

UNITED STATES DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVENUE, NW
WASHINGTON, D.C. 20220

Dear Ladies and Gentlemen:

The company set forth on the signature page hereto (the "*Company*") intends to issue in a private placement the number of shares of a series of its preferred stock set forth on Schedule A hereto (the "*Preferred Shares*") and a warrant to purchase the number of shares of a series of its preferred stock set forth on Schedule A hereto (the "*Warrant*" and, together with the Preferred Shares, the "*Purchased Securities*") and the United States Department of the Treasury (the "*Investor*") intends to purchase from the Company the Purchased Securities.

The purpose of this letter agreement is to confirm the terms and conditions of the purchase by the Investor of the Purchased Securities. Except to the extent supplemented or superseded by the terms set forth herein or in the Schedules hereto, the provisions contained in the Securities Purchase Agreement – Standard Terms attached hereto as Exhibit A (the "*Securities Purchase Agreement*") are incorporated by reference herein. Terms that are defined in the Securities Purchase Agreement are used in this letter agreement as so defined. In the event of any inconsistency between this letter agreement and the Securities Purchase Agreement, the terms of this letter agreement shall govern.

Each of the Company and the Investor hereby confirms its agreement with the other party with respect to the issuance by the Company of the Purchased Securities and the purchase by the Investor of the Purchased Securities pursuant to this letter agreement and the Securities Purchase Agreement on the terms specified on Schedule A hereto.


This letter agreement (including the Schedules hereto), the Securities Purchase Agreement (including the Annexes thereto), the Disclosure Schedules and the Warrant constitute the entire agreement, and supersede all other prior agreements, understandings, representations and warranties, both written and oral, between the parties, with respect to the subject matter hereof. This letter agreement constitutes the "Letter Agreement" referred to in the Securities Purchase Agreement.

This letter agreement may be executed in any number of separate counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts will together constitute the same agreement. Executed signature pages to this letter agreement may be delivered by facsimile and such facsimiles will be deemed as sufficient as if actual signature pages had been delivered.


* * *

In witness whereof, this letter agreement has been duly executed and delivered by the duly authorized representatives of the parties hereto as of the date written below.

UNITED STATES DEPARTMENT OF THE
TREASURY

By: 
Name: Neel Kashkari
Title: Interim Assistant Secretary
For Financial Stability

COMPANY: VALLEY COMMERCE BANCORP

By: 
Name: Donald A. Gilles
Title: President / CEO

JAN 30 2009

Date: _____

EXHIBIT A

SECURITIES PURCHASE AGREEMENT

EXHIBIT A
(Non-Exchange-Traded QFIs, excluding S Corps
and Mutual Organizations)

SECURITIES PURCHASE AGREEMENT
STANDARD TERMS

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SECURITIES PURCHASE AGREEMENT – STANDARD TERMS

Recitals:

WHEREAS, the United States Department of the Treasury (the “*Investor*”) may from time to time agree to purchase shares of preferred stock and warrants from eligible financial institutions which elect to participate in the Troubled Asset Relief Program Capital Purchase Program (“*CPP*”);

WHEREAS, an eligible financial institution electing to participate in the CPP and issue securities to the Investor (referred to herein as the “*Company*”) shall enter into a letter agreement (the “*Letter Agreement*”) with the Investor which incorporates this Securities Purchase Agreement – Standard Terms;

WHEREAS, the Company agrees to expand the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy;

WHEREAS, the Company agrees to work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market;

WHEREAS, the Company intends to issue in a private placement the number of shares of the series of its Preferred Stock (“*Preferred Stock*”) set forth on Schedule A to the Letter Agreement (the “*Preferred Shares*”) and a warrant to purchase the number of shares of the series of its Preferred Stock (“*Warrant Preferred Stock*”) set forth on Schedule A to the Letter Agreement (the “*Warrant*”) and, together with the Preferred Shares, the “*Purchased Securities*”) and the Investor intends to purchase (the “*Purchase*”) from the Company the Purchased Securities; and

WHEREAS, the Purchase will be governed by this Securities Purchase Agreement – Standard Terms and the Letter Agreement, including the schedules thereto (the “*Schedules*”), specifying additional terms of the Purchase. This Securities Purchase Agreement – Standard Terms (including the Annexes hereto) and the Letter Agreement (including the Schedules thereto) are together referred to as this “*Agreement*”. All references in this Securities Purchase Agreement – Standard Terms to “*Schedules*” are to the Schedules attached to the Letter Agreement.

