OAK VALLEY COMMUNITY BANK | 2007 ANNUAL REPORT

The Road Less Traveled

Branches

Oak Valley Community Bank

1 Oakdale
125 North Third Avenue
Oakdale, CA 95361
(209) 848-BANK (2265)

2 Sonora
14580 Mono Way
Sonora, CA 95370
(209) 532-7100

3 Modesto-12th & I
1200 I Street
Modesto, CA 95354
(209) 549-BANK (2265)

7 Modesto-Dale
4120 B Dale Road
Modesto, CA 95356
(209) 758-8000

8 Turlock
2001 Geer Road
Turlock, CA 95382
(209) 633-2850

9 Stockton
2935 West March Lane
Stockton, CA 95219
(209) 320-7850

10 Patterson
20 Plaza Circle
Patterson, CA 95363
(209) 892-5757

11 Ripon
150 North Wilma Avenue
Ripon, CA 95366
(209) 599-9430

12 Escalon
1910 McHenry Avenue
Escalon, CA 95320
(209) 821-3070

www.ovcb.com

Eastern Sierra Community Bank

4 Bridgeport
166 Main Street
Bridgeport, CA 93517
(760) 932-7926

5 Mammoth Lakes
170 Mountain Boulevard
Mammoth Lakes, CA 93546
(760) 924-0990

6 Bishop
351 North Main Street
Bishop, CA 93514
(760) 874-BANK (2265)

www.escbank.com

ATM Only Locations:

Crowley Lake General Store
Crowley Lake, CA

Bishop Creek Lodge
Bishop, CA

United States Marine Corps
Marine Housing Exchange
Coleville, CA

United States Marine Corps
Mountain Warfare
Training Center
Bridgeport, CA

Inyo Shell
Bishop, CA

Pearsonville Shell
Pearsonville, CA

Mammoth Shell
Mammoth Lakes, CA

Dear Shareholders, Customers and Friends

As we reflect upon the growing turmoil in the banking industry during the past year, we can say with confidence that Oak Valley Community Bank remained true to our philosophy of conservative lending with respect to interest rates and credit risk. Our approach of consistently maintaining sound credit practices has fueled us on the path toward a strong commercial portfolio. And, while we are not immune to hard economic times, the principles we've upheld and the choices we've made in keeping with our long-term growth strategies have served us well, sparing us from the woes of some of our competitors. As a result, we can look back at the decisions we've made over the years with a feeling of security which is relatively uncommon in our industry today.

While we stayed the course with our conservative lending approach, we forged ahead in the product development arena. Consistent with our efforts to provide our customers with service the way they want it, we rolled out several new service enhancements and innovative product extensions. We introduced Health Savings Accounts which are dramatically growing in popularity given the rising costs of health insurance. We expanded our Merchant Services solutions and launched a new line of prepaid Visa Gift Cards for business and retail customers. For our larger commercial customers, we established Positive Pay fraud detection and Remote Deposit Capture, giving business owners greater control over money moving in and out of their accounts. We streamlined our website and upgraded our Online Banking and Bill Pay service to provide greater security, instituted check images, and made e-Statements available. These enhancements will enable our customers to conveniently manage their finances anytime, anywhere. And, while we recognize that in today's ever-changing business world, many of our customers demand these high-tech tools, we know that technology will never replace the personal service upon which we have built our reputation.

We also experienced two major highlights this year in branch expansion. The first was the final completion and restoration of our new headquarters in Oakdale's Historic Clocktower Building. The next was the grand opening of our full-service Stockton Branch on West March Lane. This new branch solidifies our commitment to San Joaquin County and the continued expansion of our footprint in the Central Valley.

The year also marked the 12th consecutive year in which we paid a cash dividend. The dividend of $0.19 cents per share represented a comparable dividend to the previous year and allowed us to offer our shareholders a stable return corresponding to our stable earnings.

For the year ended December 31, 2007, net income increased by 3.6% to $3,968,000, or $0.53 per diluted share, compared to $3,831,000, or $0.52 per diluted share for the same period in 2006.

The Bank's total deposits were $377.3 million at year-end 2007, which is a decrease of $1.2 million or 0.3% from December 31, 2006. We are pleased to report that during the same period we saw our low-cost core deposits increase by $11.6 million over the previous year, as we continued our efforts to restructure our overall deposit mix. Total assets decreased slightly to $454.4 million at year-end, a 0.2% decrease from the year ended 2006. Gross loans increased by $9.4 million, or 2.5%, to $387.8 million from December 31, 2006 to December 31, 2007.

In light of the current interest rate environment and other economic factors affecting the banking industry, we are pleased with our stable performance in 2007. Strategically, we will remain focused on increasing low-cost core deposits and boosting our commercial and industrial lending portfolios. At times, this can be a methodical process requiring both patience and discipline—a road less traveled, if you will. Although the journey may take a bit longer, positive progress along this path will consistently lead to improved profitability, year-over-year. We thank you, our shareholders, employees, customers and friends, for your support along the way.

—***Ronald C. Martin,*** *Chief Executive Officer*

Forging Ahead on the Road to Long-Term Success

True character emerges when adversity strikes. And, while the current economic situation and large loan losses may have led some banks to stray from their long-term financial goals, Oak Valley Community Bank has continued to stay true to our vision and remain on track with our long-range plan.

The Path of Least Resistance Rewards No One

Fortunately, we have been largely unaffected by the recent difficulties in the mortgage industry, with very few problem loans due to our prudent underwriting practices coupled with a strong business and agricultural loan portfolio. But, as many of us witnessed the encroaching subprime lending crisis, one didn't have to look far to see a "bunker mentality" developing in some of our larger competitors. Typically concerned with profitability on a quarter-by-quarter basis, many of these banks reacted abruptly by tightening credit, reducing capital spending, and postponing the launch of new products and services. Overburdened with credit problems, many big banks single-mindedly began to view some customers as problems, potentially alienating their clientele. Naturally, these circumstances present opportunities for Oak Valley Community Bank, which in contrast, is dedicated to personalized attention and old-fashioned service in good times or bad.

Staying on a Proven Course

Oak Valley Community Bank has maintained our focus on building the Bank's service offering and investing in infrastructure that will power our profitability well into this century. Investing in a high-quality management team, enhancing existing products and launching new ones, and updating our branches are just a few of the ways we have continued to build our community bank network for a successful future. We've also focused on growing our long-term relationships with key customers and prospects, customizing products and services to meet their business needs and, we've enhanced our deposit mix by reducing dependence on less profitable products while leveraging opportunities based on our relationship-based pricing policies.

Despite a possible prolonged downturn in the real estate market, we will continue to make sound investments in commercial and residential development in accordance with our long-term strategy of supporting California's diverse economy. And, while other banks retract their spending in this area due to loan losses and tight margins, we will keep our eye on the road ahead, upholding our commitment to building better communities for our customers, their families and local businesses.

MILESTONES

1991

Oak Valley Community Bank is established as a bank with a focus on old-fashioned customer service, high quality banking products, and strong community commitment.

1992

First year anniversary of opening. December was the first month of profitability for the bank. The Bank beat its profitability estimates by nine months.

Agriculture and its related industries continue to provide a solid foundation to the Central Valley economy. Similarly, Oak Valley's dedication and commitment to these industries remains strong.

1993

The Bank's new Small Business Center offers financing for local businesses through SBA loans, accounts receivable and commercial/real estate loans.

1994

Oak Valley Community Bank becomes the area's premier small business bank with the addition of an agri-business department to the Small Business Center.

1995

The Bank is named "Business of the Year" by the Oakdale District Chamber of Commerce and initiates a new satellite loan operation in Sonora.

1996

The opening of the Bank's second branch, in Sonora signals the beginning of growth and expansion for the Bank.

COMMUNITY PARTNERS: Bethany Home and Oak Valley Community Bank team up to develop Bethany's newest retirement community. The expansion, financed by Oak Valley, includes a 30 room housing unit with central living areas (pictured) as well as 49 separate housing units and an outdoor community recreation area, all on just over seven acres in the heart of Ripon.

MILESTONES

1997

The addition of a new branch in Modesto, along with growth in Oakdale and Sonora, tops off another outstanding year of banking performance.

1998

Oak Valley Community Bank reaches $100 million in total assets and $1 million in net income.

1999

The Bank achieves its seventh consecutive year of record earnings and explores new applications to make banking more efficient in the new century.

Blazing a Trail of Superior Customer Service

If you want to know what Oak Valley Community Bank is all about, just ask our customers. You'll find the overwhelming response to be "personalized service," and we deliver it like no other financial institution near or far. It's because we've made a conscious decision to always go the extra mile for our customers to customize their banking experience. In fact, a true testament to the importance of our personalized approach can be found in the results of this year's customer service surveys which indicated high levels of satisfaction.

