables and could be suspended at any time. During 2009, 22,000 shares were repurchased for \$68,000 at an average price of \$3.06 per share.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. SHAREHOLDERS' EQUITY (Continued)

Common Stock Repurchase Programs (Continued)

In September 2007, the Board of Directors authorized the repurchase of the Bank's outstanding shares in an aggregate amount not to exceed \$5,000,000. During 2008, 109,000 shares were repurchased for \$679,000 at an average price of \$6.22 per share.

Share-Based Compensation

Stock Option Awards

Stock option activity for the years ended December 31, 2008 and 2009 is summarized as follows (in thousands, except per share and contractual life data):

	<u>Number of Stock Options Outstanding</u>	<u>Weighted Average Exercise Prices</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at January 1, 2008	1,488	\$ 4.55		
Granted	98	\$ 4.80		
Exercised	(62)	\$ 2.61		
Cancelled or expired	<u>-</u>	\$ -		
Outstanding at December 31, 2008	1,524	\$ 4.64		
Granted	-	\$ -		
Exercised	(60)	\$ 2.34		
Cancelled or expired	<u>(8)</u>	\$ 10.14		
Outstanding at December 31, 2009	<u>1,456</u>	\$ 4.70	<u>3.87 years</u>	\$ 135
Exercisable at December 31, 2009	<u>1,333</u>	\$ 4.54	<u>3.49 years</u>	\$ 135
Additional options expected to vest	<u>102</u>	\$ -	<u>8.27 years</u>	\$ -

No options were granted during 2009. For the year ended December 31, 2008, the weighted average fair value of options granted was \$1.38. The total intrinsic value of options exercised during the years ended December 31, 2009 and 2008 was \$14,000 and \$155,000, respectively.

The cost that has been charged against income for stock options was \$180,000 and \$235,000 for the years ended December 31, 2009 and 2008, respectively. Income tax benefits recognized for the year ended December 31, 2009 and 2008 totaled \$52,000 and \$53,000, respectively. During January 2010, with the consent of the option holder, 297,483 stock options at a weighed average exercise price of \$9.49 were cancelled with the consent of the option holder. The shares are available for future grant; however, management currently has no plans to grant the shares. In management's opinion, future forfeitures are not expected to be significant.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. SHAREHOLDERS' EQUITY (Continued)

Share-Based Compensation (Continued)

Stock Option Awards (Continued)

At December 31, 2009, the total cost related to nonvested stock option awards granted to employees and Directors under the Bank's equity incentive plan but not yet recognized was \$184,000. Stock option compensation expense is recognized on a straight line basis over the vesting period of the option. This cost is expected to be recognized over a weighted average remaining period of approximately two years and will be adjusted for subsequent changes in estimated forfeitures.

Cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as cash flows from financing activities in the consolidated statement of cash flows. These excess tax benefits for the years ended December 31, 2009 and 2008 totaled \$5,000 and \$57,000, respectively.

Restricted Common Stock Awards

A summary of the status of the Bank's restricted stock awards is presented below (shares in thousands):

	Number of Shares	Weighted Average Price at Date of Grant
Outstanding at January 1, 2008	56	\$ 8.77
Granted	35	\$ 5.15
Vested	(16)	\$ 8.93
Distributed pursuant to stock dividend	(1)	-
Forfeited	-	-
Outstanding at December 31, 2008	74	\$ 7.07
Granted	2	\$ 7.65
Vested	(28)	\$ 7.51
Distributed pursuant to stock dividend	(2)	\$ 7.65
Forfeited	(5)	\$ 6.21
Outstanding at December 31, 2009	41	\$ 6.86
Shares expected to vest	41	\$ 6.86

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. SHAREHOLDERS' EQUITY (Continued)

Share-Based Compensation (Continued)

Restricted Common Stock Awards (Continued)

Restricted common stock awards vest ratably over four years. The cost charged against income for restricted stock awards was \$193,000 and \$152,000 for the years ended December 31, 2009 and 2008, respectively. The tax benefit recognized in the consolidated statement of income for restricted stock awards for the year ended December 31, 2009 and 2008 totaled \$48,000 and \$56,000, respectively. At December 31, 2009 and 2008, the total compensation cost related to nonvested restricted common stock but not yet recognized was \$195,000 and \$407,000, respectively. Restricted stock compensation expense is recognized on a straight line basis over the vesting period. This cost is expected to be recognized over a weighted average remaining period of approximately 2.5 years and will be adjusted for subsequent changes in estimated forfeitures. The intrinsic value of restricted common stock outstanding was \$103,000 and \$255,000 as of December 31, 2009 and 2008, respectively.

Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows (in thousands, except per share data):

<u>For the Year Ended</u>	<u>Net Income</u>	<u>Weighted Average Number of Shares Outstanding</u>	<u>Per Share Amount</u>
<u>December 31, 2009</u>			
Basic earnings per share	\$ 1,800	12,185	<u>\$ 0.15</u>
Effect of potentially dilutive shares	-	<u>145</u>	
Diluted earnings per share	<u>\$ 1,800</u>	<u>12,330</u>	<u>\$ 0.15</u>
<u>December 31, 2008</u>			
Basic earnings per share	\$ 1,011	12,183	<u>\$.08</u>
Effect of potentially dilutive shares	-	<u>526</u>	
Diluted earnings per share	<u>\$ 1,011</u>	<u>12,709</u>	<u>\$.08</u>

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. SHAREHOLDERS' EQUITY (Continued)

Earnings Per Share (Continued)

Stock options totaling 862,000 and 380,000 were excluded from the computation of diluted earnings per share for the years ended December 31, 2009 and 2008, respectively, due to the stock options being considered anti-dilutive.

12. REGULATORY MATTERS

Dividend Restrictions

Distributions by the Bank to its shareholders, except for stock dividends and stock splits, are restricted under California law to the lesser of the Bank's retained earnings or net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of the Department of Financial Institutions, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year or the net income of the Bank for its current fiscal year. At December 31, 2009, the Bank had \$3,266,000 in retained earnings available for dividend payments.

Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Bank met all of its capital adequacy requirements as of December 31, 2009 and 2008.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. REGULATORY MATTERS (Continued)

Regulatory Capital (Continued)

In addition, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk based, Tier 1 risk based and Tier 1 leverage ratios as set forth below (dollars in thousands). There are no conditions or events since that notification that management believes have changed the Bank's category.

	2009		2008	
	Amount	Ratio	Amount	Ratio
<u>Leverage Ratio</u>				
Premier Valley Bank	\$ 44,780	9.6%	\$ 41,310	8.9%
Minimum requirement for "well capitalized" institution	\$ 23,401	5.0%	\$ 23,148	5.0%
Minimum regulatory requirement	\$ 18,721	4.0%	\$ 18,518	4.0%
<u>Tier 1 Risk Based Capital Ratio</u>				
Premier Valley Bank	\$ 44,780	10.7%	\$ 41,310	9.8%
Minimum requirement for "well capitalized" institution	\$ 25,121	6.0%	\$ 25,269	6.0%
Minimum regulatory requirement	\$ 16,747	4.0%	\$ 16,846	4.0%
<u>Total Risk Based Capital Ratio</u>				
Premier Valley Bank	\$ 50,117	12.0%	\$ 46,577	11.1%
Minimum requirement for "well capitalized" institution	\$ 41,868	10.0%	\$ 42,114	10.0%
Minimum regulatory requirement	\$ 33,494	8.0%	\$ 33,691	8.0%

13. OTHER NONINTEREST EXPENSES

Other noninterest expenses for the years ended December 31, 2009 and 2008 consisted of the following (in thousands):

	2009		2008	
Data processing	\$ 1,203		\$ 1,185	
Expenses related to loan collection and other real estate owned		1,116		51
Regulatory assessments		962		337
Professional fees		564		395
Amortization of core deposit intangibles		444		444
Advertising, marketing and business development		347		534
Courier, telephone and postage		337		389
Correspondent bank charges		112		127
Impairment charge on investment security		31		2,519
Other		1,538		1,539
		1,538		1,539
	\$	6,654	\$	7,520

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14. SUPPLEMENTAL DISCLOSURE OF CONSOLIDATED STATEMENT OF CASH FLOWS

The following table discloses supplemental cash flow information and noncash investing and financing activities for the years ended December 31, 2009 and 2008 (in thousands):