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements set forth herein, the parties agree as follows:

Article I Purchase; Closing

1.1 Purchase. On the terms and subject to the conditions set forth in this Agreement, the Company agrees to sell to the Investor, and the Investor agrees to purchase from the Company, at the Closing (as hereinafter defined), the Purchased Securities for the price set forth on Schedule A (the “*Purchase Price*”).

1.2 Closing.

(a) On the terms and subject to the conditions set forth in this Agreement, the closing of the Purchase (the "*Closing*") will take place at the location specified in Schedule A, at the time and on the date set forth in Schedule A or as soon as practicable thereafter, or at such other place, time and date as shall be agreed between the Company and the Investor. The time and date on which the Closing occurs is referred to in this Agreement as the "*Closing Date*".

(b) Subject to the fulfillment or waiver of the conditions to the Closing in this Section 1.2, at the Closing the Company will deliver the Preferred Shares and the Warrant, in each case as evidenced by one or more certificates dated the Closing Date and bearing appropriate legends as hereinafter provided for, in exchange for payment in full of the Purchase Price by wire transfer of immediately available United States funds to a bank account designated by the Company on Schedule A.

(c) The respective obligations of each of the Investor and the Company to consummate the Purchase are subject to the fulfillment (or waiver by the Investor and the Company, as applicable) prior to the Closing of the conditions that (i) any approvals or authorizations of all United States and other governmental, regulatory or judicial authorities (collectively, "*Governmental Entities*") required for the consummation of the Purchase shall have been obtained or made in form and substance reasonably satisfactory to each party and shall be in full force and effect and all waiting periods required by United States and other applicable law, if any, shall have expired and (ii) no provision of any applicable United States or other law and no judgment, injunction, order or decree of any Governmental Entity shall prohibit the purchase and sale of the Purchased Securities as contemplated by this Agreement.

(d) The obligation of the Investor to consummate the Purchase is also subject to the fulfillment (or waiver by the Investor) at or prior to the Closing of each of the following conditions:

(i) (A) the representations and warranties of the Company set forth in (x) Section 2.2(g) of this Agreement shall be true and correct in all respects as though made on and as of the Closing Date, (y) Sections 2.2(a) through (f) shall be true and correct in all material respects as though made on and as of the Closing Date (other than representations and warranties that by their terms speak as of another date, which representations and warranties shall be true and correct in all material respects as of such other date) and (z) Sections 2.2(h) through (v) (disregarding all qualifications or limitations set forth in such representations and warranties as to "materiality", "Company Material Adverse Effect" and words of similar import) shall be true and correct as though made on and as of the Closing Date (other than representations and warranties that by their terms speak as of another date, which representations and warranties shall be true and correct as of such other date), except to the extent that the failure of such representations and warranties referred to in this Section 1.2(d)(i)(A)(z) to be so true and correct, individually or in the aggregate, does not have and would not reasonably be expected to have a Company Material Adverse Effect and (B) the Company shall have

performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing;

(ii) the Investor shall have received a certificate signed on behalf of the Company by a senior executive officer certifying to the effect that the conditions set forth in Section 1.2(d)(i) have been satisfied;

(iii) the Company shall have duly adopted and filed with the Secretary of State of its jurisdiction of organization or other applicable Governmental Entity the amendments to its certificate or articles of incorporation, articles of association, or similar organizational document ("*Charter*") in substantially the forms attached hereto as Annex A and Annex B (the "*Certificates of Designations*") and such filing shall have been accepted;

(iv) (A) the Company shall have effected such changes to its compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "*Benefit Plans*") with respect to its Senior Executive Officers (and to the extent necessary for such changes to be legally enforceable, each of its Senior Executive Officers shall have duly consented in writing to such changes), as may be necessary, during the period that the Investor owns any debt or equity securities of the Company acquired pursuant to this Agreement or the Warrant, in order to comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 ("*EESA*") as implemented by guidance or regulation thereunder that has been issued and is in effect as of the Closing Date, and (B) the Investor shall have received a certificate signed on behalf of the Company by a senior executive officer certifying to the effect that the condition set forth in Section 1.2(d)(iv)(A) has been satisfied;