The Road to Satisfaction is Paved with Personal Attention

In all fairness, it's difficult for larger banks to deliver this personal touch for a variety of reasons. Their size alone tends to prohibit them from addressing customers as individuals or tailoring products and services to their specific needs. Financial decisions are typically centralized, made remotely by a lender that never even meets the loan applicant. And, with frequent employee turnover, it's rare that you'll see the same friendly face, day in and day out. Often, customers who patronize these types of banks become accustomed to the lack of attention. But, when times grow tough or problems arise, the ongoing lack of care can be detrimental to the customer. In contrast, Oak Valley employees pride themselves on really knowing our customers, their needs, and their business and financial goals, to ensure a rewarding banking relationship.

Another example of our focus on the individual is our relationship-based pricing practices. In making loan determinations, we consider all aspects of a customer relationship and the overall value that individual or business provides to the Bank. And it's not just reserved for our largest customers: loyal customers with a long history at Oak Valley and customers with a known track record of referring family and friends to the bank can also benefit from relationship-based pricing.

High-Tech, High-Touch for Comfort, Control and Convenience

At Oak Valley Community Bank, we offer our customers the total package: high-quality, customized financial products and services delivered the way they want them. While many of our customers still look forward to a visit at the teller window or a friendly chat with a loan officer, others enjoy the convenience of online banking day or night! And it's because we've created the perfect blend of old-fashioned customer service and the latest banking technologies that customers can conduct their banking activities in a way that's most convenient and enjoyable for them. However our customers choose to access our products and services, they can rest assured that they'll get the comfort, control and convenience in banking that they deserve.

Our latest "You Want It, We've Got It" campaign communicates the diversity of our product line and our promise of a "high-tech, high-touch" banking experience. "High-tech" because we've invested in the industry's latest financial products, service delivery mechanisms and security measures, and "high-touch" because, not only are we "in touch" with the latest innovations in banking, but also because customers can always obtain "human assistance." Our new "In Touch" newsletter is just another example of how we reach out to customers and keep them abreast of new developments.

2000

A new era of expansion begins with the establishment of Eastern Sierra Community Bank, opening the first branch in Bridgeport. Oak Valley Community Bank becomes known as the "Bank with Heart" for bringing banking back to the citizens of Bridgeport after Bank of America closed its doors.

2001

Mammoth Lakes branch opens, representing the Bank's extended foray into the Eastern Sierra communities.

Quality People and Products Fuel Our Growth Plan

On the road to long-term success, Oak Valley views quality people and top-notch products as the "fuel" that propels us toward our goals. We've invested in the best resources, from both a staffing and product development perspective, because we know that these vital ingredients are what make our banking experience uniquely personal.

Improving Access for a New Generation

Always ready to change with the times, we have optimized our approach to service delivery on several fronts.

To facilitate usage of our products and services via the Internet—the access point of choice for an increasing number of our customers—we have revamped our website to make it more user-friendly and represent a truer reflection of our brand. On par with the leading financial institutions, our website features a contemporary look and feel, streamlined information and enhanced online banking products. We also upgraded our Online Banking and Bill Pay services, adding e-Statements and online check imaging, which will go a long way toward retaining current and attracting new customers.

Our commercial customers will also enjoy the convenience of Remote Deposit Capture which allows them to scan checks at their business and transmit deposits securely online for faster posting to their account. Our new Positive Pay service helps businesses detect potential fraud, enabling them to electronically review and approve checks presented before they are paid.

A Professional Team of Familiar Faces

A key employment strategy that has proven highly successful for Oak Valley is our practice of hiring key staff from within the communities we serve. We view every employee as an investment in the Bank's future and as a direct contributor to customer satisfaction. We also believe in promoting from within to encourage a long-career path with the Bank as an investment in our mutual success.

Most recently, we hired a whole new management team to launch our eagerly anticipated Stockton branch. Sourcing from the local community and from within our existing talent pool, we hired a branch manager, commercial real estate loan officer, a customer service manager, and the support staff to give this branch a great start in working with future customers immediately. We also expanded our Sonora and Eastern Sierra teams to better serve foothill and high sierra families and businesses, adding an area manager and commercial loan officer. Finally, we've established a team of investment representatives who will assist customers in meeting their financial goals by establishing and maintaining mutual funds, stocks, bonds and fixed and variable annuities to create a personalized investment portfolio.

MILESTONES

2002

Oak Valley opens the Bishop branch.

2003

The Bank surpasses $200 million in assets. A second branch in Modesto is established to serve the needs of this growing community.

NORTHERN EXPANSION: The new full-service Stockton branch opened in December, pushing Oak Valley's footprint further into San Joaquin County. In addition to the branch office, the two-story building is home to regional administrative offices and a Commercial Lending Center.

2004

Oak Valley's total assets surpass $300 million.

2005

A whirlwind of expansion occurs with the opening of full-service branches in Turlock, Patterson and Ripon, with a small Stockton branch opening in advance of a permanent location.

2006

The Bank surpasses $400 million in total assets. Escalon branch opens, and the McHenry branch relocates to the 12th & I Street Plaza Building in Modesto.

2007

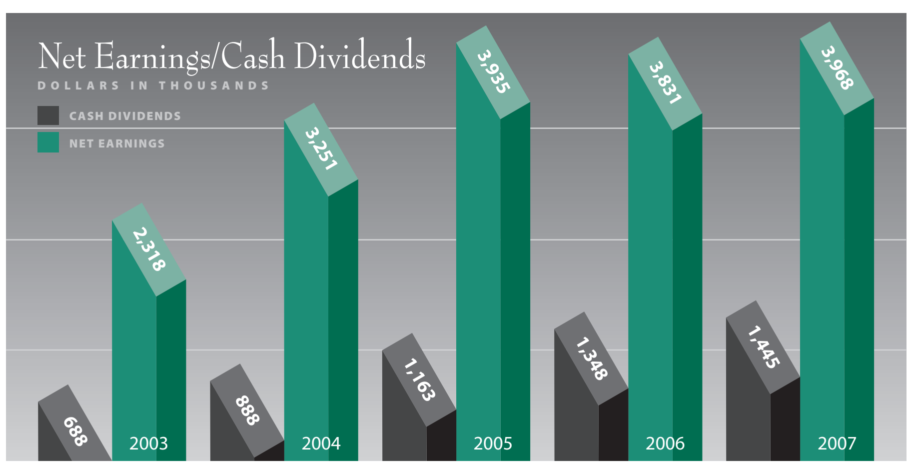
The Bank achieves record highs in net income and loans. The restoration of the historic Clocktower Building is completed, serving as the Bank's new headquarters. Stockton branch opens.

Selected Financial Data Five-Year Summary

(In thousands except for per share amounts)

Year Ended December 31,	**2007**	**2006**	**2005**	**2004**	**2003**
Interest income	$31,837	$28,695	$21,447	$16,346	$12,883
Interest expense	13,006	11,362	6,284	3,610	3,346
Net interest income before provisions for loan losses	18,831	17,333	15,163	12,736	9,538
Provision for loan losses	555	595	705	938	655
Net interest income	18,276	16,738	14,458	11,798	8,883
Total non-interest income	2,198	1,689	1,313	1,452	1,734
Total non-interest expense	14,171	12,183	9,342	7,940	6,837
Income taxes	2,334	2,413	2,495	2,059	1,462
Net earnings	3,968	3,831	3,935	3,251	2,318
Per share net earnings (basic)	0.54	0.54	0.57	0.49	0.41
Per share cash dividends declared	0.190	0.190	0.250	0.290	0.275
Cash dividends declared	1,445	1,348	1,163	888	688
Total assets	454,403	455,213	382,122	313,063	240,498
Total earning assets	425,128	417,282	351,157	296,779	221,238
Net loans	382,264	372,819	312,787	254,035	184,319
Federal funds sold	3,805	2,640	-	5,000	4,000
Investment securities	33,373	36,249	33,049	33,284	28,690
Total deposits	377,348	378,530	329,080	249,043	199,629
Non-interest bearing deposits	68,151	56,339	42,423	25,954	20,787
Interest bearing deposits	309,197	322,191	286,656	223,089	178,842
Total stockholder's equity	42,640	34,424	31,038	28,245	17,998
Weighted average common shares outstanding	7,364,681	7,062,841	6,946,285	6,657,413	5,620,869

Selected ratios					
Rate of return of average:					
Total assets	0.89	0.93	1.16	1.19	1.10
Total stockholder's equity	10.22	11.64	13.18	12.59	13.41
Efficiency Ratio	66.65	64.12	56.70	55.90	60.60
Net Interest Margin	4.53	4.50	4.78	4.97	4.89



Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion and analysis is intended to provide greater details of our results of operations and financial condition and should be read in conjunction with the information under "Selected Financial Data" and our financial data included elsewhere in this document. Certain statements under this caption may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in any such forward-looking statements. Factors that might cause such a difference include, but are not limited to, economic conditions, competition in the geographic and business areas in which we conduct our operations, fluctuation in interest rates, credit quality and government regulation. We do not undertake, and specifically disclaim, any obligation to update any forward-looking statements to reflect occurrence or unanticipated events or circumstance after the date of such statements.

