
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

- QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2008

- TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE EXCHANGE ACT**

For transition period _____ to _____

Commission File Number: 000-51901

Santa Lucia Bancorp

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of incorporation)

35-2267934
(IRS Employer Identification No.)

7480 El Camino Real, Atascadero, CA 93422
(Address of principal executive offices)

805-466-7087
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

Title of Class: Common Stock, no par value; shares outstanding as of November 10, 2008: 1,923,053.

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PART I - FINANCIAL INFORMATION**ITEM I - Financial Statements****Santa Lucia Bancorp
Consolidated Balance Sheets**
(in thousands)

	<u>30-Sep-08</u> (unaudited)	<u>31-Dec-07</u>
Assets		
Cash and due from banks	\$ 10,033	\$ 7,399
Federal funds sold	—	—
Total cash and cash equivalents	<u>10,033</u>	<u>7,399</u>
Securities available for sale	40,841	56,107
Loans, net	184,787	166,619
Premises and equipment, net	8,636	8,869
Cash surrender value of life insurance	5,147	5,006
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	1,506	1,454
Accrued interest and other assets	2,961	3,186
Total Assets	<u>\$ 253,911</u>	<u>\$ 248,640</u>
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	\$ 74,082	\$ 77,101
Interest-bearing demand - NOW	12,918	11,996
Money Market	28,003	25,440
Savings	26,749	26,337
Time certificates of deposit of \$100,000 or more	38,029	38,830
Other time certificates	33,611	33,014
Total Deposits	<u>213,392</u>	<u>212,718</u>
Short-term borrowings	9,500	5,900
Long-term debt	6,988	7,155
Accrued interest and other liabilities	2,626	1,678
Total Liabilities	<u>232,506</u>	<u>227,451</u>
Commitments and contingencies	—	—
Shareholders' Equity		
Common stock - no par value; authorized 20,000,000 shares; Issued and outstanding, 1,923,053 shares at September 30, 2008 and 1,924,873 shares at December 31, 2007	9,894	9,851
Additional Paid-in Capital	468	358
Retained earnings	10,795	10,783
Accumulated other comprehensive income-net unrealized gains on available-for-sale securities, net of taxes	248	197
Total Shareholders' Equity	<u>21,405</u>	<u>21,189</u>
Total Liabilities and Shareholders' Equity	<u>\$ 253,911</u>	<u>\$ 248,640</u>

(see accompanying notes)

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Santa Lucia Bancorp
Consolidated Statements of Income
(in thousands except per share data)

	<u>For the three month period ending</u>		<u>For the nine month period ending</u>	
	<u>30-Sep-08</u>	<u>30-Sep-07</u>	<u>30-Sep-08</u>	<u>30-Sep-07</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest Income				
Interest and fees on loans	\$ 3,242	\$ 3,791	\$ 9,773	\$ 11,412
Federal funds sold	8	94	24	240
Investment securities	543	620	1,785	1,627
	<u>3,793</u>	<u>4,505</u>	<u>11,582</u>	<u>13,279</u>
Interest expense				
Interest-bearing demand deposits	9	21	27	45
Money Market	131	150	410	423
Savings	17	71	71	218
Time certificates of deposit	612	826	2,053	2,374
Short-term borrowings	52	—	152	8
Long-term debt	89	140	300	414
	<u>910</u>	<u>1,208</u>	<u>3,013</u>	<u>3,482</u>
Net interest income	2,883	3,297	8,569	9,797
Provision for credit losses.	<u>160</u>	<u>—</u>	<u>200</u>	<u>—</u>
Net interest income after provision for loan losses	2,723	3,297	8,369	9,797
Noninterest income				
Service charges and fees	172	146	457	436
Gain on sale of investment securities	—	—	108	—
Other income	76	100	302	356
	<u>248</u>	<u>246</u>	<u>867</u>	<u>792</u>
Noninterest expense				
Salaries and employee benefits	1,409	1,306	4,222	3,905
Occupancy	171	158	485	468
Equipment	175	165	502	498
Professional services	144	110	425	322
Data processing	125	119	377	369
Office related expenses	101	97	281	264
Marketing	106	107	310	299
Regulatory assessments	44	17	123	48
Directors' fees and expenses	81	86	247	250
Other	78	109	266	298
	<u>2,434</u>	<u>2,274</u>	<u>7,238</u>	<u>6,721</u>
Earnings before income taxes	537	1,269	1,998	3,868
Income taxes	<u>188</u>	<u>514</u>	<u>747</u>	<u>1,521</u>
Net Earnings	<u>\$ 349</u>	<u>\$ 755</u>	<u>\$ 1,251</u>	<u>\$ 2,347</u>
Per Share Data				
Net earnings - basic.	<u>\$ 0.18</u>	<u>\$ 0.39</u>	<u>\$ 0.65</u>	<u>\$ 1.21</u>
Net Earnings - diluted.	<u>\$ 0.18</u>	<u>\$ 0.37</u>	<u>\$ 0.64</u>	<u>\$ 1.16</u>

(see accompanying notes)

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Santa Lucia Bancorp
Consolidated Statements of Cash Flow
(in thousands)

	<u>(For the nine month period ended)</u>	
	<u>30-Sep-08</u>	<u>30-Sep-07</u>
Cash flows from operating activities:		
Net earnings	\$ 1,251	\$ 2,347
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	482	489
Provision for loan losses	200	—
Loss (gain) on sale of investment securities	(108)	—
Stock-based compensation expense	110	97
Other items, net	977	(494)
Net cash provided by operating activities	<u>2,912</u>	<u>2,439</u>
Cash flows from investing activities:		
Proceeds from maturities of investment securities	9,814	10,787
Proceeds from sale of investment securities	5,513	—
Purchases of investment securities	—	(22,659)
Net change in loans	(18,368)	10,578
Purchases of bank premises and equipment	(250)	(157)
Net cash used in investing activities	<u>(3,291)</u>	<u>(1,451)</u>
Cash flows from financing activities:		
Net change in deposits	674	8,905
Proceeds and tax benefit from exercise of stock options	15	164
Net change in borrowings	3,433	—
Stock Repurchase	(146)	(562)
Cash dividends paid	(963)	(871)
Net cash provided by financing activities	<u>3,013</u>	<u>7,636</u>
Net increase (decrease) in cash and cash equivalents	<u>2,634</u>	<u>8,624</u>
Cash and cash equivalents at beginning of year	7,399	10,140
Cash and cash equivalents at end of year	<u>\$ 10,033</u>	<u>\$ 18,764</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 2,588	\$ 2,990
Income taxes paid	\$ 815	\$ 1,320

(see accompanying notes)

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Santa Lucia Bancorp
Consolidated Statement of Shareholders' Equity
(in thousands except shares outstanding)

	For year ending December 31, 2007 and the period ending September 30, 2008						
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at January 1, 2007	1,928,097	\$ 9,567	\$ 216		\$ 9,625	\$ (271)	\$19,137
Cash Dividends					(871)		
Exercise of Stock Options	29,247	284	19		(121)		
Repurchase and retirement of stock	(32,471)				(853)		
Stock-based compensation expense			123				
Comprehensive Income:							
Net earnings for the year				\$ 3,003	3,003		
Change in unrealized gain (loss) on available-for-sale securities, net of tax				467		468	
Total Comprehensive Income				<u>\$ 3,470</u>			
Balance at December 31, 2007	<u>1,924,873</u>	<u>\$ 9,851</u>	<u>\$ 358</u>		<u>\$10,783</u>	<u>\$ 197</u>	<u>\$21,189</u>
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at January 1, 2008	1,924,873	\$ 9,851	\$ 358		\$10,783	\$ 197	\$21,189
Cash Dividends					(963)		
Exercise of Stock Options	4,360	43			(28)		
Repurchase and retirement of stock	(6,180)				(146)		
Stock-based compensation expense			110				
Cumulative effect of change in accounting principle for Split-Dollar Life Insurance Arrangements					(102)		
Comprehensive Income:							
Net earnings for the year				\$ 1,251	1,251		
Change in unrealized gain (loss) on available-for-sale securities, net of tax				51		51	
Total Comprehensive Income				<u>\$ 1,302</u>			
Balance at September 30, 2008	<u>1,923,053</u>	<u>\$ 9,894</u>	<u>\$ 468</u>		<u>\$10,795</u>	<u>\$ 248</u>	<u>\$21,405</u>

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SANTA LUCIA BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008

Note 1 Bases of Presentation:

The accompanying unaudited condensed consolidated financial statements of Santa Lucia Bancorp (the “Company”) and its subsidiary Santa Lucia Bank (the “Bank”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such SEC rules and regulations. Nevertheless, the Company believes that the disclosures are adequate to make the information presented not misleading. These interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Bank’s 2007 Annual Report as filed on Form 10-KSB “as amended”.

In the opinion of management, all adjustments, including normal recurring adjustments necessary to present fairly the financial position of the Company with respect to the interim consolidated financial statements and the results of its operations for the interim period ended September 30, 2008, have been included. The results of operations for interim periods are not necessarily indicative of the results for a full year.

Note 2 Loans and Related Allowance for Loan Losses:

A summary of loans as of September 30, 2008 and December 31, 2007 is as follows:

	(in thousands)	
	<u>30-Sep-08</u>	<u>31-Dec-07</u>
Real estate - construction	\$ 52,224	\$ 47,819
Real estate - other	95,384	81,895
Commercial	38,512	38,017
Consumer	1,217	1,237
Gross Loans	<u>187,337</u>	<u>168,968</u>
Deferred loan fees	(759)	(676)
Allowance for loan losses	(1,791)	(1,673)
Net Loans	<u>\$ 184,787</u>	<u>\$ 166,619</u>

The Bank’s loan portfolio consists primarily of loans to borrowers within the San Luis Obispo and northern Santa Barbara Counties, California. Although the Bank seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Bank’s market areas. As a result, the Bank’s loan and collateral portfolios are, to some degree, concentrated in those industries. When real estate is taken as collateral, advances are generally limited to a certain percentage of the appraised value of the collateral at the time the loan is made, depending on the type of loan, the underlying property and other factors.

The Bank’s allowance for loan losses as a percentage of total loans was .96% as of September 30, 2008 and 0.99% as of December 31, 2007. Management believes that the allowance for loan losses at September 30, 2008 is adequate based upon its analysis of the loan portfolio and the methodologies used for this purpose.

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Concentration of Credit Risk. As of September 30, 2008, real estate served as the principal source of collateral with respect to approximately 79.9% of our loan portfolio, of which, 45.27% is considered commercial real estate (CRE). Within the makeup of our CRE, approximately 26.7% of our commercial term loans are granted for owner use, which is repaid from the cash flow of the owner's business. We believe that this factor coupled with the diversification of business types, location, conservative underwriting and loss history further mitigates the risk in our CRE portfolio. The Bank targets commercial term loans for owners use as it supports the local business economy. The Bank believes that owner occupied properties do not carry the same risk as commercial strip centers and other income properties with higher vacancy factors that rely on third parties for repayment.

The Bank also targets experienced local builders that are active in residential construction for owner's use, spec construction and small-scale residential construction projects. The Bank originates loans on a limited number of large projects and 20.9% of our construction loans are in owner occupied residential construction and commercial properties for owner use.

A decline in current economic conditions or rising interest rates could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans, the value of real estate and other collateral securing loans and the value of real estate owned by us, as well as our financial condition and results of operations in general.

Note 3 Commitments and Contingencies

The Bank's exposure to credit loss in the event of nonperformance 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 commitments. Commitments to extend credit (such as the unfunded portion on lines of credit and commitments to fund new loans) as of September 30, 2008 and 2007 amount to approximately \$60,746,000 and \$56,090,000 respectively, of which approximately \$3,106,000 and \$4,470,000 are related to standby letters of credit, respectively. The Bank uses the same credit policies in these commitments as for all of its lending activities. As such, the credit risk involved in these transactions is essentially the same as that involved in extending loan facilities to customers.

Because of the nature of its activities, the Company and Bank are from time to time subject to pending and threatened legal actions, which arise out of the normal course of their business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

Note 4 Earnings Per Share

Basic earnings per share ("EPS") are based on the weighted average number of shares outstanding before any dilution from common stock equivalents. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shares in the earnings of the entity.

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The following is a reconciliation of the net income and shares outstanding to the income and number of shares used to compute EPS:

	Three Months Ending 30-Sep-08		Nine Months Ending 30-Sep-08	
	Income (Numerator)	Shares (Denominator)	Income (Numerator)	Shares (Denominator)
Net income	\$ 349		\$ 1,251	
Average shares outstanding		1,923,053		1,924,349
Used in Basic EPS	349	1,923,053	1,251	1,924,349
Dilutive effect of outstanding stock options		27,614		43,576
Used in Diluted EPS	\$ 349	1,950,667	\$ 1,251	1,967,925

	Three Months Ending 30-Sep-07		Nine Months Ending 30-Sep-07	
	Income (Numerator)	Shares (Denominator)	Income (Numerator)	Shares (Denominator)
Net income	\$ 755		\$ 2,347	
Average shares outstanding		1,937,193		1,933,510
Used in Basic EPS	755	1,937,193	2,347	1,933,510
Dilutive effect of outstanding stock options		79,737		90,870
Used in Diluted EPS	\$ 755	2,016,930	\$ 2,347	2,024,380

Note 5 Stock Based Compensation

The Company has two stock option plans, which are fully described in Note K in the Bank's Annual Report on Form 10-KSB. On January 1, 2006, the Company implemented Statement of Financial Accounting Standards 123(R), "Share-Based Payments" ("SFAS123R") which replaced SFAS 123 and supersedes APB Opinion No. 25 and the related implementation guidance. SFAS 123R addresses accounting for equity-based compensation arrangements, including employee stock options. The Company adopted the "modified prospective method" where stock-based compensation expense is recorded beginning on the adoption date and prior periods are not restated. Under this method, compensation expense is recognized using the fair-value based method for all new awards granted after January 1, 2006. Additionally, compensation expense for unvested options that were outstanding at December 31, 2005 is recognized over the requisite service period based on the fair value of those options as previously calculated under the pro forma disclosures of SFAS 123.

Note 6 Recent Accounting Pronouncements

SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*", became effective January 1, 2008. The Company has not elected to fair value any existing financial instruments under SFAS No. 159.

Effective January 1, 2008, upon adoption of SFAS 157, "*Fair Value Measurements*", we group our financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York exchange. Level 1 also includes U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The only assets and liabilities measured at fair value on a recurring basis are our securities available for sale which total \$40.8 million, all of which are valued using Level 2 valuations.

In September 2006, the FASB ratified the FASB's Emerging Issues Task Force (or "EITF") consensus on EITF Issue No. 06-4, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*" and in March 2007 the FASB ratified EITF Issue No. 06-10, "*Accounting for Collateral Assignment Split Dollar Life Insurance Arrangements.*" The EITF's consensus on both of these issues focuses on the accounting for arrangements in which a company has agreed to share a portion of the value of the insurance policy with the employee. These arrangements are referred to as "split-dollar" arrangements. Entities with split-dollar life insurance policies had to accrue, for years beginning after December 15, 2007, liabilities and associated expense for those insurance benefits under the same rules that apply when such benefits are provided by means other than life insurance. The provisions of EITF No 06-4 was applied through a cumulative effect adjustment to our beginning retained earnings totaling \$102,000.

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following is management's discussion and analysis of the major factors that influenced our financial performance for the three and nine months ended September 30, 2008. This analysis should be read in conjunction with the Company's 2007 Annual Report as filed on Form 10-KSB "as amended" and with the unaudited financial statements and notes as set forth in this report. *Unless the context requires otherwise, the terms "Company," "us," "we," and "our" refers to Santa Lucia Bancorp on a consolidated basis.*

FORWARD LOOKING INFORMATION

Certain statements contained in this Quarterly Report on Form 10-QSB ("Report"), including, without limitation, statements containing the words "estimate," "believes," "anticipates," "intends," "may," "expects," "could," and words of similar import, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements relate to, among other things, our current expectations regarding future operating results, net interest margin, strength of the local economy, and allowance for credit losses. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: the current turmoil in United States and foreign financial markets and the response of government and bank regulators thereto, general economic and business conditions in those areas in which we operate, demographic changes, competition, natural disasters, growth in loans and deposits, fluctuations in interest rates, changes in business strategy or development plans, changes in governmental regulation, credit quality, the availability of capital to fund the expansion of our business, economic, political and global changes arising from the war on terrorism, and other factors referenced in the Company's 2007 Annual Report as filed on form 10-KSB, as amended, including in "Item 1. Business - Factors That May Affect Future Results of Operations." When relying on forward-looking statements to make decisions with respect to our Company, investors and others are cautioned to consider these and other risks and uncertainties. We disclaim any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

This discussion should be read in conjunction with our financial statements, including the notes thereto, appearing elsewhere in this report.

EXECUTIVE OVERVIEW

General

Santa Lucia Bancorp (the "Company") (OTC Bulletin Board SLBA.OB) is a California corporation organized in 2006 to act as the holding company for Santa Lucia Bank (the "Bank"), a four office bank serving San Luis Obispo and northern Santa Barbara Counties.

The Company reported financial results driven by the economic realities in its market areas. Net income for the nine month period ending September 30, 2008 decreased 46.7% to \$1,251,000 compared to \$2,347,000 for the same period in 2007. Net income for the three months ended September 30, 2008 decreased 53.80% to \$349,000 compared to \$755,000 for the comparable period in 2007. Diluted earnings per share for the three months ended September 30, 2008 decreased 51.4% to \$0.18 from \$0.37 for the same three month period in 2007 and decreased 44.8% to \$0.64 from \$1.16 for the nine months ended September 30, 2008 compared to the same period in 2007. The primary reason for the decrease in Earnings Per Share was the Federal Reserve Bank reduction in the Fed Funds Rate by 2.00% in the first quarter 2008 and an additional .25% in the second quarter 2008 following a 1.00% decrease in the last two quarters of 2007. The Company is asset sensitive, which means when interest rates decrease, the Company's variable rate loans reprice more rapidly than its fixed rate deposits. A declining interest rate environment has a negative effect on the Bank's net interest margin. Such was the case in the last two quarters of

2007 and the first three quarters of 2008. The decrease in the prime lending rate coupled with a shift of deposits from non interest bearing to money market accounts caused the Company's net interest margin to decrease from 6.01% to 5.01% for the three months ended September 30,

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2008 a decrease of 16.6%. The net interest margin for the nine months ended September 30, 2008 decreased from 6.1% to 5.1% or 16.2% when comparing the nine months ended September 30, 2007. Net interest income for the three months ended decreased 12.6% from \$3,297,000 at September 30, 2007 to \$2,883,000 at September 30, 2008. Net interest income decreased 12.5% from \$9,797,000 at September 30, 2007 to \$8,569,000 at September 30, 2008. This was primarily due to the declining yields on variable rate loans which comprises approximately 64.7% of our loan portfolio and repricing of some fixed rate loans in order to retain customer relationships.

Noninterest income for the three months ended September 30, 2008 increased 0.8% to \$248,000 compared to \$246,000 for the comparable period in 2007. Noninterest income for the nine months ended September 30, 2008 increased 9.5% to \$867,000 compared to \$792,000 for the comparable period in 2007. The increase is primarily due to the sale of \$5,500,000 in mortgage back securities in the first quarter of 2008 which created a net gain of \$108,000. The mortgage backed securities were sold to increase liquidity for the anticipated loan fundings during the second and third quarters of 2008.

Noninterest expense for the three months ended September 30, 2008 increased 7.0% or \$160,000 to \$2,434,000 compared \$2,274,000 for the comparable period in 2007. Noninterest expense for the nine months ended September 30, 2008 increased by 7.7% or \$517,000 to \$7,238,000 compared to \$6,721,000 for the comparable period in 2007. The increase in noninterest expense was primarily attributed to legal fees related to the collection of non-accrual loans and increases in salary and employee benefits.

Net loans increased \$6,355,000 or 3.6% during the three months ending September 30, 2008 compared to an increase of \$651,000 or 0.4% during the same period in 2007. Net loans increased \$18,200,000 or 10.9% during the nine months ending September 30, 2008 compared to a decrease of \$10,600,000 or 6.2% during the same period in 2007. Loans secured by real estate increased \$17,900,000 or 21.9% and commercial loans increased \$250,000 or 0.66% during the first nine months of 2008.

Deposits increased \$3,900,000 or 1.9% during the three months ending September 30, 2008 compared to an increase of \$8,179,000 or 3.8% during the same period in 2007. Deposits increased \$674,000 or 0.3% during the first nine months of 2008 compared to an increase of \$8,900,000 or 4.2% during the same period in 2007. Non-interest bearing demand deposits decreased \$3,000,000 during the nine month period ending September 30, 2008 compared to a decrease of \$1,200,000 million during the nine month period ending September 30, 2007. Interest bearing demand deposits increased \$922,000, money market accounts increased \$2,600,000, savings increased \$412,000, certificates of deposits over \$100,000 and decreased \$801,000 and other time certificates increased \$674,000 during the nine month period ending September 30, 2008.

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SELECTED FINANCIAL INFORMATION

	(in thousands, except share data and ratios) Unaudited			(in thousands, except share data and ratios) Unaudited		
	Three Months Ended September 30,		% Change	Nine Months Ended September 30,		% Change
	2008	2007		2008	2007	
Summary of Operations:						
Interest Income	\$ 3,793	\$ 4,505	-15.80%	\$ 11,582	\$ 13,279	-12.78%
Interest Expense	910	1,208	-24.67%	3,013	3,482	-13.47%
Net Interest Income	2,883	3,297	-12.56%	8,569	9,797	-12.53%
Provision for Loan Loss	160	—	n/a	200	—	n/a
Net Interest Income After Provision for Loan Losses	2,723	3,297	-17.41%	8,369	9,797	-14.58%
Noninterest Income	248	246	0.81%	867	792	9.47%
Noninterest Expense	2,434	2,274	7.04%	7,238	6,721	7.69%
Income Before Income Taxes	537	1,269	-57.68%	1,998	3,868	-48.35%
Income Taxes	188	514	-63.42%	747	1,521	-50.89%
Net Income	\$ 349	\$ 755	-53.77%	\$ 1,251	\$ 2,347	-46.70%
Cash Dividends Paid	\$ 481	\$ 484	-0.62%	\$ 963	\$ 871	10.56%
Per Share Data:						
Earnings Per Share - Basic	\$ 0.18	\$ 0.39	-53.85%	\$ 0.65	\$ 1.21	-46.28%
Earnings Per Share - Diluted	\$ 0.18	\$ 0.37	-51.35%	\$ 0.64	\$ 1.16	-44.83%
Dividends	\$ 0.25	\$ 0.25	0.00%	\$ 0.50	\$ 0.45	11.11%
Book Value	\$ 11.13	\$ 10.57	5.30%	\$ 11.13	\$ 10.57	5.30%
Common Outstanding Shares:	1,923,053	1,936,773	-0.71%	1,923,053	1,936,773	-0.71%
Statement of Financial Condition						
Summary:						
Total Assets				\$ 253,911	\$ 251,767	0.85%
Total Deposits				213,392	221,894	-3.83%
Total Net Loans				184,787	159,103	16.14%
Allowance for Loan Losses				1,791	1,682	6.48%
Total Shareholders' Equity				21,405	20,481	4.51%
Selected Ratios:						
Return on Average Assets	0.55%	1.22%	-54.97%	0.67%	1.28%	-47.88%
Return on Average Equity	6.47%	14.77%	-56.20%	7.71%	15.71%	-50.96%
Net interest margin	5.01%	6.01%	-16.64%	5.07%	6.05%	-16.20%
Average Loans as a Percentage of Average Deposits	85.46%	73.22%	16.73%	82.62%	75.10%	10.01%
Allowance for Loan Losses to Total Loans	0.96%	1.04%	-7.69%	0.96%	1.04%	-7.69%
Tier I Capital to Average Assets - "Bank Only"				9.68%	9.65%	0.31%
Tier I Capital to Risk-Weighted Assets - "Bank Only"				11.77%	12.28%	-4.15%
Total Capital to Risk-Weighted				13.04%	13.80%	-5.51%

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KEY FACTORS IN EVALUATING FINANCIAL CONDITION AND OPERATING PERFORMANCE

As a publicly traded community bank holding company, we focus on several key factors including:

- Return to our shareholders
- Return on average assets
- Asset quality
- Asset growth
- Operating efficiency

Return to our shareholders. Our return to our shareholders is measured in the form of return on average equity, or ROAE. Our net income decreased 53.8%, to \$349,000 for the three month period ending September 30, 2008 from \$755,000 for the same period in 2007. Net income decreased 46.7%, to \$1,251,000 for the nine months ended September 30, 2008 from \$2,347,000 for the same period in 2007. The Company is asset sensitive, which means when interest rates decrease, the Company's variable rate loans reprice more rapidly than its fixed rate deposits. A declining interest rate environment has a negative effect on net interest margin. Such was the case the last two quarters of 2007 and in the first two quarters of 2008. During the first quarter of 2008 the Federal Reserve Bank reduced the Prime Lending Rate by 2.00% followed by an additional .25% reduction in the second quarter 2008. This caused the Company's net interest margin to decline for the three months ended September 30, 2008 to 5.01% compared to 6.01% for the same period in 2007, a decrease of 1.00%. For the nine months ending September 30, 2008 the Company's net interest margin declined to 5.07% compared to 6.05% for the same period in 2007, a decrease of 0.98%. Net interest income was \$8,569,000 for the nine months ended September 30, 2008 compared to \$9,797,000 for the same period in 2007, a decrease of \$1,228,000 or 12.53%. Basic and diluted earnings per share for the quarter ended September 30, 2008 were \$0.18 and \$0.18, which compares to \$0.39 and \$0.37 for the quarter ended September 30, 2007, a decrease of \$0.21 and \$0.19. Basic and diluted earnings per share for the nine months ended September 30, 2008 were \$0.65 and \$0.64, which compares to \$1.21 and \$1.16 for the quarter ended September 30, 2007, a decrease of \$0.56 and \$0.52. ROAE for the quarter ending September 30, 2008, decreased to 6.47% compared to 14.77% for the same period in 2007, a decrease of 8.30%. ROAE for the nine months ending September 30, 2008, decreased to 7.71% compared to 15.71% for the same period in 2007, a decrease of 8.00%.

Return on Average Assets. Our return on average assets, or ROAA, is a measurement we use to compare our performance with other banks and bank holding companies. ROAA for the quarter ended September 30, 2008 was 0.55% compared to 1.22% for the same period in 2007, a decrease of 0.67%. ROAA for the nine months ended September 30, 2008 was 0.67% compared to 1.28% for the same period in 2007, a decrease of 0.61% primarily due to the reductions in net interest income and in net interest margin.