(v) each of the Company's Senior Executive Officers shall have delivered to the Investor a written waiver in the form attached hereto as Annex C releasing the Investor from any claims that such Senior Executive Officers may otherwise have as a result of the issuance, on or prior to the Closing Date, of any regulations which require the modification of, and the agreement of the Company hereunder to modify, the terms of any Benefit Plans with respect to its Senior Executive Officers to eliminate any provisions of such Benefit Plans that would not be in compliance with the requirements of Section 111(b) of the EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the Closing Date;

(vi) the Company shall have delivered to the Investor a written opinion from counsel to the Company (which may be internal counsel), addressed to the Investor and dated as of the Closing Date, in substantially the form attached hereto as Annex D;

(vii) the Company shall have delivered certificates in proper form or, with the prior consent of the Investor, evidence of shares in book-entry form, evidencing the Preferred Shares to Investor or its designee(s); and

(viii) the Company shall have duly executed the Warrant in substantially the form attached hereto as Annex E and delivered such executed Warrant to the Investor or its designee(s).

1.3 Interpretation. When a reference is made in this Agreement to “Recitals,” “Articles,” “Sections,” or “Annexes” such reference shall be to a Recital, Article or Section of, or Annex to, this Securities Purchase Agreement – Standard Terms, and a reference to “Schedules” shall be to a Schedule to the Letter Agreement, in each case, unless otherwise indicated. The terms defined in the singular have a comparable meaning when used in the plural, and vice versa. References to “herein”, “hereof”, “hereunder” and the like refer to this Agreement as a whole and not to any particular section or provision, unless the context requires otherwise. The table of contents and headings contained in this Agreement are for reference purposes only and are not part of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed followed by the words “without limitation.” No rule of construction against the draftsperson shall be applied in connection with the interpretation or enforcement of this Agreement, as this Agreement is the product of negotiation between sophisticated parties advised by counsel. All references to “\$” or “dollars” mean the lawful currency of the United States of America. Except as expressly stated in this Agreement, all references to any statute, rule or regulation are to the statute, rule or regulation as amended, modified, supplemented or replaced from time to time (and, in the case of statutes, include any rules and regulations promulgated under the statute) and to any section of any statute, rule or regulation include any successor to the section. References to a “*business day*” shall mean any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

Article II Representations and Warranties

2.1 Disclosure.

(a) On or prior to the Signing Date, the Company delivered to the Investor a schedule (“*Disclosure Schedule*”) setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in Section 2.2.

(b) “*Company Material Adverse Effect*” means a material adverse effect on (i) the business, results of operation or financial condition of the Company and its consolidated subsidiaries taken as a whole; *provided, however*, that Company Material Adverse Effect shall not be deemed to include the effects of (A) changes after the date of the Letter Agreement (the “*Signing Date*”) in general business, economic or market conditions (including changes generally in prevailing interest rates, credit availability and liquidity, currency exchange rates and price levels or trading volumes in the United States or foreign securities or credit markets), or any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism, in

each case generally affecting the industries in which the Company and its subsidiaries operate, (B) changes or proposed changes after the Signing Date in generally accepted accounting principles in the United States (“GAAP”) or regulatory accounting requirements, or authoritative interpretations thereof, or (C) changes or proposed changes after the Signing Date in securities, banking and other laws of general applicability or related policies or interpretations of Governmental Entities (in the case of each of these clauses (A), (B) and (C), other than changes or occurrences to the extent that such changes or occurrences have or would reasonably be expected to have a materially disproportionate adverse effect on the Company and its consolidated subsidiaries taken as a whole relative to comparable U.S. banking or financial services organizations); or (ii) the ability of the Company to consummate the Purchase and other transactions contemplated by this Agreement and the Warrant and perform its obligations hereunder or thereunder on a timely basis.

(c) “*Previously Disclosed*” means information set forth on the Disclosure Schedule, provided, however, that disclosure in any section of such Disclosure Schedule shall apply only to the indicated section of this Agreement except to the extent that it is reasonably apparent from the face of such disclosure that such disclosure is relevant to another section of this Agreement.

2.2 Representations and Warranties of the Company. Except as Previously Disclosed, the Company represents and warrants to the Investor that as of the Signing Date and as of the Closing Date (or such other date specified herein):

(a) Organization, Authority and Significant Subsidiaries. The Company has been duly incorporated and is validly existing and in good standing under the laws of its jurisdiction of organization, with the necessary power and authority to own its properties and conduct its business in all material respects as currently conducted, and except as has not, individually or in the aggregate, had and would not reasonably be expected to have a Company Material Adverse Effect, has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification; each subsidiary of the Company that would be considered a “significant subsidiary” within the meaning of Rule 1-02(w) of Regulation S-X under the Securities Act of 1933 (the “*Securities Act*”), has been duly organized and is validly existing in good standing under the laws of its jurisdiction of organization. The Charter and bylaws of the Company, copies of which have been provided to the Investor prior to the Signing Date, are true, complete and correct copies of such documents as in full force and effect as of the Signing Date.