Results of Operations

Net Earnings Net earnings were $3,968,408 or $0.53 per diluted share in 2007, compared to $3,830,876, or $0.52 per diluted share in 2006 and $3,934,512, or $0.54 per diluted share in 2005, corresponding to return on average assets of 0.89 percent, 0.93 percent and 1.16 percent in 2007, 2006 and 2005, respectively.

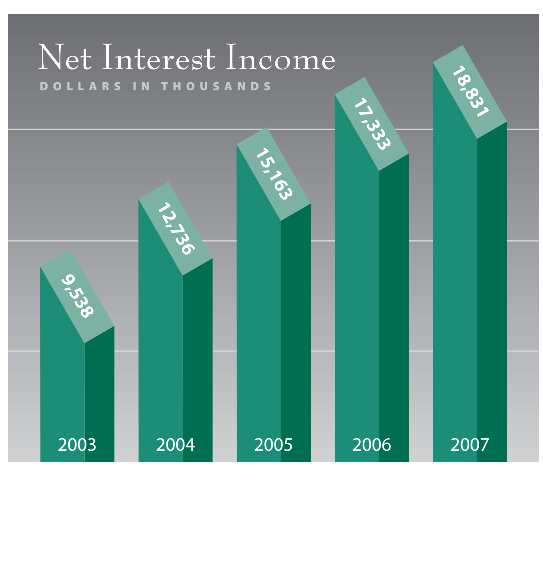
The earnings increase of 3.6 percent in 2007, compared to 2006, was a function of increased net interest income of $1,497,147 due to average loan growth of 10.5 percent and non-interest income growth of $508,820. This income growth was offset by an increase in operating expenses of $1,986,935 as a result of costs associated with new facilities and increased personnel necessary to service and support the Bank's continued expansion.

The earnings decrease of 2.6 percent in 2006, compared to 2005, was a function of increased operating expenses of $2,842,222 as a result of costs associated with new facilities and increased personnel necessary to service and support the Bank's continued expansion. These increased operating expenses were offset by an increase in net interest income of $2,170,454 due to average loan growth of 24.9 percent and non-interest income growth of $375,632.

Net Interest Income The Bank's primary source of revenue is net interest income, representing the difference between interest income generated from interest earning assets and interest expense on interest bearing liabilities. Net interest income is impacted by changes in the volume and mix of earning assets and interest bearing liabilities, and changes in interest rates. Net interest income was $18,830,601, $17,333,454 and $15,163,000 in 2007, 2006 and 2005, respectively, representing increases of $1,497,147 or 8.6 percent in 2007, $2,170,454 or 14.3 percent in 2006 and $2,426,591 or 19.1 percent in 2005.

Interest income increased by $3,141,599 in 2007 compared to 2006. This increase corresponds to the combined impact of increasing earning assets and increasing interest rates. Average earning assets increased by $33,763,184, resulting in an increase to income of $2,511,543. The yield on earning assets increased by 15 basis points (100 basis points is equal to 1 percent), resulting in an additional increase to income of $630,056. Interest income increased by $7,248,626 in 2006 compared to 2005. This increase corresponds to the combined impact of increasing earning assets and increasing interest rates. Average earning assets increased by $68,539,037, resulting in an increase to income of $4,633,837. The yield on earning assets increased by 68 basis points (100 basis points is equal to 1 percent), resulting in an additional increase to income of $2,614,789.

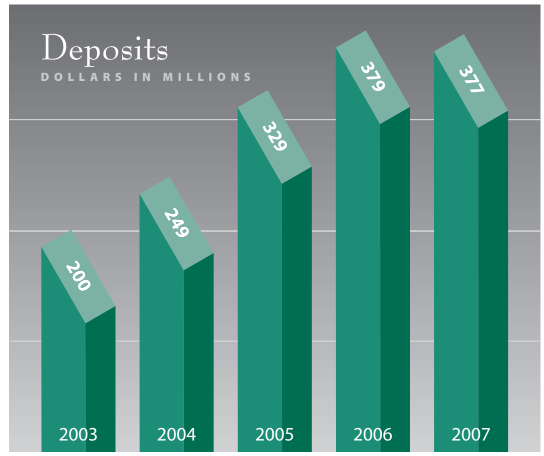
Interest expense increased by $1,644,452 in 2007 compared to 2006. This increase corresponds to the combined effect of increasing interest-bearing liabilities and increasing interest rates. Average interest-bearing liabilities increased by $17,894,724, resulting in an increase in expense of $620,687. An increase in rates paid of 30 basis points resulted in an increase in expense of $1,023,765. Interest expense increased by $5,078,172 in 2006 compared to 2005. This increase corresponds to the combined effect of increasing interest-bearing liabilities and increasing interest rates. Average interest-bearing liabilities increased by $55,025,058, resulting in an increase in expense of $1,268,657. An increase in rates paid of 116 basis points resulted in an increase in expense of $3,809,515.

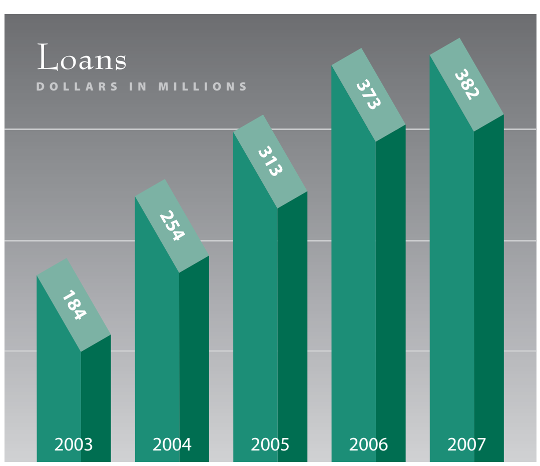


Management's Discussion and Analysis of Financial Condition and Results of Operation

Provision for Loan Losses The adequacy of the allowance for loan losses is based upon periodic review of the loan portfolio by management. Economic factors, loan portfolio composition, industry strength, and management's estimates of losses inherent in the portfolio are some of the factors which are taken into consideration. Loans are charged against the allowance for loan losses when classified as a loss by management or by regulatory agencies governing the Bank. Additionally any loan, which is doubtful, is charged off to the extent that it exceeds the fair value of the collateral. With the assistance of outside independent experts management reviewed its loan portfolio in 2007 and expended $555,000 to the allowance for possible losses. Loans totaling $401,510 were charged off, partially offset by $4,275 in recoveries, during the period. During 2007, the allowance corresponding to off balance sheet commitments in the amount of $7,926 was reclassified from other liabilities to the allowance for loan losses pursuant to SFAS No. 5 and SFAS No. 114. This left a balance of $4,506,753 or 1.16 percent of gross loans outstanding at December 31, 2007, compared to $4,341,062 or 1.15 percent at December 31, 2006. Loans totaling $14,922 were charged off, partially offset by $2,287 in recoveries, during 2006. Loans totaling $903 were charged off, partially offset by $200 in recoveries, during 2005. At this time, management considers the allowance for possible loan losses to be adequate.

Total Non-interest Income Total non-interest income was $2,197,609, $1,688,789 and $1,313,157 in 2007, 2006 and 2005, respectively. The increase in non-interest income of $508,820 or 30.1 percent in 2007 compared to 2006 is primarily attributable to service charge income on deposit accounts, including non-sufficient funds charges, of $1,090,125, comprising 49.6 percent of total non-interest income. Total service charge income increased $224,580 or 25.9 percent over 2006. Residential mortgage commission income comprised 8.9 percent of total non-interest income and totaled $194,975 for the year, representing a $50,698 or 20.6 percent decrease over 2006. Income from point-of-sale commissions comprised 8.7 percent of total non-interest income and totaled $190,862 for the year, representing a $77,335 or 68.1 percent increase over 2006. Earnings on the cash surrender value of life insurance comprised 8.0 percent of total non-interest income and totaled $175,168 for the year, representing a $7,230 or 4.3 percent increase over 2006. Dividend income corresponding to Federal Reserve Bank and Federal Home Loan Bank stocks held by the Bank comprised 7.4 percent of total non-interest income and totaled $162,571 for the year, representing a $33,552 or 26.0 percent increase over 2006.