Asset Quality. For all banks and bank holding companies, asset quality has a significant impact on overall financial condition and results of operations. Asset quality is measured in terms of nonperforming loans and assets as a percentage of total assets and net charge-offs as a percentage of average loans. These measures are key elements in estimating the future earnings of a company. There were two nonperforming loans totaling \$1,500,000 million as of September 30, 2008, compared to three loans totaling \$2,175,000 at December 31, 2007 and no nonperforming loans at September 30, 2007. Nonperforming loans as a percentage of total loans decreased to 0.79% as of September 30, 2008, compared to 1.29% at December 31, 2007 and 0.00% as of September 30, 2007. Charge-offs to average loans were 0.06% for the nine months ended September 30, 2008, compared to 0.04% as of December 31, 2007 and 0.04% as of September 30, 2007. Allowance for loan losses increased 6.48% to \$1,791,000 from \$1,682,000 when comparing September 30, 2007 to September 30, 2008. The allowance decreased to 0.96% of total loans when comparing 0.99% as of December 31, 2007. Additions to the allowance for loan losses for the nine months ended September 30, 2008 totaled \$200,000 compared to no additions for the same period in 2007, of which amount \$160,000 was provided in the third quarter ended September 30, 2008.

Asset Growth. As revenues from both net interest income and non-interest income are a function of asset size, the slight growth in assets has a direct impact on increasing net income and EPS. The majority of our assets are loans, and the majority of our liabilities are deposits; therefore the ability to generate loans and deposits are

fundamental to our asset growth. Total assets increased 2.12% to \$253,900,000 as of September 30, 2008 from \$248,600,000 as of December 31, 2007 and \$251,800,000 as of September 30, 2007. Total deposits decreased \$8,500,000 for the nine months ending September 30, 2008 to \$213,400,000 or 3.83% compared to \$212,700,000 as of December 31, 2007.

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Deposit growth has slowed during 2008 due to the intense competition for deposits, as well as the availability of alternative investments such as mutual funds, money market funds, and the stock market. Gross loans increased \$18,300,000 or 10.87% to \$187,300,000 as of September 30, 2008 compared to \$169,000,000 as of December 31, 2007 and \$161,500,000 as of September 30, 2007. The investment portfolio decreased 27.21% or \$15,300,000 over the past nine months from \$56,100,000 as of December 31, 2007 to \$40,800,000. This was primarily due to the sale of \$5,500,000 in mortgage back securities in the first quarter 2008 coupled with called securities and normal maturities which were reinvested in loans.

Operating Efficiency. Operating efficiency is the measure of how efficiently earnings before taxes are generated as a percentage of revenue. Our efficiency ratio decreased to 76.70% for the first nine months of 2008 compared to 63.50% for the same period in 2007, primarily due to decreases in the bank's net interest income, resulting from a decrease in the net interest margin, and the increase in noninterest expense. Net interest income before provision decreased 12.54% to \$8,600,000 for the nine months ended September 30, 2008, while operating expenses increased 7.70% to \$7,200,000 from \$6,700,000.

Economic Conditions

The Company believes that the local economies, in which it operates, Atascadero, Paso Robles, Arroyo Grande, and Santa Maria continues to experience a slowdown in the construction industry and real estate market. However, competition for deposits continues to be very strong both from traditional sources as well as alternative investments such as mutual funds, money market accounts and the stock market. The Bank's growth in the loan portfolio reflects increased demand for real estate products. During the first quarter 2008 the prime lending rate decreased 200 basis points followed by an additional 25 basis points in the second quarter placing additional pressure on the Company's margins.

The following sections set forth a discussion of the significant operating changes, business trends, financial condition, earnings, capital position and liquidity that occurred, in the three months and nine months ended September 30, 2008 compared with the three and nine months ended September 30, 2007.

RESULTS OF OPERATIONS

Net Income

Net income of \$349,000 for the three months ended September 30, 2008, reflects a \$406,000 or 53.8% decrease over the like period in 2007. Net income of \$1,251,000 for the nine months ended September 30, 2008, reflects a \$1,096,000 or 46.7% decrease over the like period in 2007. Net interest income decreased primarily due to the Federal Reserve Bank decreasing the prime lending rate 2.00% in the first quarter of 2008 followed by a .25% in the second quarter 2008. The Company's loan portfolio was repricing at a faster rate than deposits causing net interest income and the net interest margin to decrease.

Net Interest Income

Net interest income is the Company's largest source of operating income and is derived from interest and fees received on interest earning assets, less interest expense incurred on interest bearing liabilities. The most significant impact on the Company's net interest income between periods is derived from the interaction of changes in the volume of and rates earned or paid on interest earning assets and interest bearing liabilities. The volume of loans, investment securities and other interest earning assets, compared to the volume of interest bearing deposits and indebtedness, combined with the spread, produces changes in the net interest income between periods.

Loans increased \$18,400,000 or 10.9% for the nine months ending September 30, 2008 compared to a decrease of \$11,800,000 or 12.6% for same period in 2007.

The following table presents for the periods indicated, condensed average balance sheet information for the Company, together with interest income and yields earned on average interest earnings assets, as well as interest expense and rates paid on average interest bearing liabilities.

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AVERAGE BALANCE SHEET INFORMATION

	For the three months ended September 30,					
	2008			2007		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(dollars in thousands)					
Assets:						
Loans	\$ 184,306	\$ 3,242	7.04%	\$ 161,324	\$ 3,791	9.40%
Investment securities	44,066	543	4.93%	50,724	620	4.89%
Federal funds sold	1,704	8	1.88%	7,437	94	5.06%
Interest-earning deposits with other institutions	—	—	—	—	—	—
Total average interest- earning assets	230,076	3,793	6.59%	219,485	4,505	8.21%
Other assets	25,644			29,707		
Less allowance for loan losses	(1,702)			(1,716)		
Total average assets	<u>\$ 254,018</u>			<u>\$ 247,476</u>		
Liabilities and						
Shareholders' Equity:						
Interest Bearing liabilities:						
Deposits						
Interest-bearing demand - NOW	\$ 12,587	\$ 9	0.29%	\$ 14,020	\$ 21	0.60%
Money Market	26,253	131	2.00%	24,763	150	2.42%
Savings	26,688	17	0.25%	27,408	71	1.04%
Time certificates of deposits	73,100	612	3.35%	69,680	826	4.74%
Total average interest- bearing deposits	138,628	769	2.22%	135,871	1,068	3.14%
Short-term borrowings	7,337	52	—	—	—	—
Long-term debt	7,141	89	4.99%	7,155	140	7.83%
Total interest-bearing liabilities	153,106	910	2.38%	143,026	1,208	3.38%
Demand deposits	77,032			82,128		
Other liabilities	2,297			1,873		
Shareholders' equity	21,583			20,449		
Total average liabilities and shareholders' equity	<u>\$ 254,018</u>			<u>\$ 247,476</u>		
Net interest income		<u>\$ 2,883</u>			<u>\$ 3,297</u>	
Net interest margin			5.01%			6.01%

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AVERAGE BALANCE SHEET INFORMATION

	For the nine months ended September 30,					
	2008			2007		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
(dollars in thousands)						
Assets:						
Loans	\$ 174,979	\$ 9,773	7.45%	\$ 163,128	\$ 11,412	9.33%
Investment securities	48,812	1,785	4.88%	46,377	1,627	4.68%
Federal funds sold	1,566	24	2.04%	6,355	240	5.04%
Interest-earning deposits with other institutions	—	—	—	—	—	—
Total average interest-earning assets	225,357	11,582	6.85%	215,860	13,279	8.20%
Other assets	25,756			29,772		
Less allowance for loan losses	(1,665)			(1,716)		
Total average assets	<u>\$ 249,448</u>			<u>\$ 243,916</u>		
Liabilities and Shareholders' Equity:						
Interest Bearing liabilities:						
Deposits						
Interest-bearing demand - NOW	\$ 12,465	\$ 27	0.29%	\$ 13,604	\$ 45	0.44%
Money Market	25,819	410	2.12%	24,061	423	2.34%
Savings	25,919	71	0.37%	26,944	218	1.08%
Time certificates of deposit	<u>71,960</u>	<u>2,053</u>	<u>3.80%</u>	<u>68,136</u>	<u>2,374</u>	<u>4.65%</u>
Total average interest-bearing deposits	136,163	2,561	2.51%	132,745	3,060	3.07%
Short-term borrowings	6,744	152	3.01%	198	8	5.39%
Long-term debt	<u>7,150</u>	<u>300</u>	<u>5.59%</u>	<u>7,155</u>	<u>414</u>	<u>7.71%</u>
Total interest-bearing liabilities	150,057	3,013	2.68%	140,098	3,482	3.31%
Demand deposits	75,635			82,192		
Other liabilities	2,111			1,711		
Shareholders' equity	<u>21,645</u>			<u>19,915</u>		
Total average liabilities and shareholders' equity	<u>\$ 249,448</u>			<u>\$ 243,916</u>		
Net interest income		<u>\$ 8,569</u>			<u>\$ 9,797</u>	
Net interest margin			5.07%			6.05%

Net interest income decreased 12.60%, for the quarter ended September 30, 2008 and decreased 12.50% for the nine months ended September 30, 2008 as compared to the same periods in 2007, as yields decreased quickly on earning assets, and higher cost funds repriced more slowly. For the nine months ending September 30, 2008 the yield on interest-earning assets decreased to 6.90% compared to 8.20% for the same period in 2007. The cost of total interest-bearing deposits decreased 56 basis points to 2.51% for the nine months ending September 30, 2008 compared to 3.07% in the same nine month period in 2007.

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Net interest margin for the three months ended September 30, 2008 was 5.01% compared to 6.01% for the three months ended September 30, 2007. Net interest margin for the nine months ended September 30, 2008 was 5.07% compared to 6.05% for the nine months ended September 30, 2007. This represents a decrease of 98 basis points or 12.60% between nine month periods. The decrease in the Bank's net interest margin was primarily caused by the prime lending rate reduction of 200 basis points in the first quarter 2008 followed by a 25 basis point reduction in the second quarter 2008. These reductions in the prime lending rate had an immediate negative impact on the earnings of the company as variable rate loans repriced faster than fixed rate deposits.

For the three months ended September 30, 2008, the average prime rate was 5.00%, the average Federal Funds rate was 1.88%, and the yield on the investment portfolio averaged 4.93%. During the three months ended September 30, 2007 the average prime rate was 8.17%, the average Federal Fund rate was 5.06%, and the Bank's investment portfolio posted an average yield of 4.89%. For the nine months ended September 30, 2008, the average prime rate was 5.43%, the average Federal Fund rate was 2.04%, and the yield on the investment portfolio averaged 4.88%. During the nine months ended September 30, 2007 the average prime rate was 8.25%, the average Federal Fund rate was 5.04%, and the Bank's investment portfolio posted an average yield of 4.68%.

Deposit interest expense for the three months ended September 30, 2008 totaled \$769,000, which reflects a decrease of \$299,000 or 28.0% over the like period in 2007. Deposit interest expense for the nine months ended September 30, 2008 totaled \$2,561,000, which reflects a decrease of \$499,000 or 16.31% over the like period in 2007. The schedule shown below indicates that interest bearing deposits and time deposits increased \$2,500,000 or 1.79% from September of 2007 to September of 2008. During the same period, noninterest bearing deposits decreased \$11,000,000 or 12.88%.

	(dollars in thousands)			
	September 2008	September 2007	Dollar Variance	Percent Variance
Noninterest bearing deposits	\$ 74,082	\$ 85,038	\$ (10,956)	-12.88%
Interest bearing deposits	40,921	38,984	1,937	4.97%
Interest bearing time	98,389	97,872	517	0.53%
Total Deposits	<u>\$ 213,392</u>	<u>\$ 221,894</u>	<u>\$ (8,502)</u>	-3.83%

The average deposit cost of funds for the three months ended September 30, 2008 decreased 92 basis points from 3.14% in September of 2007 to 2.22% in September of 2008. The average deposit cost of funds for the nine months ended September 30, 2008 decreased 56 basis points from 3.07% in September of 2007 to 2.51% in September of 2008. The Company anticipates that its deposit cost of funds will decrease slightly for the balance of the year.

Noninterest Income

Noninterest income for the three months ended September 30, 2008 was \$248,000 compared to \$246,000 for the same period in 2007. Noninterest income for the nine months ended September 30, 2008 was \$867,000 compared to \$792,000 for the same period in 2007. That represents an increase of \$75,000 or 9.5%, which is primarily due to the \$108,000 gain on the sale of \$5,500,000 in mortgage backed securities during the first quarter of 2008.

Service charges on deposit accounts for the three months ended September 30, 2008 totaled \$172,000, which represents an increase of \$26,000 or 17.8% over the same period in 2007. Service charges on deposit accounts for the nine months ended September 30, 2008 totaled \$457,000, which represents an increase of \$21,000 or 4.9% over the same period in 2007. The increase in service charges was primarily due to NSF fees collected.

Gain on sale of investment securities totaled \$108,000 for the nine months ended September 30, 2008. During the same period ended September 30, 2007 no gains were realized.

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Other noninterest income for the three months ended September 30, 2008 was \$76,000 compared to \$100,000 for the same period in 2007, a decrease of \$24,000 or 24.0%. Other noninterest income for the nine months ended September 30, 2008 was \$302,000 compared to \$356,000 for the same period in 2007. That represents a decrease of \$54,000 or 15.2% between the nine month periods ended September 30 2007 and 2008. The decrease is primarily due to a recovery of legal fees and costs on a previously charged off loan realized in 2007.

Operating Expenses

Salary and employee benefits for the three months ended September 30, 2008 totaled \$1,409,000, which reflects an increase of \$103,000 or 7.9% over the like period in 2007. Salary and employee benefits for the nine months ended September 30, 2008 totaled \$4,222,000, which reflects an increase of \$317,000 or 8.1% over the like period in 2007. This increase is attributed to the addition of a new senior credit administrator and normal salary and benefit related increases.

Occupancy expense for the three months ended September 30, 2008 totaled \$171,000, which reflects an increase of \$13,000 or 8.2% over the same period in 2007. Occupancy expense for the nine months ended September 30, 2008 totaled \$485,000, which reflects an increase of \$17,000 or 3.6% over the same period in 2007. This was primarily due to increased maintenance and repairs coupled with rising utility expenses.

Equipment expense for the three months ended September 30, 2008 totaled \$175,000, which reflects an increase of \$10,000 or 6.1% over the same period in 2007. Equipment expense for the nine months ended September 30, 2008 totaled \$502,000, which reflects an increase of \$4,000 or 0.8% over the same period in 2007.

Professional services for the three months ended September 30, 2008 totaled \$144,000, which reflects an increase of \$34,000 or 30.9% over the same period in 2007. Professional services for the nine months ended September 30, 2008 totaled \$425,000, which reflects an increase of \$103,000 or 32.0% over the same period in 2007. This was primarily due to the increase in legal fees related to the collection of non-accrual loans.

Data processing expense for the three months ended September 30, 2008 totaled \$125,000, which reflects an increase of \$6,000 or 5.0% from the same period in 2007. Data processing expense for the nine months ended September 30, 2008 totaled \$377,000, which reflects an increase of \$8,000 or 2.2% from the same period in 2007. This was primarily due to increased fees of 3.5%.

Office related expense for the three months ended September 30, 2008 totaled \$101,000, which reflects an increase of \$4,000 or 4.1% over the same period in 2007. Office related expense for the nine months ended September 30, 2008 totaled \$281,000, which reflects an increase of \$17,000 or 6.4% over the same period in 2007. This was primarily due to the increase in telephone expense coupled with an increase in stationary and supplies

Marketing related expense for the three months ended September 30, 2008 totaled \$106,000, which reflects a decrease of \$1,000 or .9% over the same period in 2007. Marketing related expense for the nine months ended September 30, 2008 totaled \$310,000, which reflects an increase of \$11,000 or 3.7% over the same period in 2007.

Regulatory assessment fees for the nine month period ending September 30, 2008 were \$123,000, which reflects an increase of \$75,000 or 156.3% over the same period in 2007. This was primarily due to the Federal Deposit Insurance Reform Act of 2005, which allowed the Bank to receive a one-time initial assessment credit to recognize its past contributions to the insurance fund. The Bank's one-time assessment credit was \$91,592. The Bank's assessment credit was fully used by March 2008.

Director expense for the three months ended September 30, 2008 totaled \$81,000, which reflects a decrease of \$5,000 or 5.8% over the like period in 2007. Director expense for the nine months ended September 30, 2008 totaled \$247,000, which reflects a decrease of \$3,000 or 1.2% over the like period in 2007

Other expense for the three months ended September 30, 2008 totaled \$78,000, which reflects a decrease of \$31,000 or 28.4% over the same period in 2007. Other expense for the nine months ended September 30, 2008

totaled \$266,000, which reflects a decrease of \$32,000 or 10.7% over the same period in 2007. This decrease is primarily due to the reduction in messenger and courier expense in 2008.

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Loan Related Data

The Company has taken several positive steps over the past years to improve upon the overall credit administration of the Bank. The Company has implemented additional controls to ensure the quality of the overall credit portfolio. The Bank has been able to increase the loan portfolio without lowering credit quality, which has been validated by the Bank's outside credit review firm. The Bank's credit portfolio continues to be reviewed by our outside loan review firm on a monthly basis and it is the opinion of management as well as the outside credit review firm that there are no significant weaknesses in the credit portfolio.

On a comparative basis, problem loan and loan related data are detailed in the following tables:

	<u>September 2008</u>	<u>December 2007</u>	<u>September 2007</u>
Charge offs	\$ 89	\$ 61	\$ 51
Recoveries	7	80	79
OREO	—	—	—
Nonaccrual Loans	1,481	2,175	—
Accruing loans over 90 days past due	—	—	—
Allowance for Loan Loss	1,791	1,673	1,682
Period-end Gross Loans	187,337	168,968	161,459

	<u>September 2008</u>	<u>December 2007</u>	<u>September 2007</u>
Ratio comparison to Period-end Gross Loans to			
Charge offs	0.06%	0.04%	0.04%
Recoveries	0.01%	0.05%	0.07%
OREO	0.00%	0.00%	0.00%
Nonaccrual Loans	0.79%	1.29%	0.00%
Accruing loans over 90 days past due	0.00%	0.00%	0.00%
Allowance for Loan Loss	0.96%	0.99%	1.04%

Allowance for Loan Losses

The Bank made \$160,000 provision to its allowance for loan losses during the three month period ending September 30, 2008 compared to no provision during the same period of 2007. The nine month period ending September 30, 2008, totaled \$200,000 compared to no additions during the same period of 2007. The Bank evaluates the allowance for possible loan losses based upon an individual analysis of specific categories of loans, specific categories of classified loans and individual classified assets. The adequacy of the allowance is determinable only on an approximate basis, since estimates as to the magnitude and timing of loan losses are not predictable because of the impact of external events. Based on the analysis performed by the Bank and its outside loan review firm, both believe that the allowance for loan loss at September 30, 2008 is adequate. The allowance on that date was 0.96% of total loans, compared to 0.99% at December 31, 2007 and 1.04% at September 30, 2007. While the total amount of the allowance is higher at September 30, 2008 when compared to prior periods, the percentage of the allowance for loan loss is lower attributable to the increase in total loans.

Nonaccrual Loans

The Bank had two nonaccrual loans as of September 30, 2008 totaling \$1,481,000 for a decrease of \$694,000 or 31.9% compared to December 31, 2007, and no nonaccrual loans as of September 30, 2007. The combination of collateral and the strength of the guarantor should alleviate the loss potential of these two credits significantly.

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OREO

The Bank currently has no OREO property on its books.

Other Borrowings

On July 9, 2008 the Company entered into a one year advance from the Federal Home Loan Bank for \$5,000,000 at a fixed rate of 2.91%, and on September 30, 2008 the Company had an overnight short term borrowing of \$4,500,000 for a total of \$9,500,000 as of September 30, 2008. This was primarily due to the decline in deposits during the third quarter and the increase in new loan requests.

Trust Preferred Securities

On April 28, 2006, the Company issued \$5,155,000 in Trust Preferred securities. The issue was priced at 1.48% over the quarterly adjustable 3-month LIBOR. The issue was written for a term of 30-years, with an option to redeem in whole or part at par anytime after the fifth year. The Company contributed \$3,000,000 to the Bank and retained \$2,200,000 at the Company level. The Company incurred \$188,000 in interest expense during the nine month period ending September 30, 2008.

Subordinated Debt

During the Third Quarter of 2003, the Bank completed a private placement of subordinated debentures (“notes”) to augment its Tier II capital. The total principal amount of the notes issued was \$2,000,000. The notes were sold pursuant to an applicable exemption from registration under the Securities Act of 1933 to certain accredited investors, including some of the Bank’s directors and senior officers.

The \$2.0 million in notes have a floating rate of interest, which is reset quarterly, equal to the prime rate published in the western edition of the Wall Street Journal plus 1.50%. The initial rate for the notes was 5.50%. The rate as of September 30, 2008, was 6.50%. Quarterly principal payments of \$166,678 began in September 2008 and continue over the next three years. The notes mature in June 2011.

Capital

Total shareholders’ equity at September 30, 2008 totaled \$21,405,000 compared to \$21,189,000 at December 31, 2007, for an increase of \$216,000 or 1.0%. This increase is due primarily to an increase in net income of \$1,251,000, an increase in the market value of the investment portfolio of \$51,000 and a decrease of \$963,000 for the payment of cash dividends that were paid to shareholders of record as of March 31, 2008 and September 30, 2008.

In order to manage the Company’s capital position more efficiently, in 2006 the Company issued \$5,155,000 in junior subordinated debt securities (the “debt securities”) to the Santa Lucia Bancorp (CA) Capital Trust, a statutory trust created under the laws of the State of Delaware. These debt securities are subordinated to effectively all borrowings of the Company and are due and payable on July 7, 2036. These debt securities may be redeemed for 105% of the principal balance through July 7, 2011, subject to any required regulatory approvals, and then at par thereafter. Interest is payable quarterly beginning July 7, 2006 at 1.48% over the quarterly adjustable 3-month LIBOR. Of this \$5.2 million, the Company contributed \$3.0 million to the Bank and retained \$2.2 million at the Company level. The securities do not entitle the holders to voting rights in the Company but contain certain restrictive covenants, including restrictions on the payment of dividends to the holders of the Company’s common stock in the event that interest payments on the trust preferred securities are postponed. The capital received from the trust preferred issuance is designated as Tier 1 capital for regulatory purposes.

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The Bank maintains capital ratios above the Federal regulatory guidelines for a “well-capitalized” bank. The ratios are as follows:

	Regulatory Minimum Ratio For “Well- Capitalized”	Regulatory Minimum Ratio	Sept. 2008	Dec. 2007
Tier I Capital (to Average Assets)	5.00%	4.00%	9.68%	9.65%
Tier I Capital (to Risk Weighted Assets)	6.00%	4.00%	11.77%	12.28%
Total Capital (to Risk Weighted Assets)	10.00%	8.00%	13.04%	13.80%

Liquidity

The Company closely monitors its liquidity so that the cash requirements for loans and deposit withdrawals are met in an orderly manner. Management monitors liquidity in relation to trends of loans and deposits for short term and long-term requirements. Liquidity management involves our ability to meet cash flow requirements arising from fluctuations in deposit levels and demands of daily operations, which include cash, deposits with other banks, overnight Federal Fund investments, investment securities and the ability to sell loans. Our liquidity is actively managed on a daily basis and reviewed periodically by our ALCO Committee and Board of Directors. This process is intended to ensure the maintenance of sufficient funds to meet our needs, including adequate cash flow for off-balance sheet instruments.

The ability to have readily available funds that are sufficient to repay fully maturing liabilities is of primary importance to depositors, creditors and regulators. The Company’s liquidity (represented by cash and due from banks, federal funds sold and available-for-sale securities) is a result of its operating, investing and financing activities and related cash flows. In order to ensure funds are available at all times, the Company devotes time and resources to analyzing trends and demands and projecting the amount of funds that will be required and maintains relationships with a diversified customer base so funds are accessible. Liquidity requirements can also be met through short term borrowings or the disposition of short term assets. The Bank has two borrowing arrangements with the Federal Home Loan Bank of San Francisco. The first allows the Bank to borrow up to approximately \$40.8 million against which the Bank has pledged approximately \$108.7 million in its real estate secured loans. The second arrangement allows the Bank to borrow up to approximately \$15.2 million against which the Bank has pledged approximately \$15.5 million of its investment securities. The Bank also has two borrowing lines at correspondent banks totaling \$5.9 million.

On September 30, 2008 the company had a total of \$9,500,000 in borrowings with the Federal Home Loan Bank. On July 9, 2008 the Company entered into a one year advance from the Federal Home Loan Bank for \$5,000,000 at a fixed rate of 2.91%, and on September 30, 2008 the Company had an overnight short term borrowing of \$4,500,000.

The Bank’s current Liquidity policy is to maintain a liquidity ratio of not less than 20.0% based on regulatory formula. As of September 30, 2008 the Bank had a liquidity ratio of 20.18%. During the fourth quarter 2008 the bank has a \$2,000,000 called security that will be used to augment liquidity.

Interest Rate Sensitivity

The Bank closely follows the maturities and repricing opportunities of both assets and liabilities to reduce gaps in interest spreads. An analysis is performed quarterly to determine the various interest sensitivity gaps, the economic value of equity and earnings at risk. The reports indicate that the Bank is asset sensitive, meaning that when interest rates change, assets (loans) will reprice faster than short-term liabilities (deposits). Therefore, higher interest rates improve short-term profits and lower rates decrease short-term profits.

The asset liability management reports as of September 30, 2008 indicate that the Bank has an actual dollar risk exposure of \$320,000 if interest rates fall 100 basis points. This represents a 2.8% risk to interest income. The

Equity to Asset ratio is 16.75% at zero basis points and 15.76% at an assumed 100 basis points decline in interest rates.

Interest Income and Expense Under Rate Shock

	<u>-200bp</u>	<u>-100bp</u>	<u>0bp</u>	<u>+100bp</u>	<u>+200bp</u>
Net Interest Income					
Earnings at Risk	\$ (239)	\$ (320)	\$ 0	\$ 268	\$ 603
Percent of Risk	-2.1%	-2.8%	0.0%	2.3%	5.2%

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Assumptions are inherently uncertain and, consequently, the model cannot precisely measure net interest income or precisely predict the impact of changes in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and management strategy.