(b) Capitalization. The authorized capital stock of the Company, and the outstanding capital stock of the Company (including securities convertible into, or exercisable or exchangeable for, capital stock of the Company) as of the most recent fiscal month-end preceding the Signing Date (the “*Capitalization Date*”) is set forth on Schedule B. The outstanding shares of capital stock of the Company have been duly authorized and are validly issued and outstanding, fully paid and nonassessable, and subject to no preemptive rights (and were not issued in violation of any preemptive rights). As of the Signing Date, the Company does not have outstanding any securities or other obligations providing the holder the right to

acquire its Common Stock ("*Common Stock*") that is not reserved for issuance as specified on Schedule B, and the Company has not made any other commitment to authorize, issue or sell any Common Stock. Since the Capitalization Date, the Company has not issued any shares of Common Stock, other than (i) shares issued upon the exercise of stock options or delivered under other equity-based awards or other convertible securities or warrants which were issued and outstanding on the Capitalization Date and disclosed on Schedule B and (ii) shares disclosed on Schedule B. Each holder of 5% or more of any class of capital stock of the Company and such holder's primary address are set forth on Schedule B.

(c) Preferred Shares. The Preferred Shares have been duly and validly authorized, and, when issued and delivered pursuant to this Agreement, such Preferred Shares will be duly and validly issued and fully paid and non-assessable, will not be issued in violation of any preemptive rights, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(d) The Warrant and Warrant Shares. The Warrant has been duly authorized and, when executed and delivered as contemplated hereby, will constitute a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity ("*Bankruptcy Exceptions*"). The shares of Warrant Preferred Stock issuable upon exercise of the Warrant (the "*Warrant Shares*") have been duly authorized and reserved for issuance upon exercise of the Warrant and when so issued in accordance with the terms of the Warrant will be validly issued, fully paid and non-assessable, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(e) Authorization, Enforceability.

(i) The Company has the corporate power and authority to execute and deliver this Agreement and the Warrant and to carry out its obligations hereunder and thereunder (which includes the issuance of the Preferred Shares, Warrant and Warrant Shares). The execution, delivery and performance by the Company of this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of the Company and its stockholders, and no further approval or authorization is required on the part of the Company. This Agreement is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject to the Bankruptcy Exceptions.

(ii) The execution, delivery and performance by the Company of this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby and compliance by the Company with the provisions hereof and thereof, will not (A) violate, conflict with, or result in a breach of any provision of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of, or accelerate the performance required by, or result in a right of termination or acceleration of, or result in the creation of, any lien, security interest, charge or encumbrance upon any of the properties or assets of the Company or any subsidiary of the Company (each a "*Company Subsidiary*" and, collectively, the "*Company Subsidiaries*") under any of the terms, conditions or provisions of (i) its organizational documents or (ii) any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which the Company or any Company Subsidiary is a party or by which it or any Company Subsidiary may be bound, or to which the Company or any Company Subsidiary or any of the properties or assets of the Company or any Company Subsidiary may be subject, or (B) subject to compliance with the statutes and regulations referred to in the next paragraph, violate any statute, rule or regulation or any judgment, ruling, order, writ, injunction or decree applicable to the Company or any Company Subsidiary or any of their respective properties or assets except, in the case of clauses (A)(ii) and (B), for those occurrences that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect.

(iii) Other than the filing of the Certificates of Designations with the Secretary of State of its jurisdiction of organization or other applicable Governmental Entity, such filings and approvals as are required to be made or obtained under any state "blue sky" laws and such as have been made or obtained, no notice to, filing with, exemption or review by, or authorization, consent or approval of, any Governmental Entity is required to be made or obtained by the Company in connection with the consummation by the Company of the Purchase except for any such notices, filings, exemptions, reviews, authorizations, consents and approvals the failure of which to make or obtain would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(f) Anti-takeover Provisions and Rights Plan. The Board of Directors of the Company (the "*Board of Directors*") has taken all necessary action to ensure that the transactions contemplated by this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby, including the exercise of the Warrant in accordance with its terms, will be exempt from any anti-takeover or similar provisions of the Company's Charter and bylaws, and any other provisions of any applicable "moratorium", "control share", "fair price", "interested stockholder" or other anti-takeover laws and regulations of any jurisdiction.