	2009	2008
Cash (received) paid during the period for:		
Income taxes	\$ (673)	\$ 2,410
Interest expense	\$ 3,645	\$ 7,051
Noncash investing activities:		
Net unrealized gains (losses) on available-for-sale investment securities	\$ 817	\$ (880)
Other real estate acquired by foreclosure	\$ 3,139	\$ 170

15. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into loans with related parties, including executive officers and Directors. These loans are made under substantially the same terms, including interest rates and collateral, as loans to unrelated parties. The following is a summary of certain information involving related party loans and deposits (in thousands):

Loans outstanding, January 1, 2009	\$	7,866
Disbursements		5,870
Amounts repaid		6,269
Loans outstanding, December 31, 2009	\$	7,467
Undisbursed commitments, December 31, 2009	\$	7,908
Deposits, December 31, 2009	\$	24,039

16. EMPLOYEE BENEFIT PLANS

Premier Valley Bank 401(k) Plan

The Bank has established an employee retirement plan (Retirement Plan) under Section 401(k) of the Internal Revenue Code (the "IRC"). The purpose of the Retirement Plan is to provide all eligible employees with supplemental income upon retirement and increase their proprietary interest in PVB. Eligible employees may make contributions to the Retirement Plan subject to the limitations of Section 401(k) of the IRC. Matching contributions may be made by the Bank at the discretion of the Board of Directors. No matching contributions were made in 2009 and \$40,000 was contributed in 2008.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16. EMPLOYEE BENEFIT PLANS (Continued)

Premier Valley Bank Employee Stock Ownership Plan

The Bank has established an employee stock ownership plan (ESOP) under Section 414(c) of the IRC. The purpose of the ESOP is to provide all eligible employees with supplemental income upon retirement and increase their proprietary interest in the Bank. Contributions to the ESOP are at the discretion of the Board of Directors. No employer contributions were made in 2009 and \$40,000 was contributed in 2008.

Supplemental Executive and Directors' Retirement Plans

As part of the Agreement and Plan of Merger with YB, the Bank assumed the liabilities associated with the benefits to be paid under the YB Supplemental Executive Retirement Plan (SERP) and the YB Directors' Retirement Plan (DRP). The liability accrued under the plans is included in accrued interest payable and other liabilities on the consolidated balance sheet and is equal to the estimated present value of benefits to be paid under the plans of \$2,205,000 and \$2,367,000 at December 31, 2009 and 2008, respectively.

In connection with the SERP and DRP plans, YB invested in single premium life insurance policies with cash surrender values totaling \$3,865,000 and \$3,663,000 at December 31, 2009 and 2008, respectively. On the consolidated balance sheet, the cash surrender value of life insurance policies is included in accrued interest receivable and other assets. Income on these policies, net of related expenses, totaled \$192,000 and \$191,000 for the years ended December 31, 2009 and 2008, respectively, and is included in other noninterest income in the consolidated statement of income.

On August 1, 2006, the Bank entered into a salary continuation agreement with the Bank's President and Chief Executive Officer which provides for certain benefits if the executive works until normal retirement age. In the event of early retirement, involuntary termination or full disability, the agreement provides for benefits of a lesser amount which equals the accrued liability as of the month end preceding the separation from service. The liability accrued under this agreement is included in accrued interest payable and other liabilities on the consolidated balance sheet and is equal to the estimated present value of benefits to be paid under the agreement of \$466,000 and \$319,000 at December 31, 2009 and 2008, respectively.

In connection with the salary continuation agreement, the Bank invested in single premium life insurance policies with cash surrender values totaling \$4,275,000 and \$2,183,000 at December 31, 2009 and 2008, respectively. On the consolidated balance sheet, the cash surrender value of the policies is included in accrued interest receivable and other assets. Income on these policies, net of related expenses, totaled \$92,000 and \$89,000 for the years ended December 31, 2009 and 2008, respectively, and is included in other noninterest income in the consolidated statement of income.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

17. FAIR VALUE MEASUREMENTS

The estimated fair values of the Bank's financial instruments are as follows (in thousands):

	December 31, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	\$ 10,589	\$ 10,589	\$ 13,314	\$ 13,314
Federal funds sold and deposits in banks	104	104	1,743	1,743
Investment securities	55,811	55,811	66,478	66,478
Loans, net	366,353	377,253	369,794	379,985
Other investments	3,368	3,368	3,368	3,368
Cash surrender value of life insurance policies	8,140	8,140	5,846	5,846
Accrued interest receivable	1,827	1,827	2,306	2,306
Financial liabilities:				
Deposits	\$ 403,128	\$ 403,491	\$ 395,911	\$ 396,744
Derivative instruments	2,530	2,530	5,931	5,931
Accrued interest payable	119	119	202	202