Off-Balance Sheet Arrangements

The Company, in the ordinary course of business, routinely enters into contracts for services. These contracts may require payment for services to be provided in the future and may also contain penalty clauses for the early termination of the contracts. The Company is also 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 and standby letters of credit. Additionally, in connection with the issuance of trust preferred securities, the Company has committed to irrevocably and unconditionally guarantee the following payments or distributions with respect to the preferred securities to the holders thereof to the extent that the trust has not made such payments or distributions and has the funds, therefore: (i) accrued and unpaid distributions; (ii) the redemption price; and (iii) upon a dissolution or termination of the trust, the lesser of the liquidation amount and all accrued and unpaid distributions and the amount of assets of the trust remaining available for distribution. Management does not believe that these off-balance sheet arrangements have a material effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources, but there can be no assurance that such arrangements will not have a future effect. See Consolidated Financial Statements in Note M for more information regarding the Company's commitments contained in Item 7 of Part II of the Bank's Form 10-KSB for the year ended December 31, 2007

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Critical Accounting Policies

This discussion should be read in conjunction with the unaudited consolidated financial statements of the Company, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations and audited financial statements, including the note's thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in the Bank's Form 10-KSB for the year ended December 31, 2007.

Our accounting policies are integral to understanding the results reported. Our most complex accounting policies require management's judgment to ascertain the valuation of assets, liabilities, commitments and contingencies. We have established detailed policies and control procedures that are intended to ensure valuation methods are well controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The following is a brief description of our current accounting policies involving significant management valuation judgments.

Use of Estimates in the Preparation of Financial Statements

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

Allowance for Loan Losses

The allowance for loan losses represents management's best estimate of losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The provision for loan losses is determined based on management's assessment of several factors: reviews and evaluation of specific loans, changes in the nature and volume of the loan portfolio, current economic conditions and the related impact on specific borrowers and industry groups, historical loan loss experiences, the level of classified and nonperforming loans and the results of regulatory examinations.

Loans are considered impaired if, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate stipulated in the loan agreement, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. In measuring the fair value of the collateral, management uses assumptions and methodologies consistent with those that would be utilized by unrelated third parties.

Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses and the associated provision for loan losses.

Available-for-Sale Securities

The fair value of most securities classified as available-for-sale are based on quoted market prices. If quoted market prices are not available, fair values are extrapolated from the quoted prices of similar instruments.

Deferred Tax Assets

We use an estimate of future earnings to support our position that the benefit of our deferred tax assets will be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may be applied, the asset may not be realized and our net income will be reduced.

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Deferred Compensation Liabilities

Management estimates the life expectancy of the participants and the accrual methods used to accrue compensation expense. If individuals or their beneficiaries outlive their assumed expectancies the amounts accrued for the payment of their benefits will be inadequate and additional charges to income will be required.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices, interest rates, foreign currency exchange rates, commodity prices and equity prices. The Company's market risk arises primarily from interest rate risk inherent in its lending and deposit taking activities. Management uses various asset/liability strategies to manage the re-pricing characteristics of the Company's earning assets and funding liabilities to ensure that exposure to interest rate fluctuations is within its guidelines of acceptable risk-taking. Hedging strategies, including the terms and pricing of loans and deposits, and managing the deployment of the Company's securities are used to reduce mismatches in interest rate re-pricing opportunities of portfolio assets and their funding sources.

Interest rate risk is addressed by our Asset Liability Management Committee ("ALCO") which is comprised of senior management officers of the bank. The ALCO monitors interest rate risk by analyzing the potential impact on the net equity value and net interest income from potential changes in interest rates, and considers the impact of alternative strategies or changes in balance sheet structure. The ALCO manages the Company's balance sheet in part to maintain, within acceptable ranges, the potential impact on net equity value and net interest income despite fluctuations in market interest rates.

Exposure to interest rate risk is reviewed on at least a quarterly basis by the ALCO and the Board of Directors. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine the change in net portfolio value in the event of hypothetical changes in interest rates. If potential changes to net equity value and net interest income resulting from hypothetical interest rate changes are not within the limits established by the Board of Directors, management may adjust the asset and liability mix to bring interest rate risk within approved limits.

ITEM 4T - CONTROLS AND PROCEDURES

As of the end of the period covered by this report, management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures with respect to the information generated for use in this Quarterly Report. Based upon, and as of the date of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the disclosures controls and procedures were effective to provide reasonable assurances that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There was no change in the Company's internal controls over financial reporting during the quarter ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

In designing and evaluating disclosure controls and procedures, the Company's management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurances of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

PART II – OTHER INFORMATION

ITEM 2 - Unregistered Sales of Equity Securities and Use of Proceeds (c) Stock Repurchases

On October 28, 2006, the Board authorized the repurchase of up to \$1,000,000 worth of the Company's common stock. This authorization does not have an expiration date, the entire \$1,000,000 authority was exhausted as of the second quarter 2008. There were no purchase of shares during the third quarter ended September 30, 2008.

ITEM 6. Exhibits

- 10.1 Agreement made by and between Santa Lucia Bank and Jerry W. DeCou, III dated October 15, 2008
- 10.2 Agreement made by and between Santa Lucia Bank and Douglas C. Filipponi dated October 15, 2008
- 10.3 Agreement made by and between Santa Lucia Bank and Khatchik Achadjian dated October 15, 2008
- 10.4 Agreement made by and between Santa Lucia Bank and Stanley R. Cherry dated October 15, 2008
- 10.5 Agreement made by and between Santa Lucia Bank and Jean Hawkins dated October 15, 2008
- 10.6 Agreement made by and between Santa Lucia Bank and Paul G. Moerman dated October 15, 2008
- 10.7 Agreement made by and between Santa Lucia Bank and D. Jack Stinchfield dated October 15, 2008
- 10.8 First Amendment to Amend and Restated Employment Agreement made by and between Santa Lucia Bank and Larry H. Putnam dated October 15, 2008
- 10.9 First Amendment to Amend and Restated Employment Agreement made by and between Santa Lucia Bank and John C. Hansen dated October 15, 2008
- 10.10 First Amendment to Amend and Restated Employment Agreement made by and between Santa Lucia Bank and James Cowan dated October 15, 2008
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SANTA LUCIA BANCORP

Date: November 13,
2008

/s/ Larry H. Putnam

Larry H. Putnam
President and Chief Executive Officer

Date: November 13,
2008

/s/ John C. Hansen

John C. Hansen
Executive Vice President and Chief Financial
Officer

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EXHIBIT INDEX

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AGREEMENT

This Agreement is made and is effective as of October 15, 2008 by and between Santa Lucia Bank (“Company”) and Jerry W. DeCou, III (“Director”).

WHEREAS, Director is currently a director of Company and its wholly owned subsidiary, Santa Lucia Bank (“Bank”), and Director’s background, expertise and efforts have contributed to the success and financial strength of the Company; and

WHEREAS, the Company wishes to assure itself of the continued opportunity to benefit from Director’s services on the board of directors, (“Board”) and Director wishes to serve in such capacity of the Company;

WHEREAS, the Board has determined that the best interests of the Company would be served by setting forth certain benefits which the Company will provide to Director if the Director remains a member of the Board up to and including the consummation of a Change in Control of the Company; and

WHEREAS, the Company wishes to provide a specific incentive to Director to remain on the Board through and including the consummation of any Change in Control of the Company, as defined herein.

NOW, THEREFORE, in order to effect the foregoing, the parties hereto wish to enter into an agreement on the terms and conditions set forth below. This agreement (“Agreement”) therefore sets forth those benefits which the Company will provide to Director in the event of a “Change in Control of the Company” (as defined in paragraph 2) under the circumstances described below or in contemplation of a Change in Control as discussed in Paragraph 1 below. Accordingly, in consideration of the premises and the respective covenants and agreements of or in contemplation of a Change in Control as discussed in Paragraph 1 below herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **TERM.** If a Change in Control of the Company should occur while Director is still a member of the Board, then this Agreement shall continue in effect from the date of such Change in Control of the Company for so long as Director remains eligible to receive payments from the Company under that certain Endorsement Method Split Dollar Plan Agreement by and between Director and Company dated January 10, 2001 attached hereto as Exhibit A; provided, however, that the expiration of the term of this Agreement shall not adversely affect Director’s rights under this Agreement which have accrued prior to such expiration. If no Change in Control of the Company occurs before Director’s status as a Director of the Company is terminated, this Agreement shall expire on such date.
2. **CHANGE IN CONTROL.** For purposes of this Agreement, “Change in Control” means a change of control of the Company or Bank, of a nature that would be required to be reported in

response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act, whether or not the Bank or Company is then subject to such reporting requirement; provided, however, that a transaction in which the Bank or Company is the acquirer regardless of the form of the transaction shall not be a Change in Control for purposes of this Agreement; provided further however, that without limitation, a Change in Control shall be deemed to have occurred if:

- (i) there is a transfer, voluntarily or by hostile takeover, by proxy contest (or similar action), operation of law, or otherwise, of control of the Bank or Company;
- (ii) any Person is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act or any successor provisions thereof), directly or indirectly, of securities of the Bank or Company representing 20% or more of the combined voting power of the Bank’s or Company’s then outstanding securities (other than in the case of the ownership by Company of Bank securities);
- (iii) the individuals who were members of the Board immediately prior to a meeting of the shareholders of the Bank or Company, which meeting involves a contest for the election of directors, do not constitute a majority of the Board following such meeting or election;
- (iv) a merger is completed in which the Bank or Company is not the surviving entity (unless the stockholders of Bank or Company, as the case may be, immediately before such merger own immediately after such merger more than a majority of the voting securities of the surviving entity), a consolidation or sale of all or substantially all of the assets of the Bank or Company; or
- (v) there is a change, during any period of two consecutive years, of a majority of the Board or of the board of directors of Company as constituted as of the beginning of such period, unless the election of each director who is not a director at the beginning of such period was approved by a vote of at least two-thirds of the directors then in office who were directors at the beginning of such period.

3. BENEFITS FOLLOWING CHANGE IN CONTROL. If a Change in Control of the Company shall have occurred while Director is still a director of the Company, Director shall be entitled to the payments and benefits provided in paragraph 4 hereof.

4. BENEFITS FOR DIRECTOR. If, after a Change in Control, the acquiring company chooses, or causes the Bank or surviving entity to surrender the life insurance policy maintained by the Bank under the Director’s Life Insurance Endorsement Method Split Dollar Plan Agreement without replacing it or the policy otherwise ceases to exist prior to the death of Director, Santa Lucia Bank or the acquiring company shall pay to Director Jerry W. DeCou, III (\$37,800.00) upon the surrender or otherwise termination of the policy. The obligations set forth in the preceding sentence shall survive any termination of this Agreement.

The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish Director’s existing rights, or rights which would accrue solely as a result of the passage of time, under any employee benefit plan of the Company, any employment agreement or other contract, plan or arrangement of the

Company, except to the extent necessary to prevent double payment under any severance plan or program of the Company in effect at the date of the Change of Control.

5. SUCCESSOR'S BINDING AGREEMENT

(i) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to Director expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(ii) This Agreement shall inure to the benefit of, and be enforceable by, Director's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Director should die while any amounts would still be payable to Director hereunder if Director had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Director's devisee, legatee or other designee or, if there be no such designee, to Director's estate.

6. NOTICE. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the last page of this Agreement, provided that all notices to the Company should be directed to the attention of the Chairman of the Company's Compensation Committee, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

7. FURTHER ASSURANCES. Each party hereto agrees to furnish and execute such additional forms and documents, and to take such further action, as shall be reasonable and customarily required in connection with the performance of this Agreement or the payment of benefits hereunder.

8. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Director and such officer as may be specifically designated by the Board of Directors of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which is not set forth expressly in this Agreement. This Agreement contains the entire agreement among the parties and supersedes and replaces any prior agreement between the parties concerning the subject matter hereof. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

9. VALIDITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

11. ARBITRATION. Any dispute or controversy arising or in connection with this Agreement shall, upon written request of one party to the other, be submitted to and settled exclusively by arbitration pursuant to the rules of the American Arbitration Association. Judgment may be entered on the arbitrator's award in any court of competent jurisdiction. The cost of such arbitration, including reasonable attorney's fees, shall be borne by the losing party or in such proportions as the arbitrator(s) shall decide. Arbitration shall be the exclusive remedy of Director and the Company and the award of the arbitrator(s) shall be final and binding upon the parties. All reasonable costs, including reasonable attorney's fees, incurred in enforcing an arbitration award in court, or of seeking a court order to compel arbitration, shall be borne by the losing party in such proceedings.

12. ADVICE OF COUNSEL. Director acknowledges that he/she has been encouraged to consult with legal counsel of his/her choosing concerning the terms of this Agreement prior to executing this Agreement. Any failure by Director to consult with competent counsel prior to executing this Agreement shall not be a basis for rescinding or otherwise avoiding the binding effect of this Agreement. The parties acknowledge that they are entering into this Agreement freely and voluntarily, with full understanding of the terms of this Agreement. Interpretation of the terms and provisions of this Agreement shall not be construed for or against either party on the basis of the identity of the party who drafted the terms or provisions in question.

14. TAXES.

(i) All payments to be made to Director under this Agreement will be subject to required withholding of federal, state and local income and employment taxes.

(ii) In the event that any payment or benefit (within the meaning of Section 280G(b)(2) of the Internal Revenue Code, as amended (the "Code")), to the Director or for his benefit paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, his service as a director of the Company or a Change in Control (including the accelerated exercise of any stock options)(any such payment or benefit being a "Payment" or "Payments"), would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Director with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Director will be entitled to receive an additional payment (a "Gross-Up Payment") in an amount equal to the total Excise Tax imposed on the Director as a result of such Payments (including the Excise Tax reimbursement due pursuant to this sentence and the Excise Taxes on any federal and state tax reimbursements due pursuant to the next subsection).

(iii) If Company is obligated to pay the Director pursuant to the preceding subsection,

Company also shall pay the Director an amount equal to the “total presumed federal and state taxes” that could be imposed on the Director with respect to the Excise Tax reimbursements due to the Director pursuant to the preceding subsection and the federal and state tax reimbursements due to the Director pursuant to this sentence. For purposes of the preceding sentence, the “total presumed federal and state taxes” that could be imposed on the Director shall be conclusively calculated using a combined tax rate equal to the sum of (a) the highest individual income tax rate in effect under (i) Federal tax law and (ii) the tax laws of the state in which the Director resides on the date that the payment under this Section 14 is computed and (b) the hospital insurance portion of FICA.

(iv) No adjustments will be made in this combined rate for the deduction of state taxes on the federal return, the loss of itemized deductions or exemptions, or for any other purpose for paying the actual taxes. Director shall be responsible for paying the actual taxes.

(v) An initial determination as to whether a Gross-Up Payment is required pursuant to this Agreement and the amount of such Gross-Up Payment shall be made at the Company’s expense by Vavrinek Trine Day & Co. or by any successor accounting firm appointed by the Company prior to any Change in Control (the “Accounting Firm”). The Accounting Firm shall provide its determination (the “Determination”), together with detailed supporting calculations and documentation to the Company and the Director within five days after the date the insurance policy referred to in Section 4 is terminated or at such other time as requested by the Company or by the Director (provided the Director reasonably believes that any of the Payments may be subject to the Excise Tax) and if the Accounting Firm determines that no Excise Tax is payable by the Director with respect to a Payment or Payments, it shall furnish the Director with an opinion reasonably acceptable to the Director that no Excise Tax will be imposed with respect to any such Payment or Payments. Within ten days of the delivery of the Determination to the Director, the Director shall have the right to dispute the Determination (the “Dispute”). The Gross-Up Payment, if any, as determined pursuant to this Section 8 shall be paid by the Company to the Director within five days of the receipt of the Accounting Firm’s determination. The existence of the Dispute shall not in any way affect the Director’s right to receive the Gross-Up Payment in accordance with the Determination. Upon the final resolution of a Dispute, the Company shall promptly pay to the Director any additional amount required by such resolution. If there is no Dispute, the Determination shall be binding, final and conclusive upon the Company and the Director subject to the application of Section 14(vi) below.

(vi) Notwithstanding anything contained in this Agreement to the contrary, in the event that according to the Determination, an Excise Tax will be imposed on any Payment or Payments, the Company shall pay to the applicable government taxing authorities as Excise Tax withholding, the amount of the Excise Tax that the Company has actually withheld from the Payment or Payments.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:

SANTA LUCIA BANK
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen
Witness

By: /s/ Larry H. Putnam
Its: Chief Executive Officer
Print name: Larry H. Putnam

THE DIRECTOR
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen
Witness

/s/ Jerry W. DeCou, III
Jerry W. DeCou, III

EXHIBIT A

LIFE INSURANCE
ENDORSEMENT METHOD SPLIT DOLLAR PLAN
AGREEMENT

Insurer: Alexander Hamilton Life
Policy Number: 0010199749
Bank: Santa Lucia Bank
Insured: Jerry Decou, III
Relationship of Insured to Bank: Director

The respective rights and duties of the Bank and the Insured in the above-referenced policy shall be pursuant to the terms set forth below:

I. DEFINITIONS

Refer to the policy contract for the definition of all terms in this Agreement.

II. POLICY TITLE AND OWNERSHIP

Title and ownership shall reside in the Bank for its use and for the use of the Insured all in accordance with this Agreement. The Bank alone may, to the extent of its interest, exercise the right to borrow or withdraw on the policy cash values. Where the Bank and the Insured (or assignee, with the consent of the Insured) mutually agree to exercise the right to increase the coverage under the subject Split Dollar policy, then, in such event, the rights, duties and benefits of the parties to such increased coverage shall continue to be subject to the terms of this Agreement.

III. BENEFICIARY DESIGNATION RIGHTS

The Insured (or assignee) shall have the right and power to designate a beneficiary or beneficiaries to receive the Insured's share of the proceeds payable upon the death of the Insured, and to elect and change a payment option for such

beneficiary, subject to any right or interest the Bank may have in such proceeds, as provided in this Agreement.

IV. PREMIUM PAYMENT METHOD AND BANK'S DUE DILIGENCE

Subject to the following, the Bank shall pay an amount equal to the planned premiums and any other premium payments that might become necessary to keep the policy in force. The Bank shall exercise due diligence in reviewing the financial stability of the insurance company and the policy that are the subject of this Agreement. If the Bank believes that the Insurer under the policy is financially weak or that the policy is not performing well, the Bank may, at any time, surrender the policy or substitute a different policy provided that the Bank is under no obligation to invest in such replacement policy any more than the proceeds available from the cash surrender value of the original policy. The Director will cooperate by undertaking any necessary medical examination. If the Bank chooses to surrender the above-referenced policy without replacing it or the policy otherwise ceases to exist prior to the death of the Insured, the Bank agrees to pay the Insured's named beneficiary(ies) Thirty-Seven Thousand and Eight Hundred Dollars (\$ 37,800.00) as a death benefit under Paragraph VI of this Agreement.

V. TAXABLE BENEFIT

Annually the Insured will receive a taxable benefit equal to the assumed cost of insurance as required by the Internal Revenue Service. The Bank (or its administrator) will report to the Insured the amount of imputed income each year on Form W-2 or its equivalent.

VI. DIVISION OF DEATH PROCEEDS

Subject to Paragraphs IV, VII and IX herein, the division of the death proceeds of the policy is as follows:

- A. If the Insured is employed by the Bank, or has retired from the Bank on or subsequent to the Insured attaining age sixty-five (65), then upon the death of the Insured, the Insured's beneficiary(ies), designated in accordance with Paragraph III, shall be entitled to the amount set forth in Exhibit A, attached hereto and fully incorporated herein by reference, that corresponds to the age of the Insured at the time of death, or an amount equal to one hundred percent (100%) of the net-at-risk insurance portion of the proceeds, whichever amount is less. The net-at-risk insurance portion is the total proceeds less the cash value of the policy.
- B. The Bank shall be entitled to the remainder of such proceeds.

- C. The Bank and the Insured (or assignees) shall share in any interest due on the death proceeds on a pro rata basis as the proceeds due each respectively bears to the total proceeds, excluding any such interest.

VII. DIVISION OF THE CASH SURRENDER VALUE OF THE POLICY

The Bank shall at all times be entitled to an amount equal to the policy's cash value, as that term is defined in the policy contract, less any policy loans and unpaid interest or cash withdrawals previously incurred by the Bank and any applicable surrender charges. Such cash value shall be determined as of the date of surrender or death as the case may be.

VIII. RIGHTS OF PARTIES WHERE POLICY ENDOWMENT OR ANNUITY ELECTION EXISTS

In the event the policy involves an endowment or annuity element, the Bank's right and interest in any endowment proceeds or annuity benefits, on expiration of the deferment period, shall be determined under the provisions of this Agreement by regarding such endowment proceeds or the commuted value of such annuity benefits as the policy's cash value. Such endowment proceeds or annuity benefits shall be considered to be like death proceeds for the purposes of division under this Agreement.

IX. TERMINATION OF AGREEMENT

This Agreement shall terminate upon the occurrence of any one of the following:

- A. The Insured shall leave the service of the Board of the Bank (voluntarily or involuntarily) prior to attaining age sixty-five (65);
- B. The Insured shall be discharged from service on the Board of the Bank for cause. The term "far cause" shall mean any of the following that result in an adverse effect on the Bank: (i) gross negligence or gross neglect; (ii) the commission of a felony or gross misdemeanor involving moral turpitude, fraud, or dishonesty; (iii) the willful violation of any law, rule, or regulation (other than a traffic violation or similar offense); (iv) an intentional failure to comply with directives of the Board of Directors; (v) an intentional failure to perform stated duties; or (vi) a breach of fiduciary duty involving personal profit; or
- C. Surrender, lapse, or other termination of the Policy by the Bank.

Upon such termination, the Insured (or assignee) shall have a fifteen (15) day option to receive from the Bank an absolute assignment of the policy in

consideration of a cash payment to the Bank, whereupon this Agreement shall terminate. Such cash payment referred to hereinabove shall be the greater of:

- A. The Bank's share of the cash value of the policy on the date of such assignment, as defined in this Agreement; or
- B. The amount of the premiums that have been paid by the Bank prior to the date of such assignment.

If, within said fifteen (15) day period, the Insured fails to exercise said option, fails to procure the entire aforesaid cash payment, or dies, then the option shall terminate and the Insured (or assignee) agrees that all of the Insured's rights, interest and claims in the policy shall terminate as of the date of the termination of this Agreement.

The Insured expressly agrees that this Agreement shall constitute sufficient written notice to the Insured of the Insured's option to receive an absolute assignment of the policy as set forth herein.

Except as provided above, this Agreement shall terminate upon distribution of the death benefit proceeds in accordance with Paragraph VI above.

X. INSURED'S OR ASSIGNEE'S ASSIGNMENT RIGHTS

The Insured may not, without the written consent of the Bank, assign to any individual, trust or other organization, any right, title or interest in the subject policy nor any rights, options, privileges or duties created under this Agreement.

XI. AGREEMENT BINDING UPON THE PARTIES

This Agreement shall bind the Insured and the Bank, their heirs, successors, personal representatives and assigns.

X ERISA PROVISIONS

The following provisions are part of this Agreement and are intended to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"):

- A. Named Fiduciary and Plan Administrator.

The "Named Fiduciary and Plan Administrator" of this Endorsement Method Split Dollar Agreement shall be Santa Lucia Bank until its resignation or removal by the Board of Directors. As Named Fiduciary and Plan Administrator, the Bank shall be responsible for the management,

control, and administration of this Split Dollar Plan as established herein. The Named Fiduciary may delegate to others certain aspects of the management and operation responsibilities of the Plan, including the employment of advisors and the delegation of any ministerial duties to qualified individuals.

B. Funding Policy.

The funding policy for this Split Dollar Plan shall be to maintain the subject policy in force by paying, when due, all premiums required.

C. Basis of Payment of Benefits.

Direct payment by the Insurer is the basis of payment of benefits under this Agreement, with those benefits in turn being based on the payment of premiums as provided in this Agreement.

D. Claim Procedures.

Claim forms or claim information as to the subject policy can be obtained by contacting Benchmark, Inc. (800-544-6079). When the Named Fiduciary has a claim which may be covered under the provisions described in the insurance policy, they should contact the office named above, and they will either complete a claim form and forward it to an authorized representative of the Insurer or advise the named Fiduciary what further requirements are necessary. The Insurer will evaluate and make a decision as to payment. If the claim is payable, a benefit check will be issued in accordance with the terms of this Agreement.

In the event that a claim is not eligible under the policy, the Insurer will notify the Named Fiduciary of the denial pursuant to the requirements under the terms of the policy. If the Named Fiduciary is dissatisfied with the denial of the claim and wishes to contest such claim denial, they should contact the office named above and they will assist in making an inquiry to the Insurer. All objections to the Insurer's actions should be in writing and submitted to the office named above for transmittal to the Insurer.

XIII. GENDER

Whenever in this Agreement words are used in the masculine or neuter gender, they shall be read and construed as in the masculine, feminine or neuter gender, whenever they should so apply.

XIV. INSURANCE COMPANY NOT A PARTY TO THIS AGREEMENT

The Insurer shall not be deemed a party to this Agreement, but will respect the rights of the parties as herein developed upon receiving an executed copy of this Agreement. Payment or other performance in accordance with the policy provisions shall fully discharge the Insurer from any and all liability.

XV. CHANGE OF CONTROL

Change of Control shall be deemed to be the cumulative transfer of more than fifty percent (50%) of the voting stock of the Bank from the date of this Agreement. For the purposes of this Agreement, transfers on account of death or gifts, transfers between family members, or transfers to a qualified retirement plan maintained by the Bank shall not be considered in determining whether there has been a Change of Control. Upon a Change of Control, if the Insured's service on the Board of the Bank is subsequently terminated, except for cause, then the Insured shall be one hundred percent (100%) vested in the benefits promised in this Agreement and, therefore, upon the death of the Insured, the Insured's beneficiary(ies) (designated in accordance with Paragraph III) shall receive the death benefit provided herein as if the Insured had died while serving on the Board of the Bank (see Subparagraph VI [A]).

XVI. AMENDMENT OR REVOCATION

It is agreed by and between the parties hereto that, during the lifetime of the Insured, this Agreement may be amended or revoked at any time or times, in whole or in part, by the mutual written consent of the Insured and the Bank.

XVII. EFFECTIVE DATE

The Effective Date of this Agreement shall be January 1, 2001.

XVIII. SEVERABILITY AND INTERPRETATION

If a provision of this Agreement is held to be invalid or unenforceable, the remaining provisions shall nonetheless be enforceable according to their terms. Further, in the event that any provision is held to be overbroad as written, such provision shall be deemed amended to narrow its application to the extent necessary to make the provision enforceable according to law and enforced as amended.