Total Non-interest Expense Total non-interest expense increased by $1,986,935 to $14,170,802 in 2007. The increase in 2007 followed an increase of $2,842,222 in 2006 and an increase of $1,433,232 in 2005. In 2007, increases in salaries and employee benefits totaled $1,001,375 or 13.2 percent, net occupancy expense increased by $431,004 or 24.6 percent, data processing fees increased by $57,242 or 11.8 percent and other operating expenses increased by $497,315 or 21.0 percent. The increases during the past three years were the result of additional facilities and corresponding branch personnel, as well as continued additions to the Bank's administrative and support personnel, positioning the Bank for continued growth. These increased operating expenses associated with the new facilities resulted in an increased efficiency ratio of 66.7 percent in 2007 as compared to 64.1 percent in 2006 and 56.7 percent in 2005. The efficiency ratio is computed by dividing total operating expenses by net interest income and other income. An increase in the efficiency ratio indicates that more resources are being utilized to generate the same (or greater) volume of income while a decrease would indicate a more efficient allocation of resources.

Income Taxes The Banks effective income tax rate was 37.0 percent in 2007 as compared to 38.6 percent and 38.8 percent in 2006 and 2005, respectively. The bank has taken advantage of certain tax benefits associated with California Enterprise Zones, which aim to promote business in certain geographic zones throughout California. At December 31, 2007, the bank had 3 branches located within these zones that qualify for hiring tax credits for certain new employees and a sales tax credit on purchases of certain equipment. Interest and fee income on loans the bank makes to businesses within these enterprise zones is considered tax-exempt. In addition, the bank made an investment in a private limited partnership that acquires affordable housing properties in California that generate low income housing tax credits.

Asset Quality Management is constantly aware of the need for maintaining high credit standards. The Bank continues to generate loans primarily within the geographic market area of Stanislaus, Tuolumne, San Joaquin, Mono and Inyo counties. The principal industries are agriculture, commercial business and commercial real estate. The economic diversity of the target market has enabled the Bank to avoid activities, which have proven risky to other financial institutions in recent years.

The performance of loans is evaluated primarily on the basis of a thorough review of each relationship over a period of time and the judgment of senior officers as to the borrower's ability to continue the repayment terms of the loans. On a semi-annual basis, management employs an independent credit expert who evaluates the loan portfolio with a special emphasis on new credits and potentially troubled loans. At December 31, 2007, the Bank had loans totaling $9,087,462 on non-accrual status which were the only loans contractually past due 90 days or more.

Total loans classified for regulatory purposes were $21,846,200 at December 31, 2007, $9,533,724 at December 31, 2006 and $7,589,021 at December 31, 2005. Of the total classified loans, $13,703,995, $3,286,912 and $3,535,923 were classified as substandard as of December 31, 2007, 2006 and 2005, respectively.

Liquidity and Asset/Liability Management

Liquidity The objective of our liquidity management is to maintain our ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or require funds to meet their credit needs. We must manage our liquidity position to allow the Bank to meet the needs of its customers while maintaining an appropriate balance between assets and liabilities to meet the return on investment expectations of our shareholders. We monitor the sources and uses of funds on a daily basis to maintain an acceptable liquidity position. In addition to liquidity from core deposits and repayments and maturities of loans and securities, the Bank has access to the brokered deposit market, the ability to sell securities, obtain FHLB advances or purchase overnight Federal Funds.

Net Cash flows from operating activities reflected a net disbursement of $2,185,656 in 2007, compared to a positive cash flow of $8,110,951 and $5,973,109 in 2006 and 2005, respectively. Cash used by investing activities totaled $11,504,395 in 2007, $64,101,506 in 2006 and $61,602,926 in 2005. The large investing cash flows reflect the significant loan activity during the past three years. Net cash provided by financing activities totaled $73,825 in 2007, $63,309,000 in 2006 and $63,832,556 in 2005. Of the financing activities, deposit erosion accounted for a decrease of $1,182,529 in 2007 as compared to deposit generation resulting in cash flows of $49,450,752 in 2006 and $80,036,686 in 2005.

Interest Rate Sensitivity The operating income and net income of the Bank depend to a substantial extent on rate differentials, or the difference between the income the Bank receives from loans, securities and other earning assets, and the interest expense it pays on deposits and other liabilities.

The interest rate sensitivity of the Bank is measured over time and is based on the Bank's ability to reprice its assets and liabilities. The overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net interest income. Interest rate risk is measured as the potential volatility to net interest income caused by changes in market interest rates. Sensitivity simulations are used to estimate the impact on net interest income of numerous interest rate scenarios, balance sheet trends and strategies. Net interest income risk is measured based on rate shocks over different time horizons versus a current stable interest rate environment. Assumptions used in these calculations are similar to those used in corporate planning and forecasting processes. Estimated net interest at risk over the subsequent year from December 31, 2007 resulting from a 100 basis point increase in interest rates was a positive 2.44 percent, while a 100 basis point decrease in interest rates resulted in a negative 3.07 percent impact on net interest income.

Balance Sheets

DECEMBER 31,	2007	2006
ASSETS		
Cash and due from banks	$ 10,397,951	$ 25,179,177
Federal funds sold	3,805,000	2,640,000
Cash and cash equivalents	14,202,951	27,819,177
Securities available for sale	33,372,624	36,248,824
Loans, net	382,264,026	372,819,289
Bank premises and equipment, net	10,108,620	5,512,739
Accrued interest and other assets	14,455,155	12,813,453
	$ 454,403,376	$ 455,213,482
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$ 377,347,776	$ 378,530,305
Accrued interest and other liabilities	3,415,594	8,658,919
FHLB advances	31,000,000	33,600,000
Total liabilities	411,763,370	420,789,224
Commitments and contingencies (Notes 13 and 14)		
Shareholders' equity		
Preferred stock, no par value; 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, no par value; 10,000,000 shares authorized and 7,607,780 shares and 7,103,243 shares issued and outstanding at December 31, 2007 and 2006, respectively	22,843,171	17,648,475
Additional paid-in capital	1,748,380	1,502,004
Retained earnings	18,002,262	15,478,551
Accumulated other comprehensive income (loss), net of tax	46,193	(204,772)
Total shareholders' equity	42,640,006	34,424,258
	$ 454,403,376	$ 455,213,482

Statement of Earnings

YEAR ENDED DECEMBER 31,	2007	2006	2005
INTEREST INCOME			
Interest and fees on loans	$ 30,132,688	$ 26,946,158	$ 19,884,820
Interest on securities available for sale	1,541,034	1,622,746	1,412,104
Interest on federal funds sold	159,163	124,106	147,793
Interest on deposits with banks	4,203	2,479	2,146
	31,837,088	28,695,489	21,446,863
INTEREST EXPENSE			
Deposits	11,227,565	10,634,843	5,717,901
FHLB advances	1,730,636	670,933	554,424
Federal funds purchased	48,286	56,259	11,538
	13,006,487	11,362,035	6,283,863
Net interest income	18,830,601	17,333,454	15,163,000
PROVISION FOR LOAN LOSSES	555,000	595,000	705,000
Net interest income after provision for loan losses	18,275,601	16,738,454	14,458,000
OTHER INCOME			
Service charges on deposits	1,090,125	865,545	631,101
Earnings on cash surrender value of life insurance	175,168	167,938	163,475
Mortgage commissions	194,975	245,673	229,776
Other	737,341	409,633	288,805
	2,197,609	1,688,789	1,313,157
OTHER EXPENSES			
Salaries and employee benefits	8,586,098	7,584,724	5,804,696
Occupancy expenses	2,180,524	1,749,520	1,173,472
Data processing fees	541,556	484,314	452,720
Telephone expenses	253,500	223,824	181,220
Other operating expenses	2,609,124	2,141,485	1,729,537
	14,170,802	12,183,867	9,341,645
Earnings before provision for income taxes	6,302,408	6,243,376	6,429,512
PROVISION FOR INCOME TAXES	2,334,000	2,412,500	2,495,000
Net Earnings	$ 3,968,408	$ 3,830,876	$ 3,934,512
Net Earnings Per Share	$ 0.54	$ 0.54	$ 0.57
Net Earnings Per Share – assuming dilution	$ 0.53	$ 0.52	$ 0.54

Statement of Shareholders' Equity

(December 31, 2007, 2006, and 2005)

YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	COMPREHENSIVE INCOME	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS' EQUITY
Balances, January 1, 2005	4,592,967	$16,873,582	$1,076,704	$10,228,008		$ 66,818	$28,245,112
Stock options exercised	65,849	325,219	—	—		—	325,219
Tax benefit of stock options exercised	—	—	135,822	—		—	135,822
Cash dividends ($0.25 per share)	—	—	—	(1,163,092)		—	(1,163,092)
Three-for-two stock split	2,329,271	—	—	(2,079)		—	(2,079)
Comprehensive income							
Net changes in unrealized loss on available-for-sale securities (net of income tax benefit of $284,504)	—	—	—	—	$ (437,587)	(437,587)	(437,587)
Net earnings	—	—	—	3,934,512	3,934,512	—	3,934,512
Comprehensive income					$3,496,925		
Balances, December 31, 2005	6,988,087	17,198,801	1,212,526	12,997,349		(370,769)	31,037,907
Stock options exercised	115,156	449,674	—	—		—	449,674
Tax benefit of stock options exercised	—	—	158,248	—		—	158,248
Cash dividends ($0.19 per share)	—	—	—	(1,347,526)		—	(1,347,526)
Cash paid for fractional shares related to stock split effective December 31, 2006	—	—	—	(2,148)		—	(2,148)
Stock-based compensation	—	—	131,230	—		—	131,230
Comprehensive income							
Net changes in unrealized gain onavailable-for-sale securities (net of income tax of $107,926)	—	—	—	—	$ 165,997	165,997	165,997
Net earnings	—	—	—	3,830,876	3,830,876	—	3,830,876
Comprehensive income					$3,996,873		
Balances, December 31, 2006	7,103,243	$17,648,475	$1,502,004	$15,478,551		$ (204,772)	$34,424,258
Stock offering	456,431	$ 5,020,739	—	—		—	$ 5,020,739
Stock offering expense	—	(25,000)	—	—		—	(25,000)
Stock options exercised	48,106	198,957	—	—		—	198,957
Tax benefit of stock options exercised	—	—	116,303	—		—	116,303
Cash dividends ($0.19 per share)	—	—	—	(1,444,697)		—	(1,444,697)
Stock based compensation	—	—	130,073	—		—	130,073
Comprehensive income							
Net changes in unrealized gain on available-for-sale securities (net of income tax expenses of $163,169)	—	—	—	—	$ 250,965	250,965	250,965
Net earnings	—	—	—	3,968,408	3,968,408	—	3,968,408
Comprehensive income					$4,219,373		
Balances, December 31, 2007	7,607,780	$22,843,171	$1,748,380	$18,002,262		$ 46,193	$42,640,006

Statements of Cash Flows

YEAR ENDED DECEMBER 31,	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 3,968,408	$ 3,830,876	$ 3,934,512
Adjustments to reconcile net earnings to net cash from operating activities:			
Provision for loan losses	555,000	595,000	705,000
Depreciation, amortization, and accretion, net	986,559	893,467	870,969
Stock-based compensation expense	130,073	131,230	—
Excess tax benefits from stock-based payment arrangements	(106,355)	(158,248)	—
Gain on sale of premises and equipment	(14,400)	—	—
Decrease (increase) in accrued interest receivable	7,062	(375,155)	(399,409)
(Decrease) increase in accrued interest payable and other liabilities	(5,127,022)	5,654,234	1,729,285
Increase in other assets	(2,584,981)	(2,460,453)	(867,248)
Net cash from operating activities	(2,185,656)	8,110,951	5,973,109
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of securities available for sale	(19,190,393)	(11,444,591)	(11,261,641)
Proceeds from maturities, calls, and principal paydowns of securities available for sale	22,516,909	8,392,263	10,410,324
Net increase in loans	(9,999,737)	(60,627,165)	(59,457,082)
Proceeds from sales of premises and equipment	14,400	—	—
Net purchases of premises and equipment	(4,845,574)	(422,013)	(1,294,527)
Net cash from investing activities	(11,504,395)	(64,101,506)	(61,602,926)
CASH FLOWS FROM FINANCING ACTIVITIES:			
FHLB advanced funds	129,174,400	82,600,000	33,600,000
FHLB payments	(131,774,400)	(68,000,000)	(49,100,000)
Dividends paid	(1,444,697)	(1,347,526)	(1,165,171)
Net increase in demand deposits and savings accounts	32,607,147	37,539,038	61,227,787
Net (decrease) increase in time deposits	(33,789,676)	11,911,714	18,808,899
Excess tax benefits from stock-based payment arrangements	106,355	158,248	135,822
Cash paid for fractional shares related to 3:2 stock split	—	(2,148)	—
Proceeds from sale of common stock and exercise of stock options	5,194,696	449,674	325,219
Net cash from financing activities	73,825	63,309,000	63,832,556
Net (Decrease) Increase in Cash and Cash Equivalents	(13,616,226)	7,318,445	8,202,739
Cash and Cash Equivalents, beginning of year	27,819,177	20,500,732	12,297,993
Cash and Cash Equivalents, end of year	$ 14,202,951	$ 27,819,177	$ 20,500,732
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	$ 13,341,328	$ 11,034,128	$ 4,947,583
Income taxes	$ 2,461,000	$ 2,685,983	$ 2,752,130

Noncash Investing and Financing Activities:

During 2007, the Bank recognized a decrease in the unrealized loss on available-for-sale securities of $414,134. As a result, the deferred tax asset was decreased by $163,169 and equity was increased by $250,965.
During 2007, the Bank transferred $773,048 in other assets to Bank premises and equipment.
During 2006, the Bank recognized a decrease in the unrealized loss on available-for-sale securities of $273,923. As a result, the deferred tax asset was decreased by $107,926 and equity was increased by $165,997.
During 2006, the Bank transferred $1,987,747 in other assets to Bank premises and equipment.
During 2005, the Bank recognized a decrease in the unrealized gain on available-for-sale securities of $722,091. As a result, the deferred tax asset was increased by $284,504 and equity was decreased by $437,587.

Notes to Financial Statements

December 31, 2007, 2006, and 2005

Note 1—Summary of Accounting Policies

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

Oak Valley Community Bank (the "Bank") is a California State chartered bank. The Bank was incorporated under the laws of the state of California on May 31, 1990, and began operations in Oakdale on May 28, 1991. The Bank operates branches in Oakdale, Sonora, Bridgeport, Bishop, Mammoth Lakes, Modesto, Patterson, Turlock, Ripon, Stockton, and Escalon, California. The Bridgeport, Mammoth Lakes, and Bishop branches operate as a separate division, Eastern Sierra Community Bank. The Bank's primary source of revenue is providing loans to customers who are predominantly middle-market businesses.

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

Stock Offering—During 2007, the Bank facilitated a stock offering in an effort to raise additional capital. The stock was first offered to existing shareholders between May 14, 2007 through June 15, 2007. Subsequently, the offering was extended to the public between June 16, 2007 through July 16, 2007. Common stock of the Bank was offered at $11 per share to all investors. As a result of the offering, the Bank raised $4,995,739 in capital, net of offering expenses of $25,000. Additionally, 456,431 in additional common shares of the Bank were issued as a result of the offering.

Cash and cash equivalents—The Bank has defined cash and cash equivalents to include cash, due from banks, certificates of deposit with maturities of three months or less, and federal funds sold. Generally, federal funds are sold for one-day periods. At times throughout the year, balances can exceed FDIC insurance limits. Management believes the risk of loss is remote as these amounts are held by major financial institutions.

Fair values of financial instruments—The financial statements include various estimated fair value information as of December 31, 2007 and 2006. Such information, which pertains to the Bank's financial instruments, does not purport to represent the aggregate net fair value of the Bank. Further, the fair value estimates are based on various assumptions, methodologies, and subjective considerations, which vary widely among different financial institutions and which are subject to change. The following methods and assumptions are used by the Bank.

Cash and cash equivalents—The carrying amounts of cash and cash equivalents approximate their fair value.

Securities (including mortgage-backed securities)—Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans receivable—For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. The fair values for other loans (e.g., real estate construction and mortgage, commercial, and installment loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Deposit liabilities—The fair values estimated for demand deposits (interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). The carrying amounts for variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of the aggregate expected monthly maturities on time deposits.

Federal Home Loan Bank (FHLB) advances—Rates currently available to the Bank for borrowings with similar terms and remaining maturities are used to estimate the fair value of the existing debt.

Accrued interest—The carrying amounts of accrued interest approximate their fair value.

Off-balance-sheet instruments—Fair values for the Bank's off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the credit standing of the counterparties.

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

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

Loans and allowance for loan losses—Loans are reported at the principal amount outstanding, net of unearned income, deferred loan fees, and the allowance for loan losses. Unearned discounts on installment loans are recognized as income over the terms of the loans. Interest on other loans is calculated by using the simple interest method on the daily balance of the principal amount outstanding.

Loan fees net of certain direct costs of origination, which represent an adjustment to interest yield, are deferred and amortized over the contractual term of the loan.