These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following methods and assumptions were used by the Bank to estimate the fair value of its financial instruments. For cash and cash equivalents, variable-rate loans, accrued interest receivable and payable, other investments, cash surrender value of life insurance policies, demand deposits, derivative instruments and borrowings, the carrying amount is estimated to be the fair value. For investment securities, fair values are based on quoted market prices, quoted market prices for similar securities and indications of value provided by brokers. The fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. Fair values for fixed-rate certificates of deposits are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Bank for certificates with similar remaining maturities. The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, and are not significant and, therefore, are not included in the above table.

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

17. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy

The Bank groups its assets and liabilities measured at fair value in three levels, based on markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 – Quoted market prices for identical instruments traded in active exchange markets.

Level 2 – Quoted prices of similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Bank's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques included management judgment and estimation which may be significant.

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

<u>Description</u>	<u>Fair Value Measurements at December 31, 2009, Using</u>			
	<u>Fair Value December 31, 2009</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investment securities	\$ 55,811	\$ -	\$ 54,230	\$ 1,581
Derivative instruments	<u>2,530</u>	<u>-</u>	<u>2,530</u>	<u>-</u>
Total assets measured at fair value on a recurring basis	<u>\$ 58,341</u>	<u>\$ -</u>	<u>\$ 56,760</u>	<u>\$ 1,581</u>

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

17. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy (Continued)

Description	Fair Value Measurements at December 31, 2008, Using			
	Fair Value December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities	\$ 66,478	\$ -	\$ 65,997	\$ 481
Derivative instruments	5,931	-	5,931	-
Total assets measured at fair value on a recurring basis	\$ 72,409	\$ -	\$ 71,928	\$ 481

The following methods were used to estimate the fair value of each class of financial instrument above:

Investment Securities – Fair values for investment securities are generally based on quoted market prices or quoted market prices for similar securities. In one specific case, where such quotes were not available, Level 3 techniques, as defined above, have been used to estimate the fair value of the security (see Note 2).

Derivative Instruments – Fair values for derivative instruments are based on quoted prices of similar instruments on active markets and model-based valuation techniques for which significant assumptions are observable or can be corroborated by observable market data.

The following table sets forth a summary of changes in the fair value of the Bank's Level 3 assets on a recurring basis for the year ended December 31, 2009 (in thousands).

	Investment Securities
Balance at December 31, 2008	\$ 481
Total net gains for the year	-
Net transfer in (out) of Level 3 assets	1,100
Balance at December 31, 2009	\$ 1,581

PREMIER VALLEY BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

17. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy (Continued)

Assets measured at fair value on a non-recurring basis are summarized below (in thousands):

Description	Fair Value Measurements at December 31, 2009, Using				
	Fair Value December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Gain (Loss)
Impaired loans	\$ 3,068	\$ -	\$ 2,766	\$ 303	\$ (315)
Other real estate owned	3,309	-	3,309	-	(663)
Total assets measured at fair value on a non- recurring basis	<u>\$ 6,377</u>	<u>\$ -</u>	<u>\$ 6,075</u>	<u>\$ 303</u>	<u>\$ (978)</u>

Description	Fair Value Measurements at December 31, 2008, Using				
	Fair Value December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Gain (Loss)
Impaired loans	\$ 4,370	\$ -	\$ 4,370	\$ -	\$ (214)

The following methods were used to estimate the fair value of each class of financial instrument above:

Impaired Loans — The fair value of impaired loans is based on the fair value of the collateral for all collateral dependent loans and for other impaired loans is estimated using a discounted cash flow model. The loss on impaired loans represents specific reserves already recorded and reflected in the fair value at December 31, 2009.

Other Real Estate Owned – The fair value of other real estate owned is based on the fair value of the collateral at the date of transfer less estimated cost to sell the property. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. The loss on other real estate owned represents the amount of write offs, either upon acquisition of the property or due to subsequent declines in value, and are reflected in the fair value at December 31, 2009.

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