XIX. APPLICABLE LAW

The validity and interpretation of this Agreement shall be governed by the laws of the State of California.

Executed at Atascadero, California this 10th day of January, 2001.

SANTA LUCIA BANK
Atascadero, California

/s/ Claudya Oglesby
Witness
Claudya Oglesby

By: /s/ Stanley R. Cherry President
Stanley R. Cherry Title

/s/ Stanley R. Cherry
Witness
Stanley R. Cherry

/s/ Jerry Decou, III
Jerry Decou, III

AGREEMENT

This Agreement is made and is effective as of October 15, 2008 by and between Santa Lucia Bank (“Company”) and Douglas C. Filippini (“Director”).

WHEREAS, Director is currently a director of Company and its wholly owned subsidiary, Santa Lucia Bank (“Bank”), and Director’s background, expertise and efforts have contributed to the success and financial strength of the Company; and

WHEREAS, the Company wishes to assure itself of the continued opportunity to benefit from Director’s services on the board of directors, (“Board”) and Director wishes to serve in such capacity of the Company;

WHEREAS, the Board has determined that the best interests of the Company would be served by setting forth certain benefits which the Company will provide to Director if the Director remains a member of the Board up to and including the consummation of a Change in Control of the Company; and

WHEREAS, the Company wishes to provide a specific incentive to Director to remain on the Board through and including the consummation of any Change in Control of the Company, as defined herein.

NOW, THEREFORE, in order to effect the foregoing, the parties hereto wish to enter into an agreement on the terms and conditions set forth below. This agreement (“Agreement”) therefore sets forth those benefits which the Company will provide to Director in the event of a “Change in Control of the Company” (as defined in paragraph 2) under the circumstances described below or in contemplation of a Change in Control as discussed in Paragraph 1 below. Accordingly, in consideration of the premises and the respective covenants and agreements of or in contemplation of a Change in Control as discussed in Paragraph 1 below herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **TERM.** If a Change in Control of the Company should occur while Director is still a member of the Board, then this Agreement shall continue in effect from the date of such Change in Control of the Company for so long as Director remains eligible to receive payments from the Company under that certain Endorsement Method Split Dollar Plan Agreement by and between Director and Company dated January 10, 2001 attached hereto as Exhibit A; provided, however, that the expiration of the term of this Agreement shall not adversely affect Director’s rights under this Agreement which have accrued prior to such expiration. If no Change in Control of the Company occurs before Director’s status as a Director of the Company is terminated, this Agreement shall expire on such date.
2. **CHANGE IN CONTROL.** For purposes of this Agreement, “Change in Control” means a change of control of the Company or Bank, of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act, whether or not the Bank or Company is then subject to such reporting requirement; provided, however, that a transaction in which the Bank or Company is the acquirer regardless of the form of the

transaction shall not be a Change in Control for purposes of this Agreement; provided further however, that without limitation, a Change in Control shall be deemed to have occurred if:

- (i) there is a transfer, voluntarily or by hostile takeover, by proxy contest (or similar action), operation of law, or otherwise, of control of the Bank or Company;
- (ii) any Person is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act or any successor provisions thereof), directly or indirectly, of securities of the Bank or Company representing 20% or more of the combined voting power of the Bank’s or Company’s then outstanding securities (other than in the case of the ownership by Company of Bank securities);
- (iii) the individuals who were members of the Board immediately prior to a meeting of the shareholders of the Bank or Company, which meeting involves a contest for the election of directors, do not constitute a majority of the Board following such meeting or election;
- (iv) a merger is completed in which the Bank or Company is not the surviving entity (unless the stockholders of Bank or Company, as the case may be, immediately before such merger own immediately after such merger more than a majority of the voting securities of the surviving entity), a consolidation or sale of all or substantially all of the assets of the Bank or Company; or
- (v) there is a change, during any period of two consecutive years, of a majority of the Board or of the board of directors of Company as constituted as of the beginning of such period, unless the election of each director who is not a director at the beginning of such period was approved by a vote of at least two-thirds of the directors then in office who were directors at the beginning of such period.

3. BENEFITS FOLLOWING CHANGE IN CONTROL. If a Change in Control of the Company shall have occurred while Director is still a director of the Company, Director shall be entitled to the payments and benefits provided in paragraph 4 hereof.

4. BENEFITS FOR DIRECTOR. If, after a Change in Control, the acquiring company chooses, or causes the Bank or surviving entity to surrender the life insurance policy maintained by the Bank under the Director’s Life Insurance Endorsement Method Split Dollar Plan Agreement without replacing it or the policy otherwise ceases to exist prior to the death of Director, Santa Lucia Bank or the acquiring company shall pay to Director Douglas C. Filippini (\$45,000.00) upon the surrender or otherwise termination of the policy. The obligations set forth in the preceding sentence shall survive any termination of this Agreement.

The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish Director’s existing rights, or rights which would accrue solely as a result of the passage of time, under any employee benefit plan of the Company, any employment agreement or other contract, plan or arrangement of the Company, except to the extent necessary to prevent double payment under any severance plan or program of the Company in effect at the date of the Change of Control.

5. SUCCESSOR'S BINDING AGREEMENT

(i) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to Director expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(ii) This Agreement shall inure to the benefit of, and be enforceable by, Director's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Director should die while any amounts would still be payable to Director hereunder if Director had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Director's devisee, legatee or other designee or, if there be no such designee, to Director's estate.

6. NOTICE. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the last page of this Agreement, provided that all notices to the Company should be directed to the attention of the Chairman of the Company's Compensation Committee, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

7. FURTHER ASSURANCES. Each party hereto agrees to furnish and execute such additional forms and documents, and to take such further action, as shall be reasonable and customarily required in connection with the performance of this Agreement or the payment of benefits hereunder.

8. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Director and such officer as may be specifically designated by the Board of Directors of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which is not set forth expressly in this Agreement. This Agreement contains the entire agreement among the parties and supersedes and replaces any prior agreement between the parties concerning the subject matter hereof. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

9. VALIDITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

11. ARBITRATION. Any dispute or controversy arising or in connection with this Agreement shall, upon written request of one party to the other, be submitted to and settled exclusively by arbitration pursuant to the rules of the American Arbitration Association. Judgment may be entered on the arbitrator's award in any court of competent jurisdiction. The cost of such arbitration, including reasonable attorney's fees, shall be borne by the losing party or in such proportions as the arbitrator(s) shall decide. Arbitration shall be the exclusive remedy of Director and the Company and the award of the arbitrator(s) shall be final and binding upon the parties. All reasonable costs, including reasonable attorney's fees, incurred in enforcing an arbitration award in court, or of seeking a court order to compel arbitration, shall be borne by the losing party in such proceedings.

12. ADVICE OF COUNSEL. Director acknowledges that he/she has been encouraged to consult with legal counsel of his/her choosing concerning the terms of this Agreement prior to executing this Agreement. Any failure by Director to consult with competent counsel prior to executing this Agreement shall not be a basis for rescinding or otherwise avoiding the binding effect of this Agreement. The parties acknowledge that they are entering into this Agreement freely and voluntarily, with full understanding of the terms of this Agreement. Interpretation of the terms and provisions of this Agreement shall not be construed for or against either party on the basis of the identity of the party who drafted the terms or provisions in question.

14. TAXES.

(i) All payments to be made to Director under this Agreement will be subject to required withholding of federal, state and local income and employment taxes.

(ii) In the event that any payment or benefit (within the meaning of Section 280G(b)(2) of the Internal Revenue Code, as amended (the "Code")), to the Director or for his benefit paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, his service as a director of the Company or a Change in Control (including the accelerated exercise of any stock options)(any such payment or benefit being a "Payment" or "Payments"), would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Director with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Director will be entitled to receive an additional payment (a "Gross-Up Payment") in an amount equal to the total Excise Tax imposed on the Director as a result of such Payments (including the Excise Tax reimbursement due pursuant to this sentence and the Excise Taxes on any federal and state tax reimbursements due pursuant to the next subsection).

(iii) If Company is obligated to pay the Director pursuant to the preceding subsection, Company also shall pay the Director an amount equal to the "total presumed federal and state taxes" that could be imposed on the Director with respect to the Excise Tax reimbursements due to the Director pursuant to the preceding subsection and the federal and state tax reimbursements due to the Director pursuant to this sentence. For purposes of the preceding sentence, the "total

presumed federal and state taxes” that could be imposed on the Director shall be conclusively calculated using a combined tax rate equal to the sum of (a) the highest individual income tax rate in effect under (i) Federal tax law and (ii) the tax laws of the state in which the Director resides on the date that the payment under this Section 14 is computed and (b) the hospital insurance portion of FICA.

(iv) No adjustments will be made in this combined rate for the deduction of state taxes on the federal return, the loss of itemized deductions or exemptions, or for any other purpose for paying the actual taxes. Director shall be responsible for paying the actual taxes.

(v) An initial determination as to whether a Gross-Up Payment is required pursuant to this Agreement and the amount of such Gross-Up Payment shall be made at the Company’s expense by Vavrinek Trine Day & Co. or by any successor accounting firm appointed by the Company prior to any Change in Control (the “Accounting Firm”). The Accounting Firm shall provide its determination (the “Determination”), together with detailed supporting calculations and documentation to the Company and the Director within five days after the date the insurance policy referred to in Section 4 is terminated or at such other time as requested by the Company or by the Director (provided the Director reasonably believes that any of the Payments may be subject to the Excise Tax) and if the Accounting Firm determines that no Excise Tax is payable by the Director with respect to a Payment or Payments, it shall furnish the Director with an opinion reasonably acceptable to the Director that no Excise Tax will be imposed with respect to any such Payment or Payments. Within ten days of the delivery of the Determination to the Director, the Director shall have the right to dispute the Determination (the “Dispute”). The Gross-Up Payment, if any, as determined pursuant to this Section 8 shall be paid by the Company to the Director within five days of the receipt of the Accounting Firm’s determination. The existence of the Dispute shall not in any way affect the Director’s right to receive the Gross-Up Payment in accordance with the Determination. Upon the final resolution of a Dispute, the Company shall promptly pay to the Director any additional amount required by such resolution. If there is no Dispute, the Determination shall be binding, final and conclusive upon the Company and the Director subject to the application of Section 14(vi) below.

(vi) Notwithstanding anything contained in this Agreement to the contrary, in the event that according to the Determination, an Excise Tax will be imposed on any Payment or Payments, the Company shall pay to the applicable government taxing authorities as Excise Tax withholding, the amount of the Excise Tax that the Company has actually withheld from the Payment or Payments.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:

SANTA LUCIA BANK
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen

Witness

By: /s/ Larry H. Putnam

Its: Chief Executive Officer

Print name: Larry H. Putnam

THE DIRECTOR
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen

Witness

/s/ Douglas C. Filippini

Douglas C. Filippini

EXHIBIT A

LIFE INSURANCE
ENDORSEMENT METHOD SPLIT DOLLAR PLAN
AGREEMENT

Insurer: West Coast Life
Policy Number: ULA349315
Bank: Santa Lucia Bank
Insured: Douglas C. Filipponi
Relationship of Insured to Bank: Director

The respective rights and duties of the Bank and the Insured in the above-referenced policy shall be pursuant to the terms set forth below:

I. DEFINITIONS

Refer to the policy contract for the definition of all terms in this Agreement.

II. POLICY TITLE AND OWNERSHIP

Title and ownership shall reside in the Bank for its use and for the use of the Insured all in accordance with this Agreement. The Bank alone may, to the extent of its interest, exercise the right to borrow or withdraw on the policy cash values. Where the Bank and the Insured (or assignee, with the consent of the Insured) mutually agree to exercise the right to increase the coverage under the subject Split Dollar policy, then, in such event, the rights, duties and benefits of the parties to such increased coverage shall continue to be subject to the terms of this Agreement.

III. BENEFICIARY DESIGNATION RIGHTS

The Insured (or assignee) shall have the right and power to designate a beneficiary or beneficiaries to receive the Insured's share of the proceeds payable upon the death of the Insured, and to elect and change a payment option for such

beneficiary, subject to any right or interest the Bank may have in such proceeds, as provided in this Agreement.

IV. PREMIUM PAYMENT METHOD AND BANK'S DUE DILIGENCE

Subject to the following, the Bank shall pay an amount equal to the planned premiums and any other premium payments that might become necessary to keep the policy in force. The Bank shall exercise due diligence in reviewing the financial stability of the insurance company and the policy that are the subject of this Agreement. If the Bank believes that the Insurer under the policy is financially weak or that the policy is not performing well, the Bank may, at any time, surrender the policy or substitute a different policy provided that the Bank is under no obligation to invest in such replacement policy any more than the proceeds available from the cash surrender value of the original policy. The Director will cooperate by undertaking any necessary medical examination. If the Bank chooses to surrender the above-referenced policy without replacing it or the policy otherwise ceases to exist prior to the death of the Insured, the Bank agrees to pay the Insured's named beneficiary(ies) Forty-Five Thousand Dollars (\$ 45,000.00) as a death benefit under Paragraph VI of this Agreement.

V. TAXABLE BENEFIT

Annually the Insured will receive a taxable benefit equal to the assumed cost of insurance as required by the Internal Revenue Service. The Bank (or its administrator) will report to the Insured the amount of imputed income each year on Form W-2 or its equivalent.

VI. DIVISION OF DEATH PROCEEDS

Subject to Paragraphs IV, VII and IX herein, the division of the death proceeds of the policy is as follows:

- A. If the Insured is employed by the Bank, or has retired from the Bank on or subsequent to the Insured attaining age sixty-five (65), then upon the death of the Insured, the Insured's beneficiary(ies), designated in accordance with Paragraph III, shall be entitled to the amount set forth in Exhibit A, attached hereto and fully incorporated herein by reference, that corresponds to the age of the Insured at the time of death, or an amount equal to one hundred percent (100%) of the net-at-risk insurance portion of the proceeds, whichever amount is less. The net-at-risk insurance portion is the total proceeds less the cash value of the policy.
- B. The Bank shall be entitled to the remainder of such proceeds.

- C. The Bank and the Insured (or assignees) shall share in any interest due on the death proceeds on a pro rata basis as the proceeds due each respectively bears to the total proceeds, excluding any such interest.

VII. DIVISION OF THE CASH SURRENDER VALUE OF THE POLICY

The Bank shall at all times be entitled to an amount equal to the policy's cash value, as that term is defined in the policy contract, less any policy loans and unpaid interest or cash withdrawals previously incurred by the Bank and any applicable surrender charges. Such cash value shall be determined as of the date of surrender or death as the case may be.

VIII. RIGHTS OF PARTIES WHERE POLICY ENDOWMENT OR ANNUITY ELECTION EXISTS

In the event the policy involves an endowment or annuity element, the Bank's right and interest in any endowment proceeds or annuity benefits, on expiration of the deferment period, shall be determined under the provisions of this Agreement by regarding such endowment proceeds or the commuted value of such annuity benefits as the policy's cash value. Such endowment proceeds or annuity benefits shall be considered to be like death proceeds for the purposes of division under this Agreement.

IX. TERMINATION OF AGREEMENT

This Agreement shall terminate upon the occurrence of any one of the following:

- A. The Insured shall leave the service of the Board of the Bank (voluntarily or involuntarily) prior to attaining age sixty-five (65);
- B. The Insured shall be discharged from service on the Board of the Bank for cause. The term "for cause" shall mean any of the following that result in an adverse effect on the Bank: (i) gross negligence or gross neglect; (ii) the commission of a felony or gross misdemeanor involving moral turpitude, fraud, or dishonesty; (iii) the willful violation of any law, rule, or regulation (other than a traffic violation or similar offense); (iv) an intentional failure to comply with directives of the Board of Directors; (v) an intentional failure to perform stated duties; or (vi) a breach of fiduciary duty involving personal profit; or
- C. Surrender, lapse, or other termination of the Policy by the Bank.

Upon such termination, the Insured (or assignee) shall have a fifteen (15) day option to receive from the Bank an absolute assignment of the policy in

consideration of a cash payment to the Bank, whereupon this Agreement shall terminate. Such cash payment referred to hereinabove shall be the greater of:

- A. The Bank's share of the cash value of the policy on the date of such assignment, as defined in this Agreement; or
- B. The amount of the premiums that have been paid by the Bank prior to the date of such assignment.

If, within said fifteen (15) day period, the Insured fails to exercise said option, fails to procure the entire aforesaid cash payment, or dies, then the option shall terminate and the Insured (or assignee) agrees that all of the Insured's rights, interest and claims in the policy shall terminate as of the date of the termination of this Agreement.

The Insured expressly agrees that this Agreement shall constitute sufficient written notice to the Insured of the Insured's option to receive an absolute assignment of the policy as set forth herein.

Except as provided above, this Agreement shall terminate upon distribution of the death benefit proceeds in accordance with Paragraph VI above.

X. INSURED'S OR ASSIGNEE'S ASSIGNMENT RIGHTS

The Insured may not, without the written consent of the Bank, assign to any individual, trust or other organization, any right, title or interest in the subject policy nor any rights, options, privileges or duties created under this Agreement.

XI. AGREEMENT BINDING UPON THE PARTIES

This Agreement shall bind the Insured and the Bank, their heirs, successors, personal representatives and assigns.

XII. ERISA PROVISIONS

The following provisions are part of this Agreement and are intended to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"):

- A. Named Fiduciary and Plan Administrator.

The "Named Fiduciary and Plan Administrator" of this Endorsement Method Split Dollar Agreement shall be Santa Lucia Bank until its resignation or removal by the Board of Directors. As Named Fiduciary and Plan Administrator, the Bank shall be responsible for the management,

control, and administration of this Split Dollar Plan as established herein. The Named Fiduciary may delegate to others certain aspects of the management and operation responsibilities of the Plan, including the employment of advisors and the delegation of any ministerial duties to qualified individuals.

B. Funding Policy.

The funding policy for this Split Dollar Plan shall be to maintain the subject policy in force by paying, when due, all premiums required.

C. Basis of Payment of Benefits.

Direct payment by the Insurer is the basis of payment of benefits under this Agreement, with those benefits in turn being based on the payment of premiums as provided in this Agreement.

D. Claim Procedures.

Claim forms or claim information as to the subject policy can be obtained by contacting Benmark, Inc. (800-544-6079). When the Named Fiduciary has a claim which may be covered under the provisions described in the insurance policy, they should contact the office named above, and they will either complete a claim form and forward it to an authorized representative of the Insurer or advise the named Fiduciary what further requirements are necessary. The Insurer will evaluate and make a decision as to payment. If the claim is payable, a benefit check will be issued in accordance with the terms of this Agreement.

In the event that a claim is not eligible under the policy, the Insurer will notify the Named Fiduciary of the denial pursuant to the requirements under the terms of the policy. If the Named Fiduciary is dissatisfied with the denial of the claim and wishes to contest such claim denial, they should contact the office named above and they will assist in making an inquiry to the Insurer. All objections to the Insurer's actions should be in writing and submitted to the office named above for transmittal to the Insurer.

XIII. GENDER

Whenever in this Agreement words are used in the masculine or neuter gender, they shall be read and construed as in the masculine, feminine or neuter gender, whenever they should so apply.

XIV. INSURANCE COMPANY NOT A PARTY TO THIS AGREEMENT

The Insurer shall not be deemed a party to this Agreement, but will respect the rights of the parties as herein developed upon receiving an executed copy of this Agreement. Payment or other performance in accordance with the policy provisions shall fully discharge the Insurer from any and all liability.

XV. CHANGE OF CONTROL

Change of Control shall be deemed to be the cumulative transfer of more than fifty percent (50%) of the voting stock of the Bank from the date of this Agreement. For the purposes of this Agreement, transfers on account of death or gifts, transfers between family members, or transfers to a qualified retirement plan maintained by the Bank shall not be considered in determining whether there has been a Change of Control. Upon a Change of Control, if the Insured's service on the Board of the Bank is subsequently terminated, except for cause, then the Insured shall be one hundred percent (100%) vested in the benefits promised in this Agreement and, therefore, upon the death of the Insured, the Insured's beneficiary(ies) (designated in accordance with Paragraph III) shall receive the death benefit provided herein as if the Insured had died while serving on the Board of the Bank (see Subparagraph VI [A]).

XVI. AMENDMENT OR REVOCATION

It is agreed by and between the parties hereto that, during the lifetime of the Insured, this Agreement may be amended or revoked at any time or times, in whole or in part, by the mutual written consent of the Insured and the Bank.

XVII. EFFECTIVE DATE

The Effective Date of this Agreement shall be January 1, 2001

XVIII. SEVERABILITY AND INTERPRETATION

If a provision of this Agreement is held to be invalid or unenforceable, the remaining provisions shall nonetheless be enforceable according to their terms. Further, in the event that any provision is held to be overbroad as written, such provision shall be deemed amended to narrow its application to the extent necessary to make the provision enforceable according to law and enforced as amended.

XIX. APPLICABLE LAW

The validity and interpretation of this Agreement shall be governed by the laws of the State of California.

Executed at Atascadero, California this 10th day of January, 2001.

SANTA LUCIA BANK
Atascadero, California

/s/ Claudya Oglesby
Witness
Claudya Oglesby

By: /s/ Stanley R. Cherry President
Stanley R. Cherry Title

/s/ Stanley R. Cherry
Witness
Stanley R. Cherry

/s/ Douglas C. Filipponi
Douglas C. Filipponi

AGREEMENT

This Agreement is made and is effective as of October 15, 2008 by and between Santa Lucia Bank (“Company”) and Khatchik H. Achadjian (“Director”).

WHEREAS, Director is currently a director of Company and its wholly owned subsidiary, Santa Lucia Bank (“Bank”), and Director’s background, expertise and efforts have contributed to the success and financial strength of the Company; and

WHEREAS, the Company wishes to assure itself of the continued opportunity to benefit from Director’s services on the board of directors, (“Board”) and Director wishes to serve in such capacity of the Company;

WHEREAS, the Board has determined that the best interests of the Company would be served by setting forth certain benefits which the Company will provide to Director if the Director remains a member of the Board up to and including the consummation of a Change in Control of the Company; and

WHEREAS, the Company wishes to provide a specific incentive to Director to remain on the Board through and including the consummation of any Change in Control of the Company, as defined herein.

NOW, THEREFORE, in order to effect the foregoing, the parties hereto wish to enter into an agreement on the terms and conditions set forth below. This agreement (“Agreement”) therefore sets forth those benefits which the Company will provide to Director in the event of a “Change in Control of the Company” (as defined in paragraph 2) under the circumstances described below or in contemplation of a Change in Control as discussed in Paragraph 1 below. Accordingly, in consideration of the premises and the respective covenants and agreements of or in contemplation of a Change in Control as discussed in Paragraph 1 below herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. TERM. If a Change in Control of the Company should occur while Director is still a member of the Board, then this Agreement shall continue in effect from the date of such Change in Control of the Company for so long as Director remains eligible to receive payments from the Company under that certain Endorsement Method Split Dollar Plan Agreement by and between Director and Company dated January 10, 2001 attached hereto as Exhibit A; provided, however, that the expiration of the term of this Agreement shall not adversely affect Director’s rights under this Agreement which have accrued prior to such expiration. If no Change in Control of the Company occurs before Director’s status as a Director of the Company is terminated, this Agreement shall expire on such date.

2. CHANGE IN CONTROL. For purposes of this Agreement, “Change in Control” means a change of control of the Company or Bank, of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act, whether or not the Bank or Company is then subject to such reporting requirement; provided, however, that a transaction in which the Bank or Company is the acquirer regardless of the form of the

transaction shall not be a Change in Control for purposes of this Agreement; provided further however, that without limitation, a Change in Control shall be deemed to have occurred if:

- (i) there is a transfer, voluntarily or by hostile takeover, by proxy contest (or similar action), operation of law, or otherwise, of control of the Bank or Company;
- (ii) any Person is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act or any successor provisions thereof), directly or indirectly, of securities of the Bank or Company representing 20% or more of the combined voting power of the Bank’s or Company’s then outstanding securities (other than in the case of the ownership by Company of Bank securities);
- (iii) the individuals who were members of the Board immediately prior to a meeting of the shareholders of the Bank or Company, which meeting involves a contest for the election of directors, do not constitute a majority of the Board following such meeting or election;
- (iv) a merger is completed in which the Bank or Company is not the surviving entity (unless the stockholders of Bank or Company, as the case may be, immediately before such merger own immediately after such merger more than a majority of the voting securities of the surviving entity), a consolidation or sale of all or substantially all of the assets of the Bank or Company; or
- (v) there is a change, during any period of two consecutive years, of a majority of the Board or of the board of directors of Company as constituted as of the beginning of such period, unless the election of each director who is not a director at the beginning of such period was approved by a vote of at least two-thirds of the directors then in office who were directors at the beginning of such period.

3. BENEFITS FOLLOWING CHANGE IN CONTROL. If a Change in Control of the Company shall have occurred while Director is still a director of the Company, Director shall be entitled to the payments and benefits provided in paragraph 4 hereof.

4. BENEFITS FOR DIRECTOR. If, after a Change in Control, the acquiring company chooses, or causes the Bank or surviving entity to surrender the life insurance policy maintained by the Bank under the Director’s Life Insurance Endorsement Method Split Dollar Plan Agreement without replacing it or the policy otherwise ceases to exist prior to the death of Director, Santa Lucia Bank or the acquiring company shall pay to Director Khatchik Achadjian (\$45,000.00) upon the surrender or otherwise termination of the policy. The obligations set forth in the preceding sentence shall survive any termination of this Agreement.

The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish Director’s existing rights, or rights which would accrue solely as a result of the passage of time, under any employee benefit plan of the Company, any employment agreement or other contract, plan or arrangement of the Company, except to the extent necessary to prevent double payment under any severance plan or program of the Company in effect at the date of the Change of Control.

5. SUCCESSOR'S BINDING AGREEMENT

(i) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to Director expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(ii) This Agreement shall inure to the benefit of, and be enforceable by, Director's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Director should die while any amounts would still be payable to Director hereunder if Director had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Director's devisee, legatee or other designee or, if there be no such designee, to Director's estate.

6. NOTICE. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the last page of this Agreement, provided that all notices to the Company should be directed to the attention of the Chairman of the Company's Compensation Committee, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

7. FURTHER ASSURANCES. Each party hereto agrees to furnish and execute such additional forms and documents, and to take such further action, as shall be reasonable and customarily required in connection with the performance of this Agreement or the payment of benefits hereunder.

8. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Director and such officer as may be specifically designated by the Board of Directors of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which is not set forth expressly in this Agreement. This Agreement contains the entire agreement among the parties and supersedes and replaces any prior agreement between the parties concerning the subject matter hereof. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

9. VALIDITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

11. ARBITRATION. Any dispute or controversy arising or in connection with this Agreement shall, upon written request of one party to the other, be submitted to and settled exclusively by arbitration pursuant to the rules of the American Arbitration Association. Judgment may be entered on the arbitrator's award in any court of competent jurisdiction. The cost of such arbitration, including reasonable attorney's fees, shall be borne by the losing party or in such proportions as the arbitrator(s) shall decide. Arbitration shall be the exclusive remedy of Director and the Company and the award of the arbitrator(s) shall be final and binding upon the parties. All reasonable costs, including reasonable attorney's fees, incurred in enforcing an arbitration award in court, or of seeking a court order to compel arbitration, shall be borne by the losing party in such proceedings.

12. ADVICE OF COUNSEL. Director acknowledges that he/she has been encouraged to consult with legal counsel of his/her choosing concerning the terms of this Agreement prior to executing this Agreement. Any failure by Director to consult with competent counsel prior to executing this Agreement shall not be a basis for rescinding or otherwise avoiding the binding effect of this Agreement. The parties acknowledge that they are entering into this Agreement freely and voluntarily, with full understanding of the terms of this Agreement. Interpretation of the terms and provisions of this Agreement shall not be construed for or against either party on the basis of the identity of the party who drafted the terms or provisions in question.

14. TAXES.

(i) All payments to be made to Director under this Agreement will be subject to required withholding of federal, state and local income and employment taxes.

(ii) In the event that any payment or benefit (within the meaning of Section 280G(b)(2) of the Internal Revenue Code, as amended (the "Code")), to the Director or for his benefit paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, his service as a director of the Company or a Change in Control (including the accelerated exercise of any stock options)(any such payment or benefit being a "Payment" or "Payments"), would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Director with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Director will be entitled to receive an additional payment (a "Gross-Up Payment") in an amount equal to the total Excise Tax imposed on the Director as a result of such Payments (including the Excise Tax reimbursement due pursuant to this sentence and the Excise Taxes on any federal and state tax reimbursements due pursuant to the next subsection).

(iii) If Company is obligated to pay the Director pursuant to the preceding subsection, Company also shall pay the Director an amount equal to the "total presumed federal and state taxes" that could be imposed on the Director with respect to the Excise Tax reimbursements due to the Director pursuant to the preceding subsection and the federal and state tax reimbursements due to the Director pursuant to this sentence. For purposes of the preceding sentence, the "total

presumed federal and state taxes” that could be imposed on the Director shall be conclusively calculated using a combined tax rate equal to the sum of (a) the highest individual income tax rate in effect under (i) Federal tax law and (ii) the tax laws of the state in which the Director resides on the date that the payment under this Section 14 is computed and (b) the hospital insurance portion of FICA.

(iv) No adjustments will be made in this combined rate for the deduction of state taxes on the federal return, the loss of itemized deductions or exemptions, or for any other purpose for paying the actual taxes. Director shall be responsible for paying the actual taxes.

(v) An initial determination as to whether a Gross-Up Payment is required pursuant to this Agreement and the amount of such Gross-Up Payment shall be made at the Company’s expense by Vavrinek Trine Day & Co. or by any successor accounting firm appointed by the Company prior to any Change in Control (the “Accounting Firm”). The Accounting Firm shall provide its determination (the “Determination”), together with detailed supporting calculations and documentation to the Company and the Director within five days after the date the insurance policy referred to in Section 4 is terminated or at such other time as requested by the Company or by the Director (provided the Director reasonably believes that any of the Payments may be subject to the Excise Tax) and if the Accounting Firm determines that no Excise Tax is payable by the Director with respect to a Payment or Payments, it shall furnish the Director with an opinion reasonably acceptable to the Director that no Excise Tax will be imposed with respect to any such Payment or Payments. Within ten days of the delivery of the Determination to the Director, the Director shall have the right to dispute the Determination (the “Dispute”). The Gross-Up Payment, if any, as determined pursuant to this Section 8 shall be paid by the Company to the Director within five days of the receipt of the Accounting Firm’s determination. The existence of the Dispute shall not in any way affect the Director’s right to receive the Gross-Up Payment in accordance with the Determination. Upon the final resolution of a Dispute, the Company shall promptly pay to the Director any additional amount required by such resolution. If there is no Dispute, the Determination shall be binding, final and conclusive upon the Company and the Director subject to the application of Section 14(vi) below.

(vi) Notwithstanding anything contained in this Agreement to the contrary, in the event that according to the Determination, an Excise Tax will be imposed on any Payment or Payments, the Company shall pay to the applicable government taxing authorities as Excise Tax withholding, the amount of the Excise Tax that the Company has actually withheld from the Payment or Payments.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:

SANTA LUCIA BANK
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen
Witness

By: /s/ Larry H. Putnam
Its: Chief Executive Officer
Print name: Larry H. Putnam

THE DIRECTOR
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen

Witness

/s/ Khatchik H. Achadjian

Khatchik H. Achadjian

EXHIBIT A

LIFE INSURANCE
ENDORSEMENT METHOD SPLIT DOLLAR PLAN
AGREEMENT

Insurer: Chubb Life Insurance Company
Policy Number: 659024690
Bank: Santa Lucia Bank
Insured: Khatchik Achadjian
Relationship of Insured to Bank: Director

The respective rights and duties of the Bank and the Insured in the above-referenced policy shall be pursuant to the terms set forth below:

I. DEFINITIONS

Refer to the policy contract for the definition of all terms in this Agreement.

II. POLICY TITLE AND OWNERSHIP

Title and ownership shall reside in the Bank for its use and for the use of the Insured all in accordance with this Agreement. The Bank alone may, to the extent of its interest, exercise the right to borrow or withdraw on the policy cash values. Where the Bank and the Insured (or assignee, with the consent of the Insured) mutually agree to exercise the right to increase the coverage under the subject Split Dollar policy, then, in such event, the rights, duties and benefits of the parties to such increased coverage shall continue to be subject to the terms of this Agreement.

III. BENEFICIARY DESIGNATION RIGHTS

The Insured (or assignee) shall have the right and power to designate a beneficiary or beneficiaries to receive the Insured's share of the proceeds payable upon the death of the Insured, and to elect and change a payment option for such

beneficiary, subject to any right or interest the Bank may have in such proceeds, as provided in this Agreement.

IV. PREMIUM PAYMENT METHOD AND BANK'S DUE DILIGENCE

Subject to the following, the Bank shall pay an amount equal to the planned premiums and any other premium payments that might become necessary to keep the policy in force. The Bank shall exercise due diligence in reviewing the financial stability of the insurance company and the policy that are the subject of this Agreement. If the Bank believes that the Insurer under the policy is financially weak or that the policy is not performing well, the Bank may, at any time, surrender the policy or substitute a different policy provided that the Bank is under no obligation to invest in such replacement policy any more than the proceeds available from the cash surrender value of the original policy. The Director will cooperate by undertaking any necessary medical examination. If the Bank chooses to surrender the above-referenced policy without replacing it or the policy otherwise ceases to exist prior to the death of the Insured, the Bank agrees to pay the Insured's named beneficiary(ies) Forty-Five Thousand Dollars (\$ 45,000.00) as a death benefit under Paragraph VI of this Agreement.

V. TAXABLE BENEFIT

Annually the Insured will receive a taxable benefit equal to the assumed cost of insurance as required by the Internal Revenue Service. The Bank (or its administrator) will report to the Insured the amount of imputed income each year on Form W-2 or its equivalent.

VI. DIVISION OF DEATH PROCEEDS

Subject to Paragraphs IV, VII and IX herein, the division of the death proceeds of the policy is as follows:

- A. If the Insured is employed by the Bank, or has retired from the Bank on or subsequent to the Insured attaining age sixty-five (65), then upon the death of the Insured, the Insured's beneficiary(ies), designated in accordance with Paragraph III, shall be entitled to the amount set forth in Exhibit A, attached hereto and fully incorporated herein by reference, that corresponds to the age of the Insured at the time of death, or an amount equal to one hundred percent (100%) of the net-at-risk insurance portion of the proceeds, whichever amount is less. The net-at-risk insurance portion is the total proceeds less the cash value of the policy.
- B. The Bank shall be entitled to the remainder of such proceeds.

- C. The Bank and the Insured (or assignees) shall share in any interest due on the death proceeds on a pro rata basis as the proceeds due each respectively bears to the total proceeds, excluding any such interest.

VII. DIVISION OF THE CASH SURRENDER VALUE OF THE POLICY

The Bank shall at all times be entitled to an amount equal to the policy's cash value, as that term is defined in the policy contract, less any policy loans and unpaid interest or cash withdrawals previously incurred by the Bank and any applicable surrender charges. Such cash value shall be determined as of the date of surrender or death as the case may be.

VIII. RIGHTS OF PARTIES WHERE POLICY ENDOWMENT OR ANNUITY ELECTION EXISTS

In the event the policy involves an endowment or annuity element, the Bank's right and interest in any endowment proceeds or annuity benefits, on expiration of the deferment period, shall be determined under the provisions of this Agreement by regarding such endowment proceeds or the commuted value of such annuity benefits as the policy's cash value. Such endowment proceeds or annuity benefits shall be considered to be like death proceeds for the purposes of division under this Agreement.

IX. TERMINATION OF AGREEMENT

This Agreement shall terminate upon the occurrence of any one of the following:

- A. The Insured shall leave the service of the Board of the Bank (voluntarily or involuntarily) prior to attaining age sixty-five (65);
- B. The Insured shall be discharged from service on the Board of the Bank for cause. The term "for cause" shall mean any of the following that result in an adverse effect on the Bank: (i) gross negligence or gross neglect; (ii) the commission of a felony or gross misdemeanor involving moral turpitude, fraud, or dishonesty; (iii) the willful violation of any law, rule, or regulation (other than a traffic violation or similar offense); (iv) an intentional failure to comply with directives of the Board of Directors; (v) an intentional failure to perform stated duties; or (vi) a breach of fiduciary duty involving personal profit; or
- C. Surrender, lapse, or other termination of the Policy by the Bank.

Upon such termination, the Insured (or assignee) shall have a fifteen (15) day option to receive from the Bank an absolute assignment of the policy in

consideration of a cash payment to the Bank, whereupon this Agreement shall terminate. Such cash payment referred to hereinabove shall be the greater of:

- A. The Bank's share of the cash value of the policy on the date of such assignment, as defined in this Agreement; or
- B. The amount of the premiums that have been paid by the Bank prior to the date of such assignment.

If, within said fifteen (15) day period, the Insured fails to exercise said option, fails to procure the entire aforesaid cash payment, or dies, then the option shall terminate and the Insured (or assignee) agrees that all of the Insured's rights, interest and claims in the policy shall terminate as of the date of the termination of this Agreement.

The Insured expressly agrees that this Agreement shall constitute sufficient written notice to the Insured of the Insured's option to receive an absolute assignment of the policy as set forth herein.

Except as provided above, this Agreement shall terminate upon distribution of the death benefit proceeds in accordance with Paragraph VI above.

X. INSURED'S OR ASSIGNEE'S ASSIGNMENT RIGHTS

The Insured may not, without the written consent of the Bank, assign to any individual, trust or other organization, any right, title or interest in the subject policy nor any rights, options, privileges or duties created under this Agreement.

XI. AGREEMENT BINDING UPON THE PARTIES

This Agreement shall bind the Insured and the Bank, their heirs, successors, personal representatives and assigns.

XII. ERISA PROVISIONS

The following provisions are part of this Agreement and are intended to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"):

- A. Named Fiduciary and Plan Administrator.

The "Named Fiduciary and Plan Administrator" of this Endorsement Method Split Dollar Agreement shall be Santa Lucia Bank until its resignation or removal by the Board of Directors. As Named Fiduciary and Plan Administrator, the Bank shall be responsible for the management,

control, and administration of this Split Dollar Plan as established herein. The Named Fiduciary may delegate to others certain aspects of the management and operation responsibilities of the Plan, including the employment of advisors and the delegation of any ministerial duties to qualified individuals.

B. Funding Policy.

The funding policy for this Split Dollar Plan shall be to maintain the subject policy in force by paying, when due, all premiums required.

C. Basis of Payment of Benefits.

Direct payment by the Insurer is the basis of payment of benefits under this Agreement, with those benefits in turn being based on the payment of premiums as provided in this Agreement.

D. Claim Procedures.

Claim forms or claim information as to the subject policy can be obtained by contacting Benchmark, Inc. (800-544-6079). When the Named Fiduciary has a claim which may be covered under the provisions described in the insurance policy, they should contact the office named above, and they will either complete a claim form and forward it to an authorized representative of the Insurer or advise the named Fiduciary what further requirements are necessary. The Insurer will evaluate and make a decision as to payment. If the claim is payable, a benefit check will be issued in accordance with the terms of this Agreement.

In the event that a claim is not eligible under the policy, the Insurer will notify the Named Fiduciary of the denial pursuant to the requirements under the terms of the policy. If the Named Fiduciary is dissatisfied with the denial of the claim and wishes to contest such claim denial, they should contact the office named above and they will assist in making an inquiry to the Insurer. All objections to the Insurer's actions should be in writing and submitted to the office named above for transmittal to the Insurer.

XIII. GENDER

Whenever in this Agreement words are used in the masculine or neuter gender, they shall be read and construed as in the masculine, feminine or neuter gender, whenever they should so apply.

XIV. INSURANCE COMPANY NOT A PARTY TO THIS AGREEMENT

The Insurer shall not be deemed a party to this Agreement, but will respect the rights of the parties as herein developed upon receiving an executed copy of this Agreement. Payment or other performance in accordance with the policy provisions shall fully discharge the Insurer from any and all liability.

XV. CHANGE OF CONTROL

Change of Control shall be deemed to be the cumulative transfer of more than fifty percent (50%) of the voting stock of the Bank from the date of this Agreement. For the purposes of this Agreement, transfers on account of death or gifts, transfers between family members, or transfers to a qualified retirement plan maintained by the Bank shall not be considered in determining whether there has been a Change of Control. Upon a Change of Control, if the Insured's service on the Board of the Bank is subsequently terminated, except for cause, then the Insured shall be one hundred percent (100%) vested in the benefits promised in this Agreement and, therefore, upon the death of the Insured, the Insured's beneficiary(ies) (designated in accordance with Paragraph III) shall receive the death benefit provided herein as if the Insured had died while serving on the Board of the Bank (see Subparagraph VI [A]).

XVI. AMENDMENT OR REVOCATION

It is agreed by and between the parties hereto that, during the lifetime of the Insured, this Agreement may be amended or revoked at any time or times, in whole or in part, by the mutual written consent of the Insured and the Bank.

XVII. EFFECTIVE DATE

The Effective Date of this Agreement shall be January 1, 2001.

XVIII. SEVERABILITY AND INTERPRETATION

If a provision of this Agreement is held to be invalid or unenforceable, the remaining provisions shall nonetheless be enforceable according to their terms. Further, in the event that any provision is held to be overbroad as written, such provision shall be deemed amended to narrow its application to the extent necessary to make the provision enforceable according to law and enforced as amended.

XIX. APPLICABLE LAW

The validity and interpretation of this Agreement shall be governed by the laws of the State of California.

AGREEMENT

This Agreement is made and is effective as of October 15, 2008 by and between Santa Lucia Bank (“Company”) and Stanley R. Cherry (“Director”).

WHEREAS, Director is currently a director of Company and its wholly owned subsidiary, Santa Lucia Bank (“Bank”), and Director’s background, expertise and efforts have contributed to the success and financial strength of the Company; and

WHEREAS, the Company wishes to assure itself of the continued opportunity to benefit from Director’s services on the board of directors, (“Board”) and Director wishes to serve in such capacity of the Company;

WHEREAS, the Board has determined that the best interests of the Company would be served by setting forth certain benefits which the Company will provide to Director if the Director remains a member of the Board up to and including the consummation of a Change in Control of the Company; and

WHEREAS, the Company wishes to provide a specific incentive to Director to remain on the Board through and including the consummation of any Change in Control of the Company, as defined herein.

NOW, THEREFORE, in order to effect the foregoing, the parties hereto wish to enter into an agreement on the terms and conditions set forth below. This agreement (“Agreement”) therefore sets forth those benefits which the Company will provide to Director in the event of a “Change in Control of the Company” (as defined in paragraph 2) under the circumstances described below or in contemplation of a Change in Control as discussed in Paragraph 1 below. Accordingly, in consideration of the premises and the respective covenants and agreements of or in contemplation of a Change in Control as discussed in Paragraph 1 below herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **TERM.** If a Change in Control of the Company should occur while Director is still a member of the Board, then this Agreement shall continue in effect from the date of such Change in Control of the Company for so long as Director remains eligible to receive payments from the Company under that certain Endorsement Method Split Dollar Plan Agreement by and between Director and Company dated January 10, 2001 attached hereto as Exhibit A; provided, however, that the expiration of the term of this Agreement shall not adversely affect Director’s rights under this Agreement which have accrued prior to such expiration. If no Change in Control of the Company occurs before Director’s status as a Director of the Company is terminated, this Agreement shall expire on such date.
2. **CHANGE IN CONTROL.** For purposes of this Agreement, “Change in Control” means a change of control of the Company or Bank, of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act, whether or not the Bank or Company is then subject to such reporting requirement; provided, however, that a transaction in which the Bank or Company is the acquirer regardless of the form of the

transaction shall not be a Change in Control for purposes of this Agreement; provided further however, that without limitation, a Change in Control shall be deemed to have occurred if:

- (i) there is a transfer, voluntarily or by hostile takeover, by proxy contest (or similar action), operation of law, or otherwise, of control of the Bank or Company;
- (ii) any Person is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act or any successor provisions thereof), directly or indirectly, of securities of the Bank or Company representing 20% or more of the combined voting power of the Bank’s or Company’s then outstanding securities (other than in the case of the ownership by Company of Bank securities);
- (iii) the individuals who were members of the Board immediately prior to a meeting of the shareholders of the Bank or Company, which meeting involves a contest for the election of directors, do not constitute a majority of the Board following such meeting or election;
- (iv) a merger is completed in which the Bank or Company is not the surviving entity (unless the stockholders of Bank or Company, as the case may be, immediately before such merger own immediately after such merger more than a majority of the voting securities of the surviving entity), a consolidation or sale of all or substantially all of the assets of the Bank or Company; or
- (v) there is a change, during any period of two consecutive years, of a majority of the Board or of the board of directors of Company as constituted as of the beginning of such period, unless the election of each director who is not a director at the beginning of such period was approved by a vote of at least two-thirds of the directors then in office who were directors at the beginning of such period.

3. BENEFITS FOLLOWING CHANGE IN CONTROL. If a Change in Control of the Company shall have occurred while Director is still a director of the Company, Director shall be entitled to the payments and benefits provided in paragraph 4 hereof.

4. BENEFITS FOR DIRECTOR. If, after a Change in Control, the acquiring company chooses, or causes the Bank or surviving entity to surrender the life insurance policy maintained by the Bank under the Director’s Life Insurance Endorsement Method Split Dollar Plan Agreement without replacing it or the policy otherwise ceases to exist prior to the death of Director, Santa Lucia Bank or the acquiring company shall pay to Director Stanley R. Cherry (\$375,000.00) upon the surrender or otherwise termination of the policy. The obligations set forth in the preceding sentence shall survive any termination of this Agreement.

The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish Director’s existing rights, or rights which would accrue solely as a result of the passage of time, under any employee benefit plan of the Company, any employment agreement or other contract, plan or arrangement of the Company, except to the extent necessary to prevent double payment under any severance plan or program of the Company in effect at the date of the Change of Control.

5. SUCCESSOR'S BINDING AGREEMENT

(i) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to Director expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(ii) This Agreement shall inure to the benefit of, and be enforceable by, Director's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Director should die while any amounts would still be payable to Director hereunder if Director had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Director's devisee, legatee or other designee or, if there be no such designee, to Director's estate.

6. NOTICE. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the last page of this Agreement, provided that all notices to the Company should be directed to the attention of the Chairman of the Company's Compensation Committee, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

7. FURTHER ASSURANCES. Each party hereto agrees to furnish and execute such additional forms and documents, and to take such further action, as shall be reasonable and customarily required in connection with the performance of this Agreement or the payment of benefits hereunder.

8. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Director and such officer as may be specifically designated by the Board of Directors of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which is not set forth expressly in this Agreement. This Agreement contains the entire agreement among the parties and supersedes and replaces any prior agreement between the parties concerning the subject matter hereof. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

9. VALIDITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

11. ARBITRATION. Any dispute or controversy arising or in connection with this Agreement shall, upon written request of one party to the other, be submitted to and settled exclusively by arbitration pursuant to the rules of the American Arbitration Association. Judgment may be entered on the arbitrator's award in any court of competent jurisdiction. The cost of such arbitration, including reasonable attorney's fees, shall be borne by the losing party or in such proportions as the arbitrator(s) shall decide. Arbitration shall be the exclusive remedy of Director and the Company and the award of the arbitrator(s) shall be final and binding upon the parties. All reasonable costs, including reasonable attorney's fees, incurred in enforcing an arbitration award in court, or of seeking a court order to compel arbitration, shall be borne by the losing party in such proceedings.

12. ADVICE OF COUNSEL. Director acknowledges that he/she has been encouraged to consult with legal counsel of his/her choosing concerning the terms of this Agreement prior to executing this Agreement. Any failure by Director to consult with competent counsel prior to executing this Agreement shall not be a basis for rescinding or otherwise avoiding the binding effect of this Agreement. The parties acknowledge that they are entering into this Agreement freely and voluntarily, with full understanding of the terms of this Agreement. Interpretation of the terms and provisions of this Agreement shall not be construed for or against either party on the basis of the identity of the party who drafted the terms or provisions in question.

14. TAXES.

(i) All payments to be made to Director under this Agreement will be subject to required withholding of federal, state and local income and employment taxes.

(ii) In the event that any payment or benefit (within the meaning of Section 280G(b)(2) of the Internal Revenue Code, as amended (the "Code")), to the Director or for his benefit paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, his service as a director of the Company or a Change in Control (including the accelerated exercise of any stock options)(any such payment or benefit being a "Payment" or "Payments"), would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Director with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Director will be entitled to receive an additional payment (a "Gross-Up Payment") in an amount equal to the total Excise Tax imposed on the Director as a result of such Payments (including the Excise Tax reimbursement due pursuant to this sentence and the Excise Taxes on any federal and state tax reimbursements due pursuant to the next subsection).

(iii) If Company is obligated to pay the Director pursuant to the preceding subsection, Company also shall pay the Director an amount equal to the "total presumed federal and state taxes" that could be imposed on the Director with respect to the Excise Tax reimbursements due to the Director pursuant to the preceding subsection and the federal and state tax reimbursements due to the Director pursuant to this sentence. For purposes of the preceding sentence, the "total

presumed federal and state taxes” that could be imposed on the Director shall be conclusively calculated using a combined tax rate equal to the sum of (a) the highest individual income tax rate in effect under (i) Federal tax law and (ii) the tax laws of the state in which the Director resides on the date that the payment under this Section 14 is computed and (b) the hospital insurance portion of FICA.

(iv) No adjustments will be made in this combined rate for the deduction of state taxes on the federal return, the loss of itemized deductions or exemptions, or for any other purpose for paying the actual taxes. Director shall be responsible for paying the actual taxes.

(v) An initial determination as to whether a Gross-Up Payment is required pursuant to this Agreement and the amount of such Gross-Up Payment shall be made at the Company’s expense by Vavrinek Trine Day & Co. or by any successor accounting firm appointed by the Company prior to any Change in Control (the “Accounting Firm”). The Accounting Firm shall provide its determination (the “Determination”), together with detailed supporting calculations and documentation to the Company and the Director within five days after the date the insurance policy referred to in Section 4 is terminated or at such other time as requested by the Company or by the Director (provided the Director reasonably believes that any of the Payments may be subject to the Excise Tax) and if the Accounting Firm determines that no Excise Tax is payable by the Director with respect to a Payment or Payments, it shall furnish the Director with an opinion reasonably acceptable to the Director that no Excise Tax will be imposed with respect to any such Payment or Payments. Within ten days of the delivery of the Determination to the Director, the Director shall have the right to dispute the Determination (the “Dispute”). The Gross-Up Payment, if any, as determined pursuant to this Section 8 shall be paid by the Company to the Director within five days of the receipt of the Accounting Firm’s determination. The existence of the Dispute shall not in any way affect the Director’s right to receive the Gross-Up Payment in accordance with the Determination. Upon the final resolution of a Dispute, the Company shall promptly pay to the Director any additional amount required by such resolution. If there is no Dispute, the Determination shall be binding, final and conclusive upon the Company and the Director subject to the application of Section 14(vi) below.

(vi) Notwithstanding anything contained in this Agreement to the contrary, in the event that according to the Determination, an Excise Tax will be imposed on any Payment or Payments, the Company shall pay to the applicable government taxing authorities as Excise Tax withholding, the amount of the Excise Tax that the Company has actually withheld from the Payment or Payments.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:

SANTA LUCIA BANK
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen

Witness

By: /s/ Larry H. Putnam

Its: Chief Executive Officer

Print name: Larry H. Putnam

THE DIRECTOR
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen

Witness

/s/ Stanley R. Cherry

Stanley R. Cherry

EXHIBIT A

LIFE INSURANCE

ENDORSEMENT METHOD SPLIT DOLLAR PLAN

AGREEMENT

Insurer: Alexander Hamilton
Chubb
The Mutual Group/IMG Life Insurance Company
Transamerica
West Coast Life

Policy Number: 10199480
659024687
600365
50281760
ULA349308

Bank: Santa Lucia Bank

Insured: Stanley R. Cherry

Relationship of Insured to Bank: Executive

The respective rights and duties of the Bank and the Insured in the above-referenced policy shall be pursuant to the terms set forth below:

I. DEFINITIONS

Refer to the policy contract for the definition of all terms in this Agreement.

II. POLICY TITLE AND OWNERSHIP

Title and ownership shall reside in the Bank for its use and for the use of the Insured all in accordance with this Agreement. The Bank alone may, to the extent of its interest, exercise the right to borrow or withdraw on the policy cash values. Where the Bank and the Insured (or assignee, with the consent of the Insured) mutually agree to exercise the right to increase the coverage under the subject Split Dollar policy, then, in such event, the rights, duties and benefits of the

parties to such increased coverage shall continue to be subject to the terms of this Agreement.