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full and timely collection of interest or principal or when a loan becomes contractually past due by ninety days or more with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

The allowance for loan losses is established through a provision for loan losses charged to operations. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. Subsequent recoveries of previously charged off amounts, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

The Bank considers a loan impaired when it is probable that all amounts of principal and interest due, according to the contractual terms of the loan agreement, will not be collected, which is the same criteria used for the transfer of loans to non-accrual status. Interest income is recognized on impaired loans in the same manner as non-accrual loans. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

Building	31.5 years
Equipment	3-12 years
Furniture and fixtures	3-7 years
Leasehold improvements	5-15 years
Automobiles	3-5 years

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

Income taxes—Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Bank's assets and liabilities. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled using the liability method. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

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

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2007 and 2006 the Bank recognized no interest and penalties.

The Bank files income tax returns in the U.S. federal jurisdiction, and various states. With few exceptions, the Bank is no longer subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2004.

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

Advertising costs—The Bank expenses marketing costs as they are incurred. Advertising expense was $119,000, $133,000, and $108,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

Comprehensive income—Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes items previously recorded directly to equity, such as unrealized gains and losses on securities available for sale. Comprehensive income is presented in the statement of shareholders' equity. For the years ended December 31, 2007, 2006, and 2005, no amounts were reclassified out of comprehensive income into earnings.

Investment in limited partnership—During 2007, the Bank acquired limited interests in a private limited partnership that acquires affordable housing properties in California that generate Low Income Housing Tax Credits under Section 42 of the Internal Revenue Code of 1986, as amended. The Bank's limited partnership investment is accounted for under the equity method. The Bank's noninterest expense associated with the utilization of these tax credits for the year ended December 31, 2007 was $54,308. The limited partnership investment is expected to generate a total tax benefit of approximately $1.16 million over the life of the investment from the combination of tax credits and deductions on non interest expense. The tax credits expire between 2009 and 2022. It's expected that a tax benefit of $72,000 will be utilized for income tax purposes for the year ended December 31, 2007. The recorded investment in limited partnerships totaled $377,790 at December 31, 2007, and is reflected as a component of accrued interest and other assets on the balance sheets.

Stock based compensation—Effective January 1, 2006, the Bank adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, *Share Based Payments,* a revision to the previously issued guidance on accounting for stock options and other forms of equity-based compensation. SFAS No. 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees' requisite service period (generally the vesting period). Prior to January 1, 2006, the Bank accounted for share-based compensation to employees under the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees,* which recognizes compensation cost to the extent of the difference between the quoted market price of the stock at the date of grant and the amount an employee must pay to acquire the stock. The Bank also followed the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation,* as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*.

The Bank has adopted SFAS No. 123R using the modified prospective method which means that the unvested portion of previously granted awards and any awards that are granted or modified after the date of adoption will be

Notes to Financial Statements

December 31, 2007, 2006, and 2005

measured and accounted for under the provisions of SFAS No. 123R. Accordingly, financial statement amounts for prior periods presented have not been restated to reflect the fair value method of recognizing compensation cost relating to stock options. The Bank will continue to use straight-line recognition of expenses for awards with graded vesting.

The following table illustrates the effect on net earnings and earnings per share if the Bank had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for 2005.

DECEMBER 31,	2005
Net earnings, as reported	$3,934,512
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(164,473)
Pro forma net earnings	$3,770,039
Basic earnings per share	
As reported	$ 0.57
Pro forma	$ 0.54
Diluted earnings per share	
As reported	$ 0.54
Pro forma	$ 0.51

The fair value of each option grant is estimated as of the grant date using an option-pricing model with the assumptions noted in the following table. The Bank implemented a binomial pricing model for all grants subsequent to 2005 and utilized a Black-Scholes pricing model for all periods prior to 2006. Expected volatility is based on the historical volatility of the price of the Bank's stock. The Bank uses historical data to estimate option exercise and stock option forfeiture rates within the valuation model. The expected term of options granted for the binomial model is derived from applying a historical suboptimal exercise factor to the contractual term of the grant. For binomial pricing, the risk-free rate for periods is equal to the U.S. Treasury yield at the time of grant and commensurate with the contractual term of the grant.

The fair value of each option is estimated on the date of grant using an options pricing model with the following weighted average assumptions:

	YEAR ENDED DECEMBER 31, 2007	2006	2005
Pricing model	Binomial	Binomial	Black-Scholes
Dividend yield	1.73%	1.35%	1.30%
Expected volatility	36.33%	35.11%	25.00%
Risk-free interest rate	4.79%	4.84%	4.44%
Expected option term	7.25 years	5.0 years	7.5 years
Stock-based compensation recorded	$130,073	$131,230	$ —

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

Note 2—Cash and Due from Banks

Cash and due from banks includes balances with the Federal Reserve Bank and other correspondent banks. The Bank is required to maintain specified reserves by the Federal Reserve Bank. The average reserve requirements are based on a percentage of the Bank's deposit liabilities. In addition, the Federal Reserve Bank requires the Bank to maintain a certain minimum balance at all times.

Note 3—Securities

The amortized cost and estimated fair values of debt securities as of December 31, 2007, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
U.S. agencies	$24,874,744	$153,914	$ (66,313)	$24,962,345
Collateralized mortgage obligations	4,024,103	7,014	(69,967)	3,961,150
Municipalities	2,343,015	58,834	(1,855)	2,399,994
SBA Pools	2,054,076	—	(4,941)	2,049,135
	$33,295,938	$219,762	$(143,076)	$33,372,624

The following table details the gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2007.

Description of Securities	U.S. Agencies	Collateralized Mortgage Obligations	Munici-palities	SBA Pools	Total Temporarily Impaired Securities
Less than 12 months					
Fair Value	$1,564,653	$977,951	$304,611	$2,049,134	$4,896,349
Unrealized Loss	(1,182)	(6,821)	(406)	(4,941)	(13,350)
Greater than 12 months					
Fair Value	$7,076,297	$2,241,900	$259,621	—	$9,577,818
Unrealized Loss	(65,131)	(63,146)	(1,449)	—	(129,726)
Total					
Fair Value	$8,640,950	$3,219,851	$564,232	$2,049,134	$14,474,167
Unrealized Loss	(66,313)	(69,967)	(1,855)	(4,941)	(143,076)

A total of ten U.S. agencies, four collateralized mortgage obligations, three municipal securities, and two SBA pools make up the total amount of securities in an unrealized loss position for greater than 12 months. Management periodically evaluates each available-for-sale investment security in an unrealized loss position to determine if the impairment is temporary or other than temporary. Management has determined that no investment security is other than temporarily impaired. The unrealized losses are due solely to interest rate changes and the Bank has the ability and intent to hold all investment securities with identified impairments resulting from interest rate changes to the earlier of the forecasted recovery or the maturity of the underlying investment security.

The amortized cost and estimated fair value of debt securities at December 31, 2007, by contractual maturity or call date, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Available-for-sale securities:		
Due in one year or less	$ 996,486	$ 998,245
Due after one year through five years	1,098,711	1,103,109
Due after five years through ten years	2,695,262	2,698,864
Due after ten years	28,505,479	28,572,406
	$33,295,938	$33,372,624

The amortized cost and estimated fair values of debt securities as of December 31, 2006, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
U.S. agencies	$27,464,267	$32,429	$(246,990)	$27,249,706
Collateralized mortgage obligations	6,219,133	—	(198,714)	6,020,419
Municipalities	2,902,872	76,730	(903)	2,978,699
	$36,586,272	$109,159	$(446,607)	$36,248,824

There were no realized gains or losses on sales of available-for-sale securities during 2007, 2006, and 2005. There were no sales of available-for-sale securities during 2007, 2006, and 2005.

Securities carried at $28,930,614 and $36,048,824 at December 31, 2007 and 2006, respectively, were pledged to secure deposits of public funds.

Note 4—Loans

The Bank's customers are primarily located in Stanislaus, San Joaquin, Tuolumne, Inyo, and Mono Counties. Approximately 54% of the Bank's loans are commercial real estate loans. Approximately 12% of the Bank's loans are for general commercial uses including professional, retail, and small business. Additionally, 21% of the Bank's loans are for real estate construction for residential and commercial real estate. The remaining 13% are in agriculture, residential real estate, and consumer loans. Generally, real estate loans are collateralized by real property while commercial and other loans are collateralized by funds on deposit, business, or personal assets. Repayment of loans is generally expected from cash flows of the borrower. Pre-approved permanent financing generally pays off construction loans.