(g) No Company Material Adverse Effect. Since the last day of the last completed fiscal period for which financial statements are included in the Company Financial Statements (as defined below), no fact, circumstance, event, change, occurrence, condition or development

has occurred that, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect.

(h) Company Financial Statements. The Company has Previously Disclosed each of the consolidated financial statements of the Company and its consolidated subsidiaries for each of the last three completed fiscal years of the Company (which shall be audited to the extent audited financial statements are available prior to the Signing Date) and each completed quarterly period since the last completed fiscal year (collectively the "*Company Financial Statements*"). The Company Financial Statements present fairly in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates indicated therein and the consolidated results of their operations for the periods specified therein; and except as stated therein, such financial statements (A) were prepared in conformity with GAAP applied on a consistent basis (except as may be noted therein) and (B) have been prepared from, and are in accordance with, the books and records of the Company and the Company Subsidiaries.

(i) Reports.

(i) Since December 31, 2006, the Company and each Company Subsidiary has filed all reports, registrations, documents, filings, statements and submissions, together with any amendments thereto, that it was required to file with any Governmental Entity (the foregoing, collectively, the "*Company Reports*") and has paid all fees and assessments due and payable in connection therewith, except, in each case, as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. As of their respective dates of filing, the Company Reports complied in all material respects with all statutes and applicable rules and regulations of the applicable Governmental Entities.

(ii) The records, systems, controls, data and information of the Company and the Company Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of the Company or the Company Subsidiaries or their accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would not reasonably be expected to have a material adverse effect on the system of internal accounting controls described below in this Section 2.2(i)(ii). The Company (A) has implemented and maintains adequate disclosure controls and procedures to ensure that material information relating to the Company, including the consolidated Company Subsidiaries, is made known to the chief executive officer and the chief financial officer of the Company by others within those entities, and (B) has disclosed, based on its most recent evaluation prior to the Signing Date, to the Company's outside auditors and the audit committee of the Board of Directors (x) any significant deficiencies and material weaknesses in the design or operation of internal controls that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and (y) any fraud, whether or not material, that involves management or

other employees who have a significant role in the Company's internal controls over financial reporting.

(j) No Undisclosed Liabilities. Neither the Company nor any of the Company Subsidiaries has any liabilities or obligations of any nature (absolute, accrued, contingent or otherwise) which are not properly reflected or reserved against in the Company Financial Statements to the extent required to be so reflected or reserved against in accordance with GAAP, except for (A) liabilities that have arisen since the last fiscal year end in the ordinary and usual course of business and consistent with past practice and (B) liabilities that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect.

(k) Offering of Securities. Neither the Company nor any person acting on its behalf has taken any action (including any offering of any securities of the Company under circumstances which would require the integration of such offering with the offering of any of the Purchased Securities under the Securities Act, and the rules and regulations of the Securities and Exchange Commission (the "SEC") promulgated thereunder), which might subject the offering, issuance or sale of any of the Purchased Securities to Investor pursuant to this Agreement to the registration requirements of the Securities Act.

(l) Litigation and Other Proceedings. Except (i) as set forth on Schedule C or (ii) as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, there is no (A) pending or, to the knowledge of the Company, threatened, claim, action, suit, investigation or proceeding, against the Company or any Company Subsidiary or to which any of their assets are subject nor is the Company or any Company Subsidiary subject to any order, judgment or decree or (B) unresolved violation, criticism or exception by any Governmental Entity with respect to any report or relating to any examinations or inspections of the Company or any Company Subsidiaries.

(m) Compliance with Laws. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries have all permits, licenses, franchises, authorizations, orders and approvals of, and have made all filings, applications and registrations with, Governmental Entities that are required in order to permit them to own or lease their properties and assets and to carry on their business as presently conducted and that are material to the business of the Company or such Company Subsidiary. Except as set forth on Schedule D, the Company and the Company Subsidiaries have complied in all respects and are not in default or violation of, and none of them is, to the knowledge of the Company, under investigation with respect to or, to the knowledge of the Company, have been threatened to be charged with or given notice of any violation of, any applicable