III. BENEFICIARY DESIGNATION RIGHTS

The Insured (or assignee) shall have the right and power to designate a beneficiary or beneficiaries to receive the Insured's share of the proceeds payable upon the death of the Insured, and to elect and change a payment option for such beneficiary, subject to any right or interest the Bank may have in such proceeds, as provided in this Agreement.

IV. PREMIUM PAYMENT METHOD AND BANK'S DUE DILIGENCE

Subject to the following, the Bank shall pay an amount equal to the planned premiums and any other premium payments that might become necessary to keep the policy in force. The Bank shall exercise due diligence in reviewing the financial stability of the insurance company and the policy that are the subject of this Agreement. If the Bank believes that the Insurer under the policy is financially weak or that the policy is not performing well, the Bank may, at any time, surrender the policy or substitute a different policy provided that the Bank is under no obligation to invest in such replacement policy any more than the proceeds available from the cash surrender value of the original policy. The Executive will cooperate by undertaking any necessary medical examination. If the Bank chooses to surrender the above-referenced policy without replacing it or the policy otherwise ceases to exist prior to the death of the Insured, the Bank agrees to pay the Insured's named beneficiary(ies) Three Hundred and Seventy-Five Thousand Dollars and No/00ths (\$ 375,000.00) as a death benefit under Paragraph VI of this Agreement.

V. TAXABLE BENEFIT

Annually the Insured will receive a taxable benefit equal to the assumed cost of insurance as required by the Internal Revenue Service. The Bank (or its administrator) will report to the Insured the amount of imputed income each year on Form W-2 or its equivalent.

VI. DIVISION OF DEATH PROCEEDS

Subject to Paragraphs IV, VII and IX herein, the division of the death proceeds of the policy is as follows:

- A. If the Insured is employed by the Bank, or has retired from the Bank on or subsequent to the Insured attaining age sixty (60), then upon the death of the Insured, the Insured's beneficiary(ies), designated in accordance with Paragraph III, shall be entitled to the amount set forth in Exhibit A,

attached hereto and fully incorporated herein by reference, that corresponds to the age of the Insured at the time of death, or an amount equal to one hundred percent (100%) of the net-at-risk insurance portion of the proceeds, whichever amount is less. The net-at-risk insurance portion is the total proceeds less the cash value of the policy.

- B. The Bank shall be entitled to the remainder of such proceeds.
- C. The Bank and the Insured (or assignees) shall share in any interest due on the death proceeds on a pro rata basis as the proceeds due each respectively bears to the total proceeds, excluding any such interest.

VII. DIVISION OF THE CASH SURRENDER VALUE OF THE POLICY

The Bank shall at all times be entitled to an amount equal to the policy's cash value, as that term is defined in the policy contract, less any policy loans and unpaid interest or cash withdrawals previously incurred by the Bank and any applicable surrender charges. Such cash value shall be determined as of the date of surrender or death as the case may be.

VIII. RIGHTS OF PARTIES WHERE POLICY ENDOWMENT OR ANNUITY ELECTION EXISTS

In the event the policy involves an endowment or annuity element, the Bank's right and interest in any endowment proceeds or annuity benefits, on expiration of the deferment period, shall be determined under the provisions of this Agreement by regarding such endowment proceeds or the commuted value of such annuity benefits as the policy's cash value. Such endowment proceeds or annuity benefits shall be considered to be like death proceeds for the purposes of division under this Agreement.

IX. TERMINATION OF AGREEMENT

This Agreement shall terminate upon the occurrence of any one of the following:

- A. The Insured shall leave the employment of the Bank (voluntarily or involuntarily) prior to attaining age sixty (60);
- B. The Insured shall be discharged from employment with the Bank for cause. The term "for cause" shall mean any of the following that result in an adverse effect on the Bank: (i) gross negligence or gross neglect; (ii) the commission of a felony or gross misdemeanor involving moral turpitude, fraud, or dishonesty; (iii) the willful violation of any law, rule, or regulation (other than a traffic violation or similar offense); (iv) an intentional failure to comply with directives of the Board of Directors;

(v) an intentional failure to perform stated duties; or (vi) a breach of fiduciary duty involving personal profit; or

C. Surrender, lapse, or other termination of the Policy by the Bank.

Upon such termination, the Insured (or assignee) shall have a fifteen (15) day option to receive from the Bank an absolute assignment of the policy in consideration of a cash payment to the Bank, whereupon this Agreement shall terminate. Such cash payment referred to hereinabove shall be the greater of:

A. The Bank's share of the cash value of the policy on the date of such assignment, as defined in this Agreement; or

B. The amount of the premiums that have been paid by the Bank prior to the date of such assignment.

If, within said fifteen (15) day period, the Insured fails to exercise said option, fails to procure the entire aforesaid cash payment, or dies, then the option shall terminate and the Insured (or assignee) agrees that all of the Insured's rights, interest and claims in the policy shall terminate as of the date of the termination of this Agreement.

The Insured expressly agrees that this Agreement shall constitute sufficient written notice to the Insured of the Insured's option to receive an absolute assignment of the policy as set forth herein.

Except as provided above, this Agreement shall terminate upon distribution of the death benefit proceeds in accordance with Paragraph VI above.

X. INSURED'S OR ASSIGNEE'S ASSIGNMENT RIGHTS

The Insured may not, without the written consent of the Bank, assign to any individual, trust or other organization, any right, title or interest in the subject policy nor any rights, options, privileges or duties created under this Agreement.

XI. AGREEMENT BINDING UPON THE PARTIES

This Agreement shall bind the Insured and the Bank, their heirs, successors, personal representatives and assigns.

XII. ERISA PROVISIONS

The following provisions are part of this Agreement and are intended to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"):

A. Named Fiduciary and Plan Administrator.

The “Named Fiduciary and Plan Administrator” of this Endorsement Method Split Dollar Agreement shall be Santa Lucia Bank until its resignation or removal by the Board of Directors. As Named Fiduciary and Plan Administrator, the Bank shall be responsible for the management, control, and administration of this Split Dollar Plan as established herein. The Named Fiduciary may delegate to others certain aspects of the management and operation responsibilities of the Plan, including the employment of advisors and the delegation of any ministerial duties to qualified individuals.

B. Funding Policy.

The funding policy for this Split Dollar Plan shall be to maintain the subject policy in force by paying, when due, all premiums required.

C. Basis of Payment of Benefits.

Direct payment by the Insurer is the basis of payment of benefits under this Agreement, with those benefits in turn being based on the payment of premiums as provided in this Agreement.

D. Claim Procedures.

Claim forms or claim information as to the subject policy can be obtained by contacting Benmark, Inc. (800-544-6079). When the Named Fiduciary has a claim which may be covered under the provisions described in the insurance policy, they should contact the office named above, and they will either complete a claim form and forward it to an authorized representative of the Insurer or advise the named Fiduciary what further requirements are necessary. The Insurer will evaluate and make a decision as to payment. If the claim is payable, a benefit check will be issued in accordance with the terms of this Agreement.

In the event that a claim is not eligible under the policy, the Insurer will notify the Named Fiduciary of the denial pursuant to the requirements under the terms of the policy. If the Named Fiduciary is dissatisfied with the denial of the claim and wishes to contest such claim denial, they should contact the office named above and they will assist in making an inquiry to the Insurer. All objections to the Insurer’s actions should be in writing and submitted to the office named above for transmittal to the Insurer.

XIII. GENDER

Whenever in this Agreement words are used in the masculine or neuter gender, they shall be read and construed as in the masculine, feminine or neuter gender, whenever they should so apply.

XIV. INSURANCE COMPANY NOT A PARTY TO THIS AGREEMENT

The Insurer shall not be deemed a party to this Agreement, but will respect the rights of the parties as herein developed upon receiving an executed copy of this Agreement. Payment or other performance in accordance with the policy provisions shall fully discharge the Insurer from any and all liability.

XV. CHANGE OF CONTROL

Change of Control shall be deemed to be the cumulative transfer of more than fifty percent (50%) of the voting stock of the Bank from the date of this Agreement. For the purposes of this Agreement, transfers on account of death or gifts, transfers between family members, or transfers to a qualified retirement plan maintained by the Bank shall not be considered in determining whether there has been a Change of Control. Upon a Change of Control, if the Insured's employment is subsequently terminated, except for cause, then the Insured shall be one hundred percent (100%) vested in the benefits promised in this Agreement and, therefore, upon the death of the Insured, the Insured's beneficiary(ies) (designated in accordance with Paragraph III) shall receive the death benefit provided herein as if the Insured had died while employed by the Bank (see Subparagraphs VI [A] & [B]).

XVI. AMENDMENT OR REVOCATION

It is agreed by and between the parties hereto that, during the lifetime of the Insured, this Agreement may be amended or revoked at any time or times, in whole or in part, by the mutual written consent of the Insured and the Bank.

XVII. EFFECTIVE DATE

The Effective Date of this Agreement shall be January 1, 2001.

XVIII. SEVERABILITY AND INTERPRETATION

If a provision of this Agreement is held to be invalid or unenforceable, the remaining provisions shall nonetheless be enforceable according to their terms. Further, in the event that any provision is held to be overbroad as written, such provision shall be deemed amended to narrow its application to the extent

necessary to make the provision enforceable according to law and enforced as amended.

XIX. APPLICABLE LAW

The validity and interpretation of this Agreement shall be governed by the laws of the State of California.

Executed at Atascadero, California this 10th day of January, 2001.

SANTA LUCIA BANK
Atascadero, California

/s/ Sharon Satterthwaite
Witness
Sharon Satterthwaite

By: /s/ John C. Hansen SVP-CFO
John C. Hansen Title

/s/ Claudya Oglesby
Witness
Claudya Oglesby

/s/ Stanley R. Cherry
Stanley R. Cherry

AGREEMENT

This Agreement is made and is effective as of October 15, 2008 by and between Santa Lucia Bank (“Company”) and Jean Hawkins (“Director”).

WHEREAS, Director is currently a director of Company and its wholly owned subsidiary, Santa Lucia Bank (“Bank”), and Director’s background, expertise and efforts have contributed to the success and financial strength of the Company; and

WHEREAS, the Company wishes to assure itself of the continued opportunity to benefit from Director’s services on the board of directors, (“Board”) and Director wishes to serve in such capacity of the Company;

WHEREAS, the Board has determined that the best interests of the Company would be served by setting forth certain benefits which the Company will provide to Director if the Director remains a member of the Board up to and including the consummation of a Change in Control of the Company; and

WHEREAS, the Company wishes to provide a specific incentive to Director to remain on the Board through and including the consummation of any Change in Control of the Company, as defined herein.

NOW, THEREFORE, in order to effect the foregoing, the parties hereto wish to enter into an agreement on the terms and conditions set forth below. This agreement (“Agreement”) therefore sets forth those benefits which the Company will provide to Director in the event of a “Change in Control of the Company” (as defined in paragraph 2) under the circumstances described below or in contemplation of a Change in Control as discussed in Paragraph 1 below. Accordingly, in consideration of the premises and the respective covenants and agreements of or in contemplation of a Change in Control as discussed in Paragraph 1 below herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **TERM.** If a Change in Control of the Company should occur while Director is still a member of the Board, then this Agreement shall continue in effect from the date of such Change in Control of the Company for so long as Director remains eligible to receive payments from the Company under that certain Endorsement Method Split Dollar Plan Agreement by and between Director and Company dated January 10, 2001 attached hereto as Exhibit A; provided, however, that the expiration of the term of this Agreement shall not adversely affect Director’s rights under this Agreement which have accrued prior to such expiration. If no Change in Control of the Company occurs before Director’s status as a Director of the Company is terminated, this Agreement shall expire on such date.
2. **CHANGE IN CONTROL.** For purposes of this Agreement, “Change in Control” means a change of control of the Company or Bank, of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act, whether or not the Bank or Company is then subject to such reporting requirement; provided, however, that a transaction in which the Bank or Company is the acquirer regardless of the form of the

transaction shall not be a Change in Control for purposes of this Agreement; provided further however, that without limitation, a Change in Control shall be deemed to have occurred if:

- (i) there is a transfer, voluntarily or by hostile takeover, by proxy contest (or similar action), operation of law, or otherwise, of control of the Bank or Company;
- (ii) any Person is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act or any successor provisions thereof), directly or indirectly, of securities of the Bank or Company representing 20% or more of the combined voting power of the Bank’s or Company’s then outstanding securities (other than in the case of the ownership by Company of Bank securities);
- (iii) the individuals who were members of the Board immediately prior to a meeting of the shareholders of the Bank or Company, which meeting involves a contest for the election of directors, do not constitute a majority of the Board following such meeting or election;
- (iv) a merger is completed in which the Bank or Company is not the surviving entity (unless the stockholders of Bank or Company, as the case may be, immediately before such merger own immediately after such merger more than a majority of the voting securities of the surviving entity), a consolidation or sale of all or substantially all of the assets of the Bank or Company; or
- (v) there is a change, during any period of two consecutive years, of a majority of the Board or of the board of directors of Company as constituted as of the beginning of such period, unless the election of each director who is not a director at the beginning of such period was approved by a vote of at least two-thirds of the directors then in office who were directors at the beginning of such period.

3. BENEFITS FOLLOWING CHANGE IN CONTROL. If a Change in Control of the Company shall have occurred while Director is still a director of the Company, Director shall be entitled to the payments and benefits provided in paragraph 4 hereof.

4. BENEFITS FOR DIRECTOR. If, after a Change in Control, the acquiring company chooses, or causes the Bank or surviving entity to surrender the life insurance policy maintained by the Bank under the Director’s Life Insurance Endorsement Method Split Dollar Plan Agreement without replacing it or the policy otherwise ceases to exist prior to the death of Director, Santa Lucia Bank or the acquiring company shall pay to Director Jean Hawkins (\$35,000.00) upon the surrender or otherwise termination of the policy. The obligations set forth in the preceding sentence shall survive any termination of this Agreement.

The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish Director’s existing rights, or rights which would accrue solely as a result of the passage of time, under any employee benefit plan of the Company, any employment agreement or other contract, plan or arrangement of the Company, except to the extent necessary to prevent double payment under any severance plan or program of the Company in effect at the date of the Change of Control.

5. SUCCESSOR'S BINDING AGREEMENT

(i) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to Director expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(ii) This Agreement shall inure to the benefit of, and be enforceable by, Director's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Director should die while any amounts would still be payable to Director hereunder if Director had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Director's devisee, legatee or other designee or, if there be no such designee, to Director's estate.

6. NOTICE. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the last page of this Agreement, provided that all notices to the Company should be directed to the attention of the Chairman of the Company's Compensation Committee, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

7. FURTHER ASSURANCES. Each party hereto agrees to furnish and execute such additional forms and documents, and to take such further action, as shall be reasonable and customarily required in connection with the performance of this Agreement or the payment of benefits hereunder.

8. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Director and such officer as may be specifically designated by the Board of Directors of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which is not set forth expressly in this Agreement. This Agreement contains the entire agreement among the parties and supersedes and replaces any prior agreement between the parties concerning the subject matter hereof. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

9. VALIDITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

11. ARBITRATION. Any dispute or controversy arising or in connection with this Agreement shall, upon written request of one party to the other, be submitted to and settled exclusively by arbitration pursuant to the rules of the American Arbitration Association. Judgment may be entered on the arbitrator's award in any court of competent jurisdiction. The cost of such arbitration, including reasonable attorney's fees, shall be borne by the losing party or in such proportions as the arbitrator(s) shall decide. Arbitration shall be the exclusive remedy of Director and the Company and the award of the arbitrator(s) shall be final and binding upon the parties. All reasonable costs, including reasonable attorney's fees, incurred in enforcing an arbitration award in court, or of seeking a court order to compel arbitration, shall be borne by the losing party in such proceedings.

12. ADVICE OF COUNSEL. Director acknowledges that he/she has been encouraged to consult with legal counsel of his/her choosing concerning the terms of this Agreement prior to executing this Agreement. Any failure by Director to consult with competent counsel prior to executing this Agreement shall not be a basis for rescinding or otherwise avoiding the binding effect of this Agreement. The parties acknowledge that they are entering into this Agreement freely and voluntarily, with full understanding of the terms of this Agreement. Interpretation of the terms and provisions of this Agreement shall not be construed for or against either party on the basis of the identity of the party who drafted the terms or provisions in question.

14. TAXES.

(i) All payments to be made to Director under this Agreement will be subject to required withholding of federal, state and local income and employment taxes.

(ii) In the event that any payment or benefit (within the meaning of Section 280G(b)(2) of the Internal Revenue Code, as amended (the "Code")), to the Director or for his benefit paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, his service as a director of the Company or a Change in Control (including the accelerated exercise of any stock options)(any such payment or benefit being a "Payment" or "Payments"), would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Director with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Director will be entitled to receive an additional payment (a "Gross-Up Payment") in an amount equal to the total Excise Tax imposed on the Director as a result of such Payments (including the Excise Tax reimbursement due pursuant to this sentence and the Excise Taxes on any federal and state tax reimbursements due pursuant to the next subsection).

(iii) If Company is obligated to pay the Director pursuant to the preceding subsection, Company also shall pay the Director an amount equal to the "total presumed federal and state taxes" that could be imposed on the Director with respect to the Excise Tax reimbursements due to the Director pursuant to the preceding subsection and the federal and state tax reimbursements due to the Director pursuant to this sentence. For purposes of the preceding sentence, the "total

presumed federal and state taxes” that could be imposed on the Director shall be conclusively calculated using a combined tax rate equal to the sum of (a) the highest individual income tax rate in effect under (i) Federal tax law and (ii) the tax laws of the state in which the Director resides on the date that the payment under this Section 14 is computed and (b) the hospital insurance portion of FICA.

(iv) No adjustments will be made in this combined rate for the deduction of state taxes on the federal return, the loss of itemized deductions or exemptions, or for any other purpose for paying the actual taxes. Director shall be responsible for paying the actual taxes.

(v) An initial determination as to whether a Gross-Up Payment is required pursuant to this Agreement and the amount of such Gross-Up Payment shall be made at the Company’s expense by Vavrinek Trine Day & Co. or by any successor accounting firm appointed by the Company prior to any Change in Control (the “Accounting Firm”). The Accounting Firm shall provide its determination (the “Determination”), together with detailed supporting calculations and documentation to the Company and the Director within five days after the date the insurance policy referred to in Section 4 is terminated or at such other time as requested by the Company or by the Director (provided the Director reasonably believes that any of the Payments may be subject to the Excise Tax) and if the Accounting Firm determines that no Excise Tax is payable by the Director with respect to a Payment or Payments, it shall furnish the Director with an opinion reasonably acceptable to the Director that no Excise Tax will be imposed with respect to any such Payment or Payments. Within ten days of the delivery of the Determination to the Director, the Director shall have the right to dispute the Determination (the “Dispute”). The Gross-Up Payment, if any, as determined pursuant to this Section 8 shall be paid by the Company to the Director within five days of the receipt of the Accounting Firm’s determination. The existence of the Dispute shall not in any way affect the Director’s right to receive the Gross-Up Payment in accordance with the Determination. Upon the final resolution of a Dispute, the Company shall promptly pay to the Director any additional amount required by such resolution. If there is no Dispute, the Determination shall be binding, final and conclusive upon the Company and the Director subject to the application of Section 14(vi) below.

(vi) Notwithstanding anything contained in this Agreement to the contrary, in the event that according to the Determination, an Excise Tax will be imposed on any Payment or Payments, the Company shall pay to the applicable government taxing authorities as Excise Tax withholding, the amount of the Excise Tax that the Company has actually withheld from the Payment or Payments.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:

SANTA LUCIA BANK
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen

Witness

By: /s/ Larry H. Putnam

Its: Chief Executive Officer

Print name: Larry H. Putnam

THE DIRECTOR
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen

Witness

/s/ Jean Hawkins

Jean Hawkins

EXHIBIT A

LIFE INSURANCE
ENDORSEMENT METHOD SPLIT DOLLAR PLAN
AGREEMENT

Insurer: West Coast Life
Policy Number: ULA349307
Bank: Santa Lucia Bank
Insured: Jean Hawkins
Relationship of Insured to Bank: Director

The respective rights and duties of the Bank and the Insured in the above-referenced policy shall be pursuant to the terms set forth below:

I. DEFINITIONS

Refer to the policy contract for the definition of all terms in this Agreement.

II. POLICY TITLE AND OWNERSHIP

Title and ownership shall reside in the Bank for its use and for the use of the Insured all in accordance with this Agreement. The Bank alone may, to the extent of its interest, exercise the right to borrow or withdraw on the policy cash values. Where the Bank and the Insured (or assignee, with the consent of the Insured) mutually agree to exercise the right to increase the coverage under the subject Split Dollar policy, then, in such event, the rights, duties and benefits of the parties to such increased coverage shall continue to be subject to the terms of this Agreement.

III. BENEFICIARY DESIGNATION RIGHTS

The Insured (or assignee) shall have the right and power to designate a beneficiary or beneficiaries to receive the Insured's share of the proceeds payable upon the death of the Insured, and to elect and change a payment option for such

beneficiary, subject to any right or interest the Bank may have in such proceeds, as provided in this Agreement.

IV. PREMIUM PAYMENT METHOD AND BANK'S DUE DILIGENCE

Subject to the following, the Bank shall pay an amount equal to the planned premiums and any other premium payments that might become necessary to keep the policy in force. The Bank shall exercise due diligence in reviewing the financial stability of the insurance company and the policy that are the subject of this Agreement. If the Bank believes that the Insurer under the policy is financially weak or that the policy is not performing well, the Bank may, at any time, surrender the policy or substitute a different policy provided that the Bank is under no obligation to invest in such replacement policy any more than the proceeds available from the cash surrender value of the original policy. The Director will cooperate by undertaking any necessary medical examination. If the Bank chooses to surrender the above-referenced policy without replacing it or the policy otherwise ceases to exist prior to the death of the Insured, the Bank agrees to pay the Insured's named beneficiary(ies) Thirty-Five Thousand Dollars (\$35,000,00) as a death benefit under Paragraph VI of this Agreement.

V. TAXABLE BENEFIT

Annually the Insured will receive a taxable benefit equal to the assumed cost of insurance as required by the Internal Revenue Service. The Bank (or its administrator) will report to the Insured the amount of imputed income each year on Form W-2 or its equivalent.

VI. DIVISION OF DEATH PROCEEDS

Subject to Paragraphs IV, VII and IX herein, the division of the death proceeds of the policy is as follows:

- A. If the Insured is employed by the Bank, or has retired from the Bank on or subsequent to the Insured attaining age sixty-five (65), then upon the death of the Insured, the Insured's beneficiary(ies), designated in accordance with Paragraph III, shall be entitled to the amount set forth in Exhibit A, attached hereto and fully incorporated herein by reference, that corresponds to the age of the Insured at the time of death, or an amount equal to one hundred percent (100%) of the net-at-risk insurance portion of the proceeds, whichever amount is less. The net-at-risk insurance portion is the total proceeds less the cash value of the policy.
- B. The Bank shall be entitled to the remainder of such proceeds.

- C. The Bank and the Insured (or assignees) shall share in any interest due on the death proceeds on a pro rata basis as the proceeds due each respectively bears to the total proceeds, excluding any such interest.

VII. DIVISION OF THE CASH SURRENDER VALUE OF THE POLICY

The Bank shall at all times be entitled to an amount equal to the policy's cash value, as that term is defined in the policy contract, less any policy loans and unpaid interest or cash withdrawals previously incurred by the Bank and any applicable surrender charges. Such cash value shall be determined as of the date of surrender or death as the case may be.

VIII. RIGHTS OF PARTIES WHERE POLICY ENDOWMENT OR ANNUITY ELECTION EXISTS

In the event the policy involves an endowment or annuity element, the Bank's right and interest in any endowment proceeds or annuity benefits, on expiration of the deferment period, shall be determined under the provisions of this Agreement by regarding such endowment proceeds or the commuted value of such annuity benefits as the policy's cash value. Such endowment proceeds or annuity benefits shall be considered to be like death proceeds for the purposes of division under this Agreement.

IX. TERMINATION OF AGREEMENT

This Agreement shall terminate upon the occurrence of any one of the following:

- A. The Insured shall leave the service of the Board of the Bank (voluntarily or involuntarily) prior to attaining age sixty-five (65);
- B. The Insured shall be discharged from service on the Board of the Bank for cause. The term "for cause" shall mean any of the following that result in an adverse effect on the Bank: (i) gross negligence or gross neglect; (ii) the commission of a felony or gross misdemeanor involving moral turpitude, fraud, or dishonesty; (iii) the willful violation of any law, rule, or regulation (other than a traffic violation or similar offense); (iv) an intentional failure to comply with directives of the Board of Directors; (v) an intentional failure to perform stated duties; or (vi) a breach of fiduciary duty involving personal profit; or
- C. Surrender, lapse, or other termination of the Policy by the Bank.

Upon such termination, the Insured (or assignee) shall have a fifteen (15) day option to receive from the Bank an absolute assignment of the policy in

consideration of a cash payment to the Bank, whereupon this Agreement shall terminate. Such cash payment referred to hereinabove shall be the greater of:

- A. The Bank's share of the cash value of the policy on the date of such assignment, as defined in this Agreement; or
- B. The amount of the premiums that have been paid by the Bank prior to the date of such assignment.

If, within said fifteen (15) day period, the Insured fails to exercise said option, fails to procure the entire aforesaid cash payment, or dies, then the option shall terminate and the Insured (or assignee) agrees that all of the Insured's rights, interest and claims in the policy shall terminate as of the date of the termination of this Agreement.

The Insured expressly agrees that this Agreement shall constitute sufficient written notice to the Insured of the Insured's option to receive an absolute assignment of the policy as set forth herein.

Except as provided above, this Agreement shall terminate upon distribution of the death benefit proceeds in accordance with Paragraph VI above.

X. INSURED'S OR ASSIGNEE'S ASSIGNMENT RIGHTS

The Insured may not, without the written consent of the Bank, assign to any individual, trust or other organization, any right, title or interest in the subject policy nor any rights, options, privileges or duties created under this Agreement.

XI. AGREEMENT BINDING UPON THE PARTIES

This Agreement shall bind the Insured and the Bank, their heirs, successors, personal representatives and assigns.

XII. ERISA PROVISIONS

The following provisions are part of this Agreement and are intended to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"):

- A. Named Fiduciary and Plan Administrator.

The "Named Fiduciary and Plan Administrator" of this Endorsement Method Split Dollar Agreement shall be Santa Lucia Bank until its resignation or removal by the Board of Directors. As Named Fiduciary and Plan Administrator, the Bank shall be responsible for the management,

control, and administration of this Split Dollar Plan as established herein. The Named Fiduciary may delegate to others certain aspects of the management and operation responsibilities of the Plan, including the employment of advisors and the delegation of any ministerial duties to qualified individuals.