Loan totals were as follows:

	December 31, 2007	2006
Loans		
Commercial real estate	$208,309,072	$233,109,999
Commercial	45,496,794	41,077,140
Real estate construction	83,173,030	60,269,322
Agriculture	31,429,970	27,527,386
Residential real estate and consumer	19,400,263	16,409,301
Total loans	387,809,129	378,393,148
Less:		
Deferred loan fees and costs, net	(1,038,350)	(1,232,797)
Allowance for loan losses	(4,506,753)	(4,341,062)
Net loans	$382,264,026	$372,819,289

Changes in the allowance for loan losses were as follows:

	Years Ended December 31, 2007	2006	2005
Balance, beginning of year	$4,341,062	$3,976,380	$3,272,083
Provision charged to operations	555,000	595,000	705,000
Loans charged off	(401,510)	(14,922)	(903)
Loan recoveries	4,275	2,287	200
Reclassification of reserve related to off-balance-sheet commitments	7,926	(217,683)	—
Balance, end of year	$4,506,753	$4,341,062	$3,976,380

The total recorded investment in impaired loans at December 31, 2007, was $9,087,462. The average recorded investment in impaired loans was $1,411,000 during 2007. The recorded investment in impaired loans that have a specific reserve was $977,218 at December 31, 2007. The recorded investment in impaired loans that did not have a specific reserve was $8,476,508 at December 31, 2007. The total specific reserve related to impaired loans and included in the allowance for loan losses was $95,430. No interest income was recognized on impaired loans, while considered impaired during 2007. There were no loans impaired at December 31, 2006 and 2005, and no loans were considered impaired during these years. The total recorded investment in non-accrual loans was $9,087,462 at December 31, 2007. There were no non-accrual loans at December 31, 2006. In addition, there were no loans past due greater than 90 days and still accruing interest at December 31, 2007, 2006 or 2005.

At December 31, 2007 and 2006, loans carried at $85,855,655 and $258,504,620, respectively, were pledged as collateral on advances from the Federal Home Loan Bank.

Note 5—Premises and Equipment

Major classifications of premises and equipment are summarized as follows:

	December 31, 2007	2006
Land	$3,611,703	$483,000
Building	2,480,649	1,805,649
Leasehold improvements	3,152,407	2,372,749
Furniture, fixtures, and equipment	5,606,695	4,614,128
	14,851,454	9,275,526
Less accumulated depreciation and amortization	4,742,834	3,762,787
	$10,108,620	$5,512,739

Depreciation expense was $1,022,739, $767,284, and $506,380 for the years ended 2007, 2006, and 2005, respectively.

Note 6—Accrued Interest and Other Assets

Other assets are summarized as follows:

	December 31, 2007	2006
Interest income receivable on loans	$ 1,693,677	$ 1,649,411
Interest income receivable on investments	184,940	236,271
Net deferred tax asset	2,382,000	2,567,000
Federal Reserve Bank stock	669,500	573,200
Federal Home Loan Bank stock	2,283,300	1,833,200
Cash surrender value of life insurance	4,749,230	4,574,063
Investment in limited partnership	377,790	—
Prepaid expenses and other	2,114,718	1,380,308
	$14,455,155	$12,813,453

Notes to Financial Statements

December 31, 2007, 2006, and 2005

Note 7—Deposits

Deposit totals were as follows:

	DECEMBER 31, 2007	2006
Demand	$ 68,150,833	$ 56,339,290
NOW accounts	54,496,524	54,748,343
Money market deposit accounts	138,413,815	111,041,709
Savings	16,438,359	22,763,042
Time, under $100,000	42,227,602	48,266,078
Time, $100,000 and over	57,620,643	85,371,843
Total deposits	$377,347,776	$378,530,305

Certificates of deposit issued and their remaining maturities at December 31, 2007, are as follows:

Year Ending December 31,	
2008	$96,168,046
2009	2,589,194
2010	782,632
2011	13,623
2012	294,750
	$99,848,245

Note 8—FHLB Advances

At December 31, 2007, the Bank had advances from the Federal Home Loan Bank ("FHLB") totaling $31,000,000. Of the total advances outstanding, $10,000,000 represents term advances due in 2008, $3,000,000 represents term advances due in 2009, and $18,000,000 represents overnight open advances. The weighted average interest rate on these advances was 4.69% and interest payments are due monthly. Unused and available advances totaled $67,740,720 at December 31, 2007. Loans carried at $85,855,655 at December 31, 2007 were pledged as collateral on advances from the Federal Home Loan Bank.

At December 31, 2006, the Bank had advances from the FHLB totaling $33,600,000. Of the total advances outstanding, $12,000,000 is term advances due in 2007 and $21,600,000 is overnight open advances. The weighted average interest rate on these advances was 5.21% and interest payments are due monthly. Unused and available advances totaled $55,475,288 at December 31, 2006. Loans carried at $258,504,620 at December 31, 2006, were pledged as collateral on advances from the FHLB.

Note 9—Interest on Deposits

Interest on deposits was comprised of the following:

	YEARS ENDED DECEMBER 31, 2007	2006	2005
Savings and other deposits	$ 5,636,857	$ 5,210,451	$1,774,000
Time deposits of $100,000 or more	3,457,958	3,509,499	2,458,779
Other time deposits	2,132,750	1,914,893	1,485,122
	$11,227,565	$10,634,843	$5,717,901

Note 10—Income Taxes

The provision for income taxes consists of the following:

	YEARS ENDED DECEMBER 31, 2007	2006	2005
Current			
Federal	$1,739,000	$2,089,500	$2,069,000
State	530,000	718,000	705,000
	2,269,000	2,807,500	2,774,000
Deferred			
Federal	64,700	(353,000)	(219,000)
State	300	(42,000)	(60,000)
	65,000	(395,000)	(279,000)
	$2,334,000	$2,412,500	$2,495,000

The components of the Bank's deferred tax assets and liabilities (included in accrued interest and other assets on the balance sheet), is shown below:

	DECEMBER 31, 2007	2006
Deferred tax assets:		
Deferred loan fees	$ 400	$ 1,000
Allowance for loan losses	1,910,000	2,003,000
State income tax	200,000	223,000
Accumulated depreciation	—	26,000
Accrued vacation	31,000	22,000
Accrued salary continuation liability	280,000	237,000
Split Dollar Life Insurance	108,000	99,000
Stock Options	2,600	1,000
Nonaccrual loans	113,000	—
Unrealized loss on securities available for sale	13,000	133,000
	2,658,000	2,745,000
Deferred tax liabilities:		
Prepaid expenses	(51,000)	(62,000)
FHLB dividends	(167,000)	(116,000)
Accumulated depreciation	(58,000)	—
	(276,000)	(178,000)
Net deferred income tax asset	$2,382,00	$2,567,000

Management has assessed the realizability of deferred tax assets and believes it is more likely than not that all deferred tax assets will be realized in the normal course of operations. Accordingly, these assets have not been reduced by a valuation allowance.

Note 11—Stock Option Plan

During 1991, the Bank's Board of Directors approved a fixed stock option plan (the "Plan") under which incentive and non-qualified stock options may be granted to key employees and directors, respectively, to purchase up to thirty-five percent of the authorized and un-issued common stock of the Bank at a price equal to the fair market value on the date of grant. The Plan provides that the options are exercisable in equal increments over a five-year period from the date of grant or over any other schedule approved by the Board of Directors. All incentive stock options expire no later than ten years from the date of grant. The Plan was ratified by the shareholders at the Bank's annual meeting in April 1992.

A summary of the status of the Bank's fixed stock option plan and changes during the year are presented below.

DECEMBER 31, 2007	Shares	Weighted-Average Exercise price
Outstanding at beginning of year	540,420	$ 6.63
Granted	19,500	$ 10.74
Exercised	(48,106)	$ 4.14
Forfeited	(5,250)	$ 12.95
Outstanding at end of year	506,564	$ 6.96

	DECEMBER 31, 2007	2006	2005
Weighted-average fair value of options granted during the year	$4.18	$6.73	$4.18
Intrinsic value of options exercised	$314,048	$1,115,583	$907,729
Options exercisable at year end:	357,913	331,918	371,817
Weighted average exercise price	$5.52	$4.77	$3.88
Intrinsic value	$1,155,012	$2,748,814	$4,207,114
Weighted average remaining contractual life	4.36 years	4.85 years	5.10 Years
Options outstanding at year end:	506,564	540,420	662,176
Weighted average exercise price	$6.96	$6.63	$6.00
Intrinsic value	$1,210,741	$3,525,661	$6,084,828
Weighted average remaining contractual life	5.22 years	5.94 years	6.5 years

Tax benefits totaling $1,600 were recorded in the statement of earnings during 2007 related to the vesting of non-qualified stock options. As of December 31, 2007, there was $325,205 of total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a weighted-average period of 1.92 years.