B. Funding Policy.

The funding policy for this Split Dollar Plan shall be to maintain the subject policy in force by paying, when due, all premiums required.

C. Basis of Payment of Benefits.

Direct payment by the Insurer is the basis of payment of benefits under this Agreement, with those benefits in turn being based on the payment of premiums as provided in this Agreement.

D. Claim Procedures.

Claim forms or claim information as to the subject policy can be obtained by contacting Benmark, Inc. (800-544-6079). When the Named Fiduciary has a claim which may be covered under the provisions described in the insurance policy, they should contact the office named above, and they will either complete a claim form and forward it to an authorized representative of the Insurer or advise the named Fiduciary what further requirements are necessary. The Insurer will evaluate and make a decision as to payment. If the claim is payable, a benefit check will be issued in accordance with the terms of this Agreement.

In the event that a claim is not eligible under the policy, the Insurer will notify the Named Fiduciary of the denial pursuant to the requirements under the terms of the policy. If the Named Fiduciary is dissatisfied with the denial of the claim and wishes to contest such claim denial, they should contact the office named above and they will assist in making an inquiry to the Insurer. All objections to the Insurer's actions should be in writing and submitted to the office named above for transmittal to the Insurer.

XIII. GENDER

Whenever in this Agreement words are used in the masculine or neuter gender, they shall be read and construed as in the masculine, feminine or neuter gender, whenever they should so apply.

XIV. INSURANCE COMPANY NOT A PARTY TO THIS AGREEMENT

The Insurer shall not be deemed a party to this Agreement, but will respect the rights of the parties as herein developed upon receiving an executed copy of this Agreement. Payment or other performance in accordance with the policy provisions shall fully discharge the Insurer from any and all liability.

XV. CHANGE OF CONTROL

Change of Control shall be deemed to be the cumulative transfer of more than fifty percent (50%) of the voting stock of the Bank from the date of this Agreement. For the purposes of this Agreement, transfers on account of death or gifts, transfers between family members, or transfers to a qualified retirement plan maintained by the Bank shall not be considered in determining whether there has been a Change of Control. Upon a Change of Control, if the Insured's service on the Board of the Bank is subsequently terminated, except for cause, then the Insured shall be one hundred percent (100%) vested in the benefits promised in this Agreement and, therefore, upon the death of the Insured, the Insured's beneficiary(ies) (designated in accordance with Paragraph III) shall receive the death benefit provided herein as if the Insured had died while serving on the Board of the Bank (see Subparagraph VI [A]).

XVI. AMENDMENT OR REVOCATION

It is agreed by and between the parties hereto that, during the lifetime of the Insured, this Agreement may be amended or revoked at any time or times, in whole or in part, by the mutual written consent of the Insured and the Bank.

XVII. EFFECTIVE DATE

The Effective Date of this Agreement shall be January 1, 2001.

XVIII. SEVERABILITY AND INTERPRETATION

If a provision of this Agreement is held to be invalid or unenforceable, the remaining provisions shall nonetheless be enforceable according to their terms. Further, in the event that any provision is held to be overbroad as written, such provision shall be deemed amended to narrow its application to the extent necessary to make the provision enforceable according to law and enforced as amended.

XIX. APPLICABLE LAW

The validity and interpretation of this Agreement shall be governed by the laws of the State of California.

Executed at Atascadero, California this 10th day of January, 2001.

SANTA LUCIA BANK
Atascadero, California

/s/ Claudya Oglesby
Witness
Claudya Oglesby

By: /s/ Stanley R. Cherry President
Stanley R. Cherry Title

/s/ Richard Hawkins
Witness
Richard Hawkins

/s/ Jean Hawkins
Jean Hawkins

AGREEMENT

This Agreement is made and is effective as of October 15, 2008 by and between Santa Lucia Bank (“Company”) and Paul G. Moerman (“Director”).

WHEREAS, Director is currently a director of Company and its wholly owned subsidiary, Santa Lucia Bank (“Bank”), and Director’s background, expertise and efforts have contributed to the success and financial strength of the Company; and

WHEREAS, the Company wishes to assure itself of the continued opportunity to benefit from Director’s services on the board of directors, (“Board”) and Director wishes to serve in such capacity of the Company;

WHEREAS, the Board has determined that the best interests of the Company would be served by setting forth certain benefits which the Company will provide to Director if the Director remains a member of the Board up to and including the consummation of a Change in Control of the Company; and

WHEREAS, the Company wishes to provide a specific incentive to Director to remain on the Board through and including the consummation of any Change in Control of the Company, as defined herein.

NOW, THEREFORE, in order to effect the foregoing, the parties hereto wish to enter into an agreement on the terms and conditions set forth below. This agreement (“Agreement”) therefore sets forth those benefits which the Company will provide to Director in the event of a “Change in Control of the Company” (as defined in paragraph 2) under the circumstances described below or in contemplation of a Change in Control as discussed in Paragraph 1 below. Accordingly, in consideration of the premises and the respective covenants and agreements of or in contemplation of a Change in Control as discussed in Paragraph 1 below herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **TERM.** If a Change in Control of the Company should occur while Director is still a member of the Board, then this Agreement shall continue in effect from the date of such Change in Control of the Company for so long as Director remains eligible to receive payments from the Company under that certain Endorsement Method Split Dollar Plan Agreement by and between Director and Company dated January 10, 2001 attached hereto as Exhibit A; provided, however, that the expiration of the term of this Agreement shall not adversely affect Director’s rights under this Agreement which have accrued prior to such expiration. If no Change in Control of the Company occurs before Director’s status as a Director of the Company is terminated, this Agreement shall expire on such date.
2. **CHANGE IN CONTROL.** For purposes of this Agreement, “Change in Control” means a change of control of the Company or Bank, of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act, whether or not the Bank or Company is then subject to such reporting requirement; provided, however, that a transaction in which the Bank or Company is the acquirer regardless of the form of the

transaction shall not be a Change in Control for purposes of this Agreement; provided further however, that without limitation, a Change in Control shall be deemed to have occurred if:

- (i) there is a transfer, voluntarily or by hostile takeover, by proxy contest (or similar action), operation of law, or otherwise, of control of the Bank or Company;
- (ii) any Person is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act or any successor provisions thereof), directly or indirectly, of securities of the Bank or Company representing 20% or more of the combined voting power of the Bank’s or Company’s then outstanding securities (other than in the case of the ownership by Company of Bank securities);
- (iii) the individuals who were members of the Board immediately prior to a meeting of the shareholders of the Bank or Company, which meeting involves a contest for the election of directors, do not constitute a majority of the Board following such meeting or election;
- (iv) a merger is completed in which the Bank or Company is not the surviving entity (unless the stockholders of Bank or Company, as the case may be, immediately before such merger own immediately after such merger more than a majority of the voting securities of the surviving entity), a consolidation or sale of all or substantially all of the assets of the Bank or Company; or
- (v) there is a change, during any period of two consecutive years, of a majority of the Board or of the board of directors of Company as constituted as of the beginning of such period, unless the election of each director who is not a director at the beginning of such period was approved by a vote of at least two-thirds of the directors then in office who were directors at the beginning of such period.

3. BENEFITS FOLLOWING CHANGE IN CONTROL. If a Change in Control of the Company shall have occurred while Director is still a director of the Company, Director shall be entitled to the payments and benefits provided in paragraph 4 hereof.

4. BENEFITS FOR DIRECTOR. If, after a Change in Control, the acquiring company chooses, or causes the Bank or surviving entity to surrender the life insurance policy maintained by the Bank under the Director’s Life Insurance Endorsement Method Split Dollar Plan Agreement without replacing it or the policy otherwise ceases to exist prior to the death of Director, Santa Lucia Bank or the acquiring company shall pay to Director Paul G. Moerman (\$45,000.00) upon the surrender or otherwise termination of the policy. The obligations set forth in the preceding sentence shall survive any termination of this Agreement.

The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish Director’s existing rights, or rights which would accrue solely as a result of the passage of time, under any employee benefit plan of the Company, any employment agreement or other contract, plan or arrangement of the Company, except to the extent necessary to prevent double payment under any severance plan or program of the Company in effect at the date of the Change of Control.

5. SUCCESSOR'S BINDING AGREEMENT

(i) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to Director expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(ii) This Agreement shall inure to the benefit of, and be enforceable by, Director's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Director should die while any amounts would still be payable to Director hereunder if Director had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Director's devisee, legatee or other designee or, if there be no such designee, to Director's estate.

6. NOTICE. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the last page of this Agreement, provided that all notices to the Company should be directed to the attention of the Chairman of the Company's Compensation Committee, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

7. FURTHER ASSURANCES. Each party hereto agrees to furnish and execute such additional forms and documents, and to take such further action, as shall be reasonable and customarily required in connection with the performance of this Agreement or the payment of benefits hereunder.

8. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Director and such officer as may be specifically designated by the Board of Directors of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which is not set forth expressly in this Agreement. This Agreement contains the entire agreement among the parties and supersedes and replaces any prior agreement between the parties concerning the subject matter hereof. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

9. VALIDITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

11. ARBITRATION. Any dispute or controversy arising or in connection with this Agreement shall, upon written request of one party to the other, be submitted to and settled exclusively by arbitration pursuant to the rules of the American Arbitration Association. Judgment may be entered on the arbitrator's award in any court of competent jurisdiction. The cost of such arbitration, including reasonable attorney's fees, shall be borne by the losing party or in such proportions as the arbitrator(s) shall decide. Arbitration shall be the exclusive remedy of Director and the Company and the award of the arbitrator(s) shall be final and binding upon the parties. All reasonable costs, including reasonable attorney's fees, incurred in enforcing an arbitration award in court, or of seeking a court order to compel arbitration, shall be borne by the losing party in such proceedings.

12. ADVICE OF COUNSEL. Director acknowledges that he/she has been encouraged to consult with legal counsel of his/her choosing concerning the terms of this Agreement prior to executing this Agreement. Any failure by Director to consult with competent counsel prior to executing this Agreement shall not be a basis for rescinding or otherwise avoiding the binding effect of this Agreement. The parties acknowledge that they are entering into this Agreement freely and voluntarily, with full understanding of the terms of this Agreement. Interpretation of the terms and provisions of this Agreement shall not be construed for or against either party on the basis of the identity of the party who drafted the terms or provisions in question.

14. TAXES.

(i) All payments to be made to Director under this Agreement will be subject to required withholding of federal, state and local income and employment taxes.

(ii) In the event that any payment or benefit (within the meaning of Section 280G(b)(2) of the Internal Revenue Code, as amended (the "Code")), to the Director or for his benefit paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, his service as a director of the Company or a Change in Control (including the accelerated exercise of any stock options)(any such payment or benefit being a "Payment" or "Payments"), would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Director with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Director will be entitled to receive an additional payment (a "Gross-Up Payment") in an amount equal to the total Excise Tax imposed on the Director as a result of such Payments (including the Excise Tax reimbursement due pursuant to this sentence and the Excise Taxes on any federal and state tax reimbursements due pursuant to the next subsection).

(iii) If Company is obligated to pay the Director pursuant to the preceding subsection, Company also shall pay the Director an amount equal to the "total presumed federal and state taxes" that could be imposed on the Director with respect to the Excise Tax reimbursements due to the Director pursuant to the preceding subsection and the federal and state tax reimbursements due to the Director pursuant to this sentence. For purposes of the preceding sentence, the "total

presumed federal and state taxes” that could be imposed on the Director shall be conclusively calculated using a combined tax rate equal to the sum of (a) the highest individual income tax rate in effect under (i) Federal tax law and (ii) the tax laws of the state in which the Director resides on the date that the payment under this Section 14 is computed and (b) the hospital insurance portion of FICA.

(iv) No adjustments will be made in this combined rate for the deduction of state taxes on the federal return, the loss of itemized deductions or exemptions, or for any other purpose for paying the actual taxes. Director shall be responsible for paying the actual taxes.

(v) An initial determination as to whether a Gross-Up Payment is required pursuant to this Agreement and the amount of such Gross-Up Payment shall be made at the Company’s expense by Vavrinek Trine Day & Co. or by any successor accounting firm appointed by the Company prior to any Change in Control (the “Accounting Firm”). The Accounting Firm shall provide its determination (the “Determination”), together with detailed supporting calculations and documentation to the Company and the Director within five days after the date the insurance policy referred to in Section 4 is terminated or at such other time as requested by the Company or by the Director (provided the Director reasonably believes that any of the Payments may be subject to the Excise Tax) and if the Accounting Firm determines that no Excise Tax is payable by the Director with respect to a Payment or Payments, it shall furnish the Director with an opinion reasonably acceptable to the Director that no Excise Tax will be imposed with respect to any such Payment or Payments. Within ten days of the delivery of the Determination to the Director, the Director shall have the right to dispute the Determination (the “Dispute”). The Gross-Up Payment, if any, as determined pursuant to this Section 8 shall be paid by the Company to the Director within five days of the receipt of the Accounting Firm’s determination. The existence of the Dispute shall not in any way affect the Director’s right to receive the Gross-Up Payment in accordance with the Determination. Upon the final resolution of a Dispute, the Company shall promptly pay to the Director any additional amount required by such resolution. If there is no Dispute, the Determination shall be binding, final and conclusive upon the Company and the Director subject to the application of Section 14(vi) below.

(vi) Notwithstanding anything contained in this Agreement to the contrary, in the event that according to the Determination, an Excise Tax will be imposed on any Payment or Payments, the Company shall pay to the applicable government taxing authorities as Excise Tax withholding, the amount of the Excise Tax that the Company has actually withheld from the Payment or Payments.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:

SANTA LUCIA BANK
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen

Witness

By: /s/ Larry H. Putnam

Its: Chief Executive Officer

Print name: Larry H. Putnam

THE DIRECTOR
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen

Witness

/s/ Paul G. Moerman

Paul G. Moerman

EXHIBIT A

LIFE INSURANCE
ENDORSEMENT METHOD SPLIT DOLLAR PLAN
AGREEMENT

Insurer: Alexander Hamilton Life
Policy Number: 0010199600
Bank: Santa Lucia Bank
Insured: Paul G. Moerman
Relationship of Insured to Bank: Director

The respective rights and duties of the Bank and the Insured in the above-referenced policy shall be pursuant to the terms set forth below:

I. DEFINITIONS

Refer to the policy contract for the definition of all terms in this Agreement.

II. POLICY TITLE AND OWNERSHIP

Title and ownership shall reside in the Bank for its use and for the use of the Insured all in accordance with this Agreement. The Bank alone may, to the extent of its interest, exercise the right to borrow or withdraw on the policy cash values. Where the Bank and the Insured (or assignee, with the consent of the Insured) mutually agree to exercise the right to increase the coverage under the subject Split Dollar policy, then, in such event, the rights, duties and benefits of the parties to such increased coverage shall continue to be subject to the terms of this Agreement.

III. BENEFICIARY DESIGNATION RIGHTS

The Insured (or assignee) shall have the right and power to designate a beneficiary or beneficiaries to receive the Insured's share of the proceeds payable upon the death of the Insured, and to elect and change a payment option for such

beneficiary, subject to any right or interest the Bank may have in such proceeds, as provided in this Agreement.

IV. PREMIUM PAYMENT METHOD AND BANK'S DUE DILIGENCE

Subject to the following, the Bank shall pay an amount equal to the planned premiums and any other premium payments that might become necessary to keep the policy in force. The Bank shall exercise due diligence in reviewing the financial stability of the insurance company and the policy that are the subject of this Agreement. If the Bank believes that the Insurer under the policy is financially weak or that the policy is not performing well, the Bank may, at any time, surrender the policy or substitute a different policy provided that the Bank is under no obligation to invest in such replacement policy any more than the proceeds available from the cash surrender value of the original policy. The Director will cooperate by undertaking any necessary medical examination. If the Bank chooses to surrender the above-referenced policy without replacing it or the policy otherwise ceases to exist prior to the death of the Insured, the Bank agrees to pay the Insured's named beneficiary(ies) Forty-Five Thousand Dollars (\$ 45,000.00) as a death benefit under Paragraph VI of this Agreement.

V. TAXABLE BENEFIT

Annually the Insured will receive a taxable benefit equal to the assumed cost of insurance as required by the Internal Revenue Service. The Bank (or its administrator) will report to the Insured the amount of imputed income each year on Form W-2 or its equivalent.

VI. DIVISION OF DEATH PROCEEDS

Subject to Paragraphs IV, VII and IX herein, the division of the death proceeds of the policy is as follows:

- A. If the Insured is employed by the Bank, or has retired from the Bank on or subsequent to the Insured attaining age sixty-five (65), then upon the death of the Insured, the Insured's beneficiary(ies), designated in accordance with Paragraph III, shall be entitled to the amount set forth in Exhibit A, attached hereto and fully incorporated herein by reference, that corresponds to the age of the Insured at the time of death, or an amount equal to one hundred percent (100%) of the net-at-risk insurance portion of the proceeds, whichever amount is less. The net-at-risk insurance portion is the total proceeds less the cash value of the policy.
- B. The Bank shall be entitled to the remainder of such proceeds.

- C. The Bank and the Insured (or assignees) shall share in any interest due on the death proceeds on a pro rata basis as the proceeds due each respectively bears to the total proceeds, excluding any such interest.

VII. DIVISION OF THE CASH SURRENDER VALUE OF THE POLICY

The Bank shall at all times be entitled to an amount equal to the policy's cash value, as that term is defined in the policy contract, less any policy loans and unpaid interest or cash withdrawals previously incurred by the Bank and any applicable surrender charges. Such cash value shall be determined as of the date of surrender or death as the case may be.

VIII. RIGHTS OF PARTIES WHERE POLICY ENDOWMENT OR ANNUITY ELECTION EXISTS

In the event the policy involves an endowment or annuity element, the Bank's right and interest in any endowment proceeds or annuity benefits, on expiration of the deferment period, shall be determined under the provisions of this Agreement by regarding such endowment proceeds or the commuted value of such annuity benefits as the policy's cash value. Such endowment proceeds or annuity benefits shall be considered to be like death proceeds for the purposes of division under this Agreement.

IX. TERMINATION OF AGREEMENT

This Agreement shall terminate upon the occurrence of any one of the following:

- A. The Insured shall leave the service of the Board of the Bank (voluntarily or involuntarily) prior to attaining age sixty-five (65);
- B. The Insured shall be discharged from service on the Board of the Bank for cause. The term "for cause" shall mean any of the following that result in an adverse effect on the Bank: (i) gross negligence or gross neglect; (ii) the commission of a felony or gross misdemeanor involving moral turpitude, fraud, or dishonesty; (iii) the willful violation of any law, rule, or regulation (other than a traffic violation or similar offense); (iv) an intentional failure to comply with directives of the Board of Directors; (v) an intentional failure to perform stated duties; or (vi) a breach of fiduciary duty involving personal profit; or
- C. Surrender, lapse, or other termination of the Policy by the Bank.

Upon such termination, the Insured (or assignee) shall have a fifteen (15) day option to receive from the Bank an absolute assignment of the policy in

consideration of a cash payment to the Bank, whereupon this Agreement shall terminate. Such cash payment referred to hereinabove shall be the greater of:

- A. The Bank's share of the cash value of the policy on the date of such assignment, as defined in this Agreement; or
- B. The amount of the premiums that have been paid by the Bank prior to the date of such assignment.

If, within said fifteen (15) day period, the Insured fails to exercise said option, fails to procure the entire aforesaid cash payment, or dies, then the option shall terminate and the Insured (or assignee) agrees that all of the Insured's rights, interest and claims in the policy shall terminate as of the date of the termination of this Agreement.

The Insured expressly agrees that this Agreement shall constitute sufficient written notice to the Insured of the Insured's option to receive an absolute assignment of the policy as set forth herein.

Except as provided above, this Agreement shall terminate upon distribution of the death benefit proceeds in accordance with Paragraph VI above.

X. INSURED'S OR ASSIGNEE'S ASSIGNMENT RIGHTS

The Insured may not, without the written consent of the Bank, assign to any individual, trust or other organization, any right, title or interest in the subject policy nor any rights, options, privileges or duties created under this Agreement.

XI. AGREEMENT BINDING UPON THE PARTIES

This Agreement shall bind the Insured and the Bank, their heirs, successors, personal representatives and assigns.

XII. ERISA PROVISIONS

The following provisions are part of this Agreement and are intended to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"):

- A. Named Fiduciary and Plan Administrator.

The "Named Fiduciary and Plan Administrator" of this Endorsement Method Split Dollar Agreement shall be Santa Lucia Bank until its resignation or removal by the Board of Directors. As Named Fiduciary and Plan Administrator, the Bank shall be responsible for the management,

control, and administration of this Split Dollar Plan as established herein. The Named Fiduciary may delegate to others certain aspects of the management and operation responsibilities of the Plan, including the employment of advisors and the delegation of any ministerial duties to qualified individuals.

B. Funding Policy.

The funding policy for this Split Dollar Plan shall be to maintain the subject policy in force by paying, when due, all premiums required.

C. Basis of Payment of Benefits.

Direct payment by the Insurer is the basis of payment of benefits under this Agreement, with those benefits in turn being based on the payment of premiums as provided in this Agreement.

D. Claim Procedures.

Claim forms or claim information as to the subject policy can be obtained by contacting Benmark, Inc. (800-544-6079). When the Named Fiduciary has a claim which may be covered under the provisions described in the insurance policy, they should contact the office named above, and they will either complete a claim form and forward it to an authorized representative of the Insurer or advise the named Fiduciary what further requirements are necessary. The Insurer will evaluate and make a decision as to payment. If the claim is payable, a benefit check will be issued in accordance with the terms of this Agreement.

In the event that a claim is not eligible under the policy, the Insurer will notify the Named Fiduciary of the denial pursuant to the requirements under the terms of the policy. If the Named Fiduciary is dissatisfied with the denial of the claim and wishes to contest such claim denial, they should contact the office named above and they will assist in making an inquiry to the Insurer. All objections to the Insurer's actions should be in writing and submitted to the office named above for transmittal to the Insurer.

XIII. GENDER

Whenever in this Agreement words are used in the masculine or neuter gender, they shall be read and construed as in the masculine, feminine or neuter gender, whenever they should so apply.

XIV. INSURANCE COMPANY NOT A PARTY TO THIS AGREEMENT

The Insurer shall not be deemed a party to this Agreement, but will respect the rights of the parties as herein developed upon receiving an executed copy of this Agreement. Payment or other performance in accordance with the policy provisions shall fully discharge the Insurer from any and all liability.

XV. CHANGE OF CONTROL

Change of Control shall be deemed to be the cumulative transfer of more than fifty percent (50%) of the voting stock of the Bank from the date of this Agreement. For the purposes of this Agreement, transfers on account of death or gifts, transfers between family members, or transfers to a qualified retirement plan maintained by the Bank shall not be considered in determining whether there has been a Change of Control. Upon a Change of Control, if the Insured's service on the Board of the Bank is subsequently terminated, except for cause, then the Insured shall be one hundred percent (100%) vested in the benefits promised in this Agreement and, therefore, upon the death of the Insured, the Insured's beneficiary(ies) (designated in accordance with Paragraph III) shall receive the death benefit provided herein as if the Insured had died while serving on the Board of the Bank (see Subparagraph VI [A]).

XVI. AMENDMENT OR REVOCATION

It is agreed by and between the parties hereto that, during the lifetime of the Insured, this Agreement may be amended or revoked at any time or times, in whole or in part, by the mutual written consent of the Insured and the Bank.

XVII. EFFECTIVE DATE

The Effective Date of this Agreement shall be January 1, 2001.

XVIII. SEVERABILITY AND INTERPRETATION

If a provision of this Agreement is held to be invalid or unenforceable, the remaining provisions shall nonetheless be enforceable according to their terms. Further, in the event that any provision is held to be overbroad as written, such provision shall be deemed amended to narrow its application to the extent necessary to make the provision enforceable according to law and enforced as amended.

XIX. APPLICABLE LAW

The validity and interpretation of this Agreement shall be governed by the laws of the State of California.

Executed at Atascadero, California this 10th day of January, 2001.

SANTA LUCIA BANK
Atascadero, California

/s/ Claudya Oglesby
Witness
Claudya Oglesby

By: Stanley R. Cherry President
Stanley R. Cherry Title

/s/ Stanley R. Cherry
Witness
Stanley R. Cherry

/s/ Paul G. Moerman
Paul G. Moerman

AGREEMENT

This Agreement is made and is effective as of October 15, 2008 by and between Santa Lucia Bank (“Company”) and D. Jack Stinchfield (“Director”).

WHEREAS, Director is currently a director of Company and its wholly owned subsidiary, Santa Lucia Bank (“Bank”), and Director’s background, expertise and efforts have contributed to the success and financial strength of the Company; and

WHEREAS, the Company wishes to assure itself of the continued opportunity to benefit from Director’s services on the board of directors, (“Board”) and Director wishes to serve in such capacity of the Company;

WHEREAS, the Board has determined that the best interests of the Company would be served by setting forth certain benefits which the Company will provide to Director if the Director remains a member of the Board up to and including the consummation of a Change in Control of the Company; and

WHEREAS, the Company wishes to provide a specific incentive to Director to remain on the Board through and including the consummation of any Change in Control of the Company, as defined herein.

NOW, THEREFORE, in order to effect the foregoing, the parties hereto wish to enter into an agreement on the terms and conditions set forth below. This agreement (“Agreement”) therefore sets forth those benefits which the Company will provide to Director in the event of a “Change in Control of the Company” (as defined in paragraph 2) under the circumstances described below or in contemplation of a Change in Control as discussed in Paragraph 1 below. Accordingly, in consideration of the premises and the respective covenants and agreements of or in contemplation of a Change in Control as discussed in Paragraph 1 below herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **TERM.** If a Change in Control of the Company should occur while Director is still a member of the Board, then this Agreement shall continue in effect from the date of such Change in Control of the Company for so long as Director remains eligible to receive payments from the Company under that certain Endorsement Method Split Dollar Plan Agreement by and between Director and Company dated January 10, 2001 attached hereto as Exhibit A; provided, however, that the expiration of the term of this Agreement shall not adversely affect Director’s rights under this Agreement which have accrued prior to such expiration. If no Change in Control of the Company occurs before Director’s status as a Director of the Company is terminated, this Agreement shall expire on such date.
2. **CHANGE IN CONTROL.** For purposes of this Agreement, “Change in Control” means a change of control of the Company or Bank, of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act, whether or not the Bank or Company is then subject to such reporting requirement; provided, however, that a transaction in which the Bank or Company is the acquirer regardless of the form of the

transaction shall not be a Change in Control for purposes of this Agreement; provided further however, that without limitation, a Change in Control shall be deemed to have occurred if:

- (i) there is a transfer, voluntarily or by hostile takeover, by proxy contest (or similar action), operation of law, or otherwise, of control of the Bank or Company;
- (ii) any Person is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act or any successor provisions thereof), directly or indirectly, of securities of the Bank or Company representing 20% or more of the combined voting power of the Bank’s or Company’s then outstanding securities (other than in the case of the ownership by Company of Bank securities);
- (iii) the individuals who were members of the Board immediately prior to a meeting of the shareholders of the Bank or Company, which meeting involves a contest for the election of directors, do not constitute a majority of the Board following such meeting or election;
- (iv) a merger is completed in which the Bank or Company is not the surviving entity (unless the stockholders of Bank or Company, as the case may be, immediately before such merger own immediately after such merger more than a majority of the voting securities of the surviving entity), a consolidation or sale of all or substantially all of the assets of the Bank or Company; or
- (v) there is a change, during any period of two consecutive years, of a majority of the Board or of the board of directors of Company as constituted as of the beginning of such period, unless the election of each director who is not a director at the beginning of such period was approved by a vote of at least two-thirds of the directors then in office who were directors at the beginning of such period.