For the year ended December 31, 2007, the Bank received $198,957 from the exercise of stock options and received income tax benefits of $116,303 related to the exercise of non-qualified employee stock options and disqualifying dispositions in the exercise of incentive stock options.

Note 12—Earnings Per Share

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

YEAR ENDED DECEMBER 31, 2007	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net earnings	$3,968,408		
Basic EPS:			
Net earnings available to common shareholders	$3,968,408	7,364,681	$0.54
Effect of dilutive securities:			
Stock options	—	159,824	
Diluted EPS:			
Net earnings available to common shareholders plus assumed conversions	$3,968,408	7,524,505	$0.53

Options to purchase 104,750 shares of common stock in prices ranging from $10.85 to $15.67 were outstanding during 2007. They were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. These options begin to expire in 2015.

YEAR ENDED DECEMBER 31, 2006	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net earnings	$3,830,876		
Basic EPS:			
Net earnings available to common shareholders	$3,830,876	7,062,841	$0.54
Effect of dilutive securities:			
Stock options	—	241,884	
Diluted EPS:			
Net earnings available to common shareholders plus assumed conversions	$3,830,876	7,304,725	$0.52

Options to purchase 14,500 shares of common stock in prices ranging from $14.75 to $15.67 a share were outstanding during 2006. They were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. These options expire in October 2016.

YEAR ENDED DECEMBER 31, 2005	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net earnings	$3,934,512		
Basic EPS:			
Net earnings available to common shareholders	$3,934,512	6,946,285	$0.57
Effect of dilutive securities:			
Stock options	—	392,511	
Diluted EPS:			
Net earnings available to common shareholders plus assumed conversions	$3,934,512	7,338,796	$0.54

Options to purchase 28,500 shares of common stock in prices ranging from $13.47 to $15.67 a share were outstanding during 2005. They were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. These options expire in October 2015.

Notes to Financial Statements

December 31, 2007, 2006, and 2005

Note 13—Commitments and Contingencies

The Bank is obligated for rental payments under certain operating lease agreements, some of which contain renewal options and escalation clauses that provide for increased rentals. Total rental expense for the years ended December 31, 2007, 2006, and 2005, was $627,037, $513,928, and $316,400, respectively.

At December 31, 2007, the future minimum commitments under these operating leases are as follows:

Year ending December 31,	
2008	$ 861,728
2009	818,313
2010	811,986
2011	784,286
2012	794,542
Thereafter	4,738,204
	$8,809,059

Note 14—Financial Instruments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans or through standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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

Financial instruments whose contract amounts represent credit risk:

	Contract Amount
Undisbursed loan commitments	$73,887,970
Checking reserve	282,607
Equity lines	6,093,453
Standby letters of credit	1,137,111
	$81,401,141

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

Standby letters of credit are conditional commitments 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 loan facilities to customers.

The estimated fair values of the Bank's financial instruments at December 31, 2007, are as follows:

	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash and cash equivalents	$14,202,951	$14,202,951
Securities available for sale	33,372,624	33,372,624
Loans	387,809,129	394,349,356
Accrued interest receivable	1,878,617	1,878,617
Financial liabilities:		
Deposits	(377,347,776)	(377,536,730)
FHLB advance	(31,000,000)	(31,080,813)
Accrued interest payable	(1,816,645)	(1,816,645)
Off-balance-sheet assets (liabilities):		
Commitments and standby letters of credit	—	(814,000)

The estimated fair values of the Bank's financial instruments at December 31, 2006, were as follows:

	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash and cash equivalents	$27,819,177	$27,819,177
Securities available-for-sale	36,248,824	36,248,824
Loans	378,393,148	368,311,925
Accrued interest receivable	1,885,682	1,885,682
Financial liabilities:		
Deposits	(378,530,305)	(378,536,262)
FHLB advance	(33,600,000)	(33,586,869)
Accrued interest payable	(2,151,486)	(2,151,486)
Off-balance-sheet assets (liabilities):		
Commitments and standby letters of credit	—	(854,000)

Note 15—Related Party Transactions

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

	YEARS ENDED DECEMBER 31, 2007	2006
Aggregate amount outstanding, beginning of year	$7,307,946	$11,518,551
New loans or advances during year	2,793,291	3,819,815
Repayments during year	(4,315,445)	(8,030,420)
Aggregate amount outstanding, end of year	$5,785,792	$ 7,307,946

Related party deposits totaled $9,367,808 and $9,727,110 at December 31, 2007 and 2006, respectively.

Note 16—Profit Sharing Plan

The profit sharing plan to which both the Bank and eligible employees contribute was established in 1995. Bank contributions are voluntary and at the discretion of the Board of Directors. Contributions were approximately $326,000, $251,000, and $178,000 for 2007, 2006, and 2005, respectively.

Note 17—Restrictions on Retained Earnings

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

Note 18 – Other Post-Retirement Benefit Plans

The Bank has awarded certain officers a salary continuation plan (the "Plan"). Under the Plan, the participants will be provided with a fixed annual retirement benefit for 20 years after retirement. The Bank is also responsible for certain pre-retirement death benefits under the Plan. In connection with the implementation of the Plan, the Bank purchased single premium life insurance policies on the life of each of the officers covered under the Plan. The Bank is the owner and partial beneficiary of these life insurance policies. The assets of the Plan, under Internal Revenue Service regulations, are owned by the Bank and are available to satisfy the Bank's general creditors.

During December 2001, the Bank awarded its directors a director retirement plan ("DRP"). Under the DRP, the participants will be provided with a fixed annual retirement benefit for ten years after retirement. The Bank is also responsible for certain pre-retirement death benefits under the DRP. In connection with the implementation of the DRP, the Bank purchased single premium life insurance policies on the life of each director covered under the DRP. The Bank is the owner and partial beneficiary of these life insurance policies. The assets of the DRP, under Internal Revenue Service regulations, are the property of the Bank and are available to satisfy the Bank's general creditors.

Future compensation under both plans is earned for services rendered through retirement. The Bank accrues for the salary continuation liability based on anticipated years of service and vesting schedules provided under the plans. The Bank's current benefit liability is determined based on vesting and the present value of the benefits at a corresponding discount rate. The discount rate used is an equivalent rate for investment-grade bonds with lives matching those of the service periods remaining for the salary continuation contracts, which average approximately 20 years. At December 31, 2007 and 2006, $680,844 and $576,098, respectively, has been accrued to date, based on a discounted cash flow using a discount rate of 6%, and is included in other liabilities.

The Bank entered into split-dollar life insurance agreements with certain officers. In connection with the implementation of the split-dollar agreements, the Bank purchased single premium life insurance policies on the life of each of the officers covered by the split-dollar life insurance agreements. The Bank is the owner of the policies and the partial beneficiary in an amount equal to the cash surrender value of the policies.

The combined cash surrender value of all Bank-owned life insurance policies was $4,749,230 and $4,574,063 at December 31, 2007 and 2006, respectively. The cash surrender value of the life insurance policies is included in other assets (Note 6).

Note 19—Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications 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 (set forth in the table on the next page) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the Federal Reserve Bank 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 I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios at December 31, 2007 and 2006, are presented in the following table.

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007:						
Total capital (to Risk-Weighted Assets)	$47,311,000	11.1%	$33,994,000	>8.0%	$42,493,000	>10.0%
Tier I capital (to Risk- Weighted Assets)	$42,594,000	10.0%	$16,997,000	>4.0%	$25,496,000	> 6.0%
Tier I capital (to Average Assets)	$42,594,000	9.4%	$18,092,000	>4.0%	$22,614,000	> 5.0%
As of December 31, 2006:						
Total capital (to Risk-Weighted Assets)	$39,188,000	9.5%	$32,915,000	>8.0%	$41,143,000	>10.0%
Tier I capital (to Risk-Weighted Assets)	$34,629,000	8.4%	$16,457,000	>4.0%	$24,686,000	> 6.0%
Tier I capital (to Average Assets)	$34,629,000	7.9%	$17,465,000	>4.0%	$21,831,000	> 5.0%

Independent Auditor's Report

To The Board of Directors and Shareholders
Oak Valley Community Bank

We have audited the accompanying balance sheets of Oak Valley Community Bank (the "Bank") as of December 31, 2007 and 2006, and the related statements of earnings, shareholders' equity, and cash flows for the three years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank at December 31, 2007 and 2006, and the results of its operations and its cash flows for the three years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 and Note 11 to the financial statements, effective January 1, 2006, the Bank changed its method of accounting for share-based payment arrangements to conform to Statement of Financial Accounting Standards No. 123(R), Share-Based Payment.

Moss Adams LLP

Stockton, California
March 6, 2008

MOSS ADAMS LLP

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