3. BENEFITS FOLLOWING CHANGE IN CONTROL. If a Change in Control of the Company shall have occurred while Director is still a director of the Company, Director shall be entitled to the payments and benefits provided in paragraph 4 hereof.

4. BENEFITS FOR DIRECTOR. If, after a Change in Control, the acquiring company chooses, or causes the Bank or surviving entity to surrender the life insurance policy maintained by the Bank under the Director’s Life Insurance Endorsement Method Split Dollar Plan Agreement without replacing it or the policy otherwise ceases to exist prior to the death of Director, Santa Lucia Bank or the acquiring company shall pay to Director D. Jack Stinchfield (\$44,742.00) upon the surrender or otherwise termination of the policy. The obligations set forth in the preceding sentence shall survive any termination of this Agreement.

The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish Director’s existing rights, or rights which would accrue solely as a result of the passage of time, under any employee benefit plan of the Company, any employment agreement or other contract, plan or arrangement of the Company, except to the extent necessary to prevent double payment under any severance plan or program of the Company in effect at the date of the Change of Control.

5. SUCCESSOR'S BINDING AGREEMENT

(i) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to Director expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(ii) This Agreement shall inure to the benefit of, and be enforceable by, Director's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Director should die while any amounts would still be payable to Director hereunder if Director had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Director's devisee, legatee or other designee or, if there be no such designee, to Director's estate.

6. NOTICE. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the last page of this Agreement, provided that all notices to the Company should be directed to the attention of the Chairman of the Company's Compensation Committee, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

7. FURTHER ASSURANCES. Each party hereto agrees to furnish and execute such additional forms and documents, and to take such further action, as shall be reasonable and customarily required in connection with the performance of this Agreement or the payment of benefits hereunder.

8. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Director and such officer as may be specifically designated by the Board of Directors of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which is not set forth expressly in this Agreement. This Agreement contains the entire agreement among the parties and supersedes and replaces any prior agreement between the parties concerning the subject matter hereof. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

9. VALIDITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

11. ARBITRATION. Any dispute or controversy arising or in connection with this Agreement shall, upon written request of one party to the other, be submitted to and settled exclusively by arbitration pursuant to the rules of the American Arbitration Association. Judgment may be entered on the arbitrator's award in any court of competent jurisdiction. The cost of such arbitration, including reasonable attorney's fees, shall be borne by the losing party or in such proportions as the arbitrator(s) shall decide. Arbitration shall be the exclusive remedy of Director and the Company and the award of the arbitrator(s) shall be final and binding upon the parties. All reasonable costs, including reasonable attorney's fees, incurred in enforcing an arbitration award in court, or of seeking a court order to compel arbitration, shall be borne by the losing party in such proceedings.

12. ADVICE OF COUNSEL. Director acknowledges that he/she has been encouraged to consult with legal counsel of his/her choosing concerning the terms of this Agreement prior to executing this Agreement. Any failure by Director to consult with competent counsel prior to executing this Agreement shall not be a basis for rescinding or otherwise avoiding the binding effect of this Agreement. The parties acknowledge that they are entering into this Agreement freely and voluntarily, with full understanding of the terms of this Agreement. Interpretation of the terms and provisions of this Agreement shall not be construed for or against either party on the basis of the identity of the party who drafted the terms or provisions in question.

14. TAXES.

(i) All payments to be made to Director under this Agreement will be subject to required withholding of federal, state and local income and employment taxes.

(ii) In the event that any payment or benefit (within the meaning of Section 280G(b)(2) of the Internal Revenue Code, as amended (the "Code")), to the Director or for his benefit paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, his service as a director of the Company or a Change in Control (including the accelerated exercise of any stock options)(any such payment or benefit being a "Payment" or "Payments"), would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Director with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Director will be entitled to receive an additional payment (a "Gross-Up Payment") in an amount equal to the total Excise Tax imposed on the Director as a result of such Payments (including the Excise Tax reimbursement due pursuant to this sentence and the Excise Taxes on any federal and state tax reimbursements due pursuant to the next subsection).

(iii) If Company is obligated to pay the Director pursuant to the preceding subsection, Company also shall pay the Director an amount equal to the "total presumed federal and state taxes" that could be imposed on the Director with respect to the Excise Tax reimbursements due to the Director pursuant to the preceding subsection and the federal and state tax reimbursements due to the Director pursuant to this sentence. For purposes of the preceding sentence, the "total

presumed federal and state taxes” that could be imposed on the Director shall be conclusively calculated using a combined tax rate equal to the sum of (a) the highest individual income tax rate in effect under (i) Federal tax law and (ii) the tax laws of the state in which the Director resides on the date that the payment under this Section 14 is computed and (b) the hospital insurance portion of FICA.

(iv) No adjustments will be made in this combined rate for the deduction of state taxes on the federal return, the loss of itemized deductions or exemptions, or for any other purpose for paying the actual taxes. Director shall be responsible for paying the actual taxes.

(v) An initial determination as to whether a Gross-Up Payment is required pursuant to this Agreement and the amount of such Gross-Up Payment shall be made at the Company’s expense by Vavrinek Trine Day & Co. or by any successor accounting firm appointed by the Company prior to any Change in Control (the “Accounting Firm”). The Accounting Firm shall provide its determination (the “Determination”), together with detailed supporting calculations and documentation to the Company and the Director within five days after the date the insurance policy referred to in Section 4 is terminated or at such other time as requested by the Company or by the Director (provided the Director reasonably believes that any of the Payments may be subject to the Excise Tax) and if the Accounting Firm determines that no Excise Tax is payable by the Director with respect to a Payment or Payments, it shall furnish the Director with an opinion reasonably acceptable to the Director that no Excise Tax will be imposed with respect to any such Payment or Payments. Within ten days of the delivery of the Determination to the Director, the Director shall have the right to dispute the Determination (the “Dispute”). The Gross-Up Payment, if any, as determined pursuant to this Section 8 shall be paid by the Company to the Director within five days of the receipt of the Accounting Firm’s determination. The existence of the Dispute shall not in any way affect the Director’s right to receive the Gross-Up Payment in accordance with the Determination. Upon the final resolution of a Dispute, the Company shall promptly pay to the Director any additional amount required by such resolution. If there is no Dispute, the Determination shall be binding, final and conclusive upon the Company and the Director subject to the application of Section 14(vi) below.

(vi) Notwithstanding anything contained in this Agreement to the contrary, in the event that according to the Determination, an Excise Tax will be imposed on any Payment or Payments, the Company shall pay to the applicable government taxing authorities as Excise Tax withholding, the amount of the Excise Tax that the Company has actually withheld from the Payment or Payments.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:

SANTA LUCIA BANK
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen
Witness

By: /s/ Larry H. Putnam
Its: Chief Executive Officer
Print name: Larry H. Putnam

THE DIRECTOR
7480 El Camino Real
Atascadero, California 93422

/s/ John C. Hansen

Witness

/s/ D. Jack Stinchfield

D. Jack Stinchfield

EXHIBIT A

LIFE INSURANCE
ENDORSEMENT METHOD SPLIT DOLLAR PLAN
AGREEMENT

Insurer: Transamerica
West Coast Life

Policy Number: 50281759
ULA349568

Bank: Santa Lucia Bank

Insured: D. Jack Stinchfield

Relationship of Insured to Bank: Director

The respective rights and duties of the Bank and the Insured in the above-referenced policy shall be pursuant to the terms set forth below:

I. DEFINITIONS

Refer to the policy contract for the definition of all terms in this Agreement.

II. POLICY TITLE AND OWNERSHIP

Title and ownership shall reside in the Bank for its use and for the use of the Insured all in accordance with this Agreement. The Bank alone may, to the extent of its interest, exercise the right to borrow or withdraw on the policy cash values. Where the Bank and the Insured (or assignee, with the consent of the Insured) mutually agree to exercise the right to increase the coverage under the subject Split Dollar policy, then, in such event, the rights, duties and benefits of the parties to such increased coverage shall continue to be subject to the terms of this Agreement.

III. BENEFICIARY DESIGNATION RIGHTS

The Insured (or assignee) shall have the right and power to designate a beneficiary or beneficiaries to receive the Insured's share of the proceeds payable upon the death of the Insured, and to elect and change a payment option for such

beneficiary, subject to any right or interest the Bank may have in such proceeds, as provided in this Agreement.

IV. PREMIUM PAYMENT METHOD AND BANK'S DUE DILIGENCE

Subject to the following, the Bank shall pay an amount equal to the planned premiums and any other premium payments that might become necessary to keep the policy in force. The Bank shall exercise due diligence in reviewing the financial stability of the insurance company and the policy that are the subject of this Agreement. If the Bank believes that the Insurer under the policy is financially weak or that the policy is not performing well, the Bank may, at any time, surrender the policy or substitute a different policy provided that the Bank is under no obligation to invest in such replacement policy any more than the proceeds available from the cash surrender value of the original policy. The Director will cooperate by undertaking any necessary medical examination. If the Bank chooses to surrender the above-referenced policy without replacing it or the policy otherwise ceases to exist prior to the death of the Insured, the Bank agrees to pay the Insured's named beneficiary(ies) Forty-Four Thousand Seven Hundred and Forty-Two Dollars (\$ 44,742.00) as a death benefit under Paragraph VI of this Agreement.

V. TAXABLE BENEFIT

Annually the Insured will receive a taxable benefit equal to the assumed cost of insurance as required by the Internal Revenue Service. The Bank (or its administrator) will report to the Insured the amount of imputed income each year on Form W-2 or its equivalent.

VI. DIVISION OF DEATH PROCEEDS

Subject to Paragraphs IV, VII and IX herein, the division of the death proceeds of the policy is as follows:

- A. If the Insured is employed by the Bank, or has retired from the Bank on or subsequent to the Insured attaining age sixty-five (65), then upon the death of the Insured, the Insured's beneficiary(ies), designated in accordance with Paragraph III, shall be entitled to the amount set forth in Exhibit A, attached hereto and fully incorporated herein by reference, that corresponds to the age of the Insured at the time of death, or an amount equal to one hundred percent (100%) of the net-at-risk insurance portion of the proceeds, whichever amount is less. The net-at-risk insurance portion is the total proceeds less the cash value of the policy.
- B. The Bank shall be entitled to the remainder of such proceeds.

- C. The Bank and the Insured (or assignees) shall share in any interest due on the death proceeds on a pro rata basis as the proceeds due each respectively bears to the total proceeds, excluding any such interest.

VII. DIVISION OF THE CASH SURRENDER VALUE OF THE POLICY

The Bank shall at all times be entitled to an amount equal to the policy's cash value, as that term is defined in the policy contract, less any policy loans and unpaid interest or cash withdrawals previously incurred by the Bank and any applicable surrender charges. Such cash value shall be determined as of the date of surrender or death as the case may be.

VIII. RIGHTS OF PARTIES WHERE POLICY ENDOWMENT OR ANNUITY ELECTION EXISTS

In the event the policy involves an endowment or annuity element, the Bank's right and interest in any endowment proceeds or annuity benefits, on expiration of the deferment period, shall be determined under the provisions of this Agreement by regarding such endowment proceeds or the commuted value of such annuity benefits as the policy's cash value. Such endowment proceeds or annuity benefits shall be considered to be like death proceeds for the purposes of division under this Agreement.

IX. TERMINATION OF AGREEMENT

This Agreement shall terminate upon the occurrence of any one of the following:

- A. The Insured shall leave the service of the Board of the Bank (voluntarily or involuntarily) prior to attaining age sixty-five (65);
- B. The Insured shall be discharged from service on the Board of the Bank for cause. The term "for cause" shall mean any of the following that result in an adverse effect on the Bank: (i) gross negligence or gross neglect; (ii) the commission of a felony or gross misdemeanor involving moral turpitude, fraud, or dishonesty; (iii) the willful violation of any law, rule, or regulation (other than a traffic violation or similar offense); (iv) an intentional failure to comply with directives of the Board of Directors; (v) an intentional failure to perform stated duties; or (vi) a breach of fiduciary duty involving personal profit; or
- C. Surrender, lapse, or other termination of the Policy by the Bank.

Upon such termination, the Insured (or assignee) shall have a fifteen (15) day option to receive from the Bank an absolute assignment of the policy in

consideration of a cash payment to the Bank, whereupon this Agreement shall terminate. Such cash payment referred to hereinabove shall be the greater of:

- A. The Bank's share of the cash value of the policy on the date of such assignment, as defined in this Agreement; or
- B. The amount of the premiums that have been paid by the Bank prior to the date of such assignment.

If, within said fifteen (15) day period, the Insured fails to exercise said option, fails to procure the entire aforesaid cash payment, or dies, then the option shall terminate and the Insured (or assignee) agrees that all of the Insured's rights, interest and claims in the policy shall terminate as of the date of the termination of this Agreement.

The Insured expressly agrees that this Agreement shall constitute sufficient written notice to the Insured of the Insured's option to receive an absolute assignment of the policy as set forth herein.

Except as provided above, this Agreement shall terminate upon distribution of the death benefit proceeds in accordance with Paragraph VI above.

X. INSURED'S OR ASSIGNEE'S ASSIGNMENT RIGHTS

The Insured may not, without the written consent of the Bank, assign to any individual, trust or other organization, any right, title or interest in the subject policy nor any rights, options, privileges or duties created under this Agreement.

XI. AGREEMENT BINDING UPON THE PARTIES

This Agreement shall bind the Insured and the Bank, their heirs, successors, personal representatives and assigns.

XII. ERISA PROVISIONS

The following provisions are part of this Agreement and are intended to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"):

- A. Named Fiduciary and Plan Administrator.

The "Named Fiduciary and Plan Administrator" of this Endorsement Method Split Dollar Agreement shall be Santa Lucia Bank until its resignation or removal by the Board of Directors. As Named Fiduciary and Plan Administrator, the Bank shall be responsible for the management,

control, and administration of this Split Dollar Plan as established herein. The Named Fiduciary may delegate to others certain aspects of the management and operation responsibilities of the Plan, including the employment of advisors and the delegation of any ministerial duties to qualified individuals.

B. Funding Policy.

The funding policy for this Split Dollar Plan shall be to maintain the subject policy in force by paying, when due, all premiums required.

C. Basis of Payment of Benefits.

Direct payment by the Insurer is the basis of payment of benefits under this Agreement, with those benefits in turn being based on the payment of premiums as provided in this Agreement.

D. Claim Procedures.

Claim forms or claim information as to the subject policy can be obtained by contacting Benmark, Inc. (800-544-6079). When the Named Fiduciary has a claim which may be covered under the provisions described in the insurance policy, they should contact the office named above, and they will either complete a claim form and forward it to an authorized representative of the Insurer or advise the named Fiduciary what further requirements are necessary. The Insurer will evaluate and make a decision as to payment. If the claim is payable, a benefit check will be issued in accordance with the terms of this Agreement.

In the event that a claim is not eligible under the policy, the Insurer will notify the Named Fiduciary of the denial pursuant to the requirements under the terms of the policy. If the Named Fiduciary is dissatisfied with the denial of the claim and wishes to contest such claim denial, they should contact the office named above and they will assist in making an inquiry to the Insurer. All objections to the Insurer's actions should be in writing and submitted to the office named above for transmittal to the Insurer.

XIII. GENDER

Whenever in this Agreement words are used in the masculine or neuter gender, they shall be read and construed as in the masculine, feminine or neuter gender, whenever they should so apply.

XIV. INSURANCE COMPANY NOT A PARTY TO THIS AGREEMENT

The Insurer shall not be deemed a party to this Agreement, but will respect the rights of the parties as herein developed upon receiving an executed copy of this Agreement. Payment or other performance in accordance with the policy provisions shall fully discharge the Insurer from any and all liability.

XV. CHANGE OF CONTROL

Change of Control shall be deemed to be the cumulative transfer of more than fifty percent (50%) of the voting stock of the Bank from the date of this Agreement. For the purposes of this Agreement, transfers on account of death or gifts, transfers between family members, or transfers to a qualified retirement plan maintained by the Bank shall not be considered in determining whether there has been a Change of Control. Upon a Change of Control, if the Insured's service on the Board of the Bank is subsequently terminated, except for cause, then the Insured shall be one hundred percent (100%) vested in the benefits promised in this Agreement and, therefore, upon the death of the Insured, the Insured's beneficiary(ies) (designated in accordance with Paragraph III) shall receive the death benefit provided herein as if the Insured had died while serving on the Board of the Bank (see Subparagraph VI [A]).

XVI. AMENDMENT OR REVOCATION

It is agreed by and between the parties hereto that, during the lifetime of the Insured, this Agreement may be amended or revoked at any time or times, in whole or in part, by the mutual written consent of the Insured and the Bank.

XVII. EFFECTIVE DATE

The Effective Date of this Agreement shall be January 1, 2001.

XVIII. SEVERABILITY AND INTERPRETATION

If a provision of this Agreement is held to be invalid or unenforceable, the remaining provisions shall nonetheless be enforceable according to their terms. Further, in the event that any provision is held to be overbroad as written, such provision shall be deemed amended to narrow its application to the extent necessary to make the provision enforceable according to law and enforced as amended.

XIX. APPLICABLE LAW

The validity and interpretation of this Agreement shall be governed by the laws of the State of California.

Executed at Atascadero, California this 10th day of January, 2001.

SANTA LUCIA BANK
Atascadero, California

/s/ Claudya Oglesby
Witness
Claudya Oglesby

By: /s/ Stanley R. Cherry President
Stanley R. Cherry Title

/s/ Stanley R. Cherry
Witness
Stanley R. Cherry

/s/ D. Jack Stinchfield
D. Jack Stinchfield

**FIRST AMENDMENT TO
AMENDED AND RESTATED EMPLOYMENT
AGREEMENT**

THIS FIRST AMENDMENT TO THE AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "First Amendment") is entered into as of October 15, 2008 between Larry Putnam (the "Executive") and Santa Lucia Bank, a banking company organized under the laws of California, (the "Bank") located in Atascadero, California.

WHEREAS, the Executive and the Bank entered into the Amended and Restated Employment Agreement (the "Agreement") dated December 15, 2006;

WHEREAS, the Executive and the Bank previously amended the Life Insurance Endorsement Method Split Dollar Plan and in consideration of such amendment have agreed to amend the Agreement to provide additional benefits to Executive;

NOW, THEREFORE, for good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Executive and the Bank hereto agree as follows:

1. Paragraph 8(e) of the Agreement is amended and restated in its entirety to read as follows:

8(e) Change in Control. Concurrent with a Change in Control, the Bank shall pay to Executive a lump sum payment equal to 2 times the amount of the Total Salary paid to Executive. Such lump sum shall be paid concurrent with the Change in Control. In addition, should the acquiring company choose to surrender the life insurance policy maintained by the Bank under Executive's Life Insurance Endorsement Method Split Dollar Plan Agreement without replacing it or the policy otherwise ceases to exist prior to the death of Executive, Santa Lucia Bank or the acquiring company shall pay to Executive Three Hundred Thousand Dollars (\$300,000). The obligations set forth in the preceding sentence shall survive any termination of this Agreement.
 2. Capitalized terms used herein and not otherwise defined shall have the same meaning as set forth in the Agreement.
 3. This First Amendment may be entered into in one or more counterparts, all of which shall be considered one and the same instrument, and it shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.
 4. Except as expressly modified herein, the terms of the Agreement are confirmed.
-

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the day and year first above written.

Attest:

Bank:

Santa Lucia Bank

/s/ Larry H. Putnam

Witness

/s/ John C. Hansen

Name: John C. Hansen

Title: President

Executive:

/s/ John C. Hansen

Witness

/s/ Larry H. Putnam

Larry H. Putnam

**FIRST AMENDMENT TO
AMENDED AND RESTATED EMPLOYMENT
AGREEMENT**

THIS FIRST AMENDMENT TO THE AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "First Amendment") is entered into as of October 15, 2008 between John C. Hansen (the "Executive") and Santa Lucia Bank, a banking company organized under the laws of California, (the "Bank") located in Atascadero, California.

WHEREAS, the Executive and the Bank entered into the Amended and Restated Employment Agreement (the "Agreement") dated December 15, 2006;

WHEREAS, the Executive and the Bank previously amended the Life Insurance Endorsement Method Split Dollar Plan and in consideration of such amendment have agreed to amend the Agreement to provide additional benefits to Executive;

NOW, THEREFORE, for good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Executive and the Bank hereto agree as follows:

5. Paragraph 8(e) of the Agreement is amended and restated in its entirety to read as follows:

8(e) Change in Control. Concurrent with a Change in Control, the Bank shall pay to Executive a lump sum payment equal to 2 times the amount of the Total Salary paid to Executive. Such lump sum shall be paid concurrent with the Change in Control. In addition, should the acquiring company choose to surrender the life insurance policy maintained by the Bank under Executive's Life Insurance Endorsement Method Split Dollar Plan Agreement without replacing it or the policy otherwise ceases to exist prior to the death of Executive, Santa Lucia Bank or the acquiring company shall pay to Executive Two Hundred Fifty Thousand (\$250,000.00). The obligations set forth in the preceding sentence shall survive any termination of this Agreement.

6. Capitalized terms used herein and not otherwise defined shall have the same meaning as set forth in the Agreement.

7. This First Amendment may be entered into in one or more counterparts, all of which shall be considered one and the same instrument, and it shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

8. Except as expressly modified herein, the terms of the Agreement are confirmed.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the day and year first above written.

Attest:

Bank:

Santa Lucia Bank

/s/ John C. Hansen

Witness

/s/ Larry H. Putnam

Name: Larry H. Putnam

Title: CEO

Executive:

/s/ Larry H. Putnam

Witness

/s/ John C. Hansen

John C. Hansen

**FIRST AMENDMENT TO
AMENDED AND RESTATED EMPLOYMENT
AGREEMENT**

THIS FIRST AMENDMENT TO THE AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "First Amendment") is entered into as of October 15, 2008 between James Cowan (the "Executive") and Santa Lucia Bank, a banking company organized under the laws of California, (the "Bank") located in Atascadero, California.

WHEREAS, the Executive and the Bank entered into the Amended and Restated Employment Agreement (the "Agreement") dated December 15, 2006;

WHEREAS, the Executive and the Bank previously amended the Life Insurance Endorsement Method Split Dollar Plan and in consideration of such amendment have agreed to amend the Agreement to provide additional benefits to Executive;

NOW, THEREFORE, for good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Executive and the Bank hereto agree as follows:

9. Paragraph 8(e) of the Agreement is amended and restated in its entirety to read as follows:

8(e) Change in Control. Concurrent with a Change in Control, the Bank shall pay to Executive a lump sum payment equal to 2 times the amount of the Total Salary paid to Executive. Such lump sum shall be paid concurrent with the Change in Control. In addition, should the acquiring company choose to surrender the life insurance policy maintained by the Bank under Executive's Life Insurance Endorsement Method Split Dollar Plan Agreement without replacing it or the policy otherwise ceases to exist prior to the death of Executive, Santa Lucia Bank or the acquiring company shall pay to Executive Two Hundred Forty Thousand (\$240,000.00). The obligations set forth in the preceding sentence shall survive any termination of this Agreement.

10. Capitalized terms used herein and not otherwise defined shall have the same meaning as set forth in the Agreement.

11. This First Amendment may be entered into in one or more counterparts, all of which shall be considered one and the same instrument, and it shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

12. Except as expressly modified herein, the terms of the Agreement are confirmed.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the day and year first above written.

Attest:

/s/ John C. Hansen
Witness

/s/ John C. Hansen
Witness

Bank:

Santa Lucia Bank

/s/ Larry H. Putnam
Name: Larry H. Putnam
Title: CEO

Executive:

/s/ James Cowan
James Cowan

CERTIFICATIONS

I, Larry H. Putnam, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Santa Lucia Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15 (f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures , or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals.
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and audit committee of the registrant's board of directors (or persons performing the equivalent function);
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls which over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 13,
2008

/s/ Larry H. Putnam
Larry H. Putnam
President and Chief Executive Officer

CERTIFICATIONS

I, John C. Hansen, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Santa Lucia Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15 (f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b). Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals.
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and audit committee of the registrant's board of directors (or persons performing the equivalent function);
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls which over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 13,
2008

/s/ John C. Hansen
John C. Hansen
Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies pursuant to 18 U.S.C. Section 1350 in his capacity of President and Chief Executive Officer of Santa Lucia Bancorp (the "Company") that, to my knowledge, (a) the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2008 fully complies with the requirements of Section 13(a) and 15(a) of the Securities Exchange Act of 1934 and (b) that the information contained in such report fairly presents, in all material respects, the financial condition of the Company at the end of such period and the results of operations of the Company for such period.

Date: November 13,
2008

/s/ Larry H. Putnam

Larry H. Putnam
President and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Santa Lucia Bancorp, and will be retained by Santa Lucia Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies pursuant to 18 U.S.C. Section 1350 in his capacity of Executive Vice President and Chief Financial Officer of Santa Lucia Bancorp (the "Company") that, to my knowledge, (a) the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2008 fully complies with the requirements of Section 13(a) and 15(a) of the Securities Exchange Act of 1934 and (b) that the information contained in such report fairly presents, in all material respects, the financial condition of the Company at the end of such period and the results of operations of the Company for such period.

Date: November 13,
2008

/s/ John C. Hansen

John C. Hansen
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Santa Lucia Bancorp, and will be retained by Santa Lucia Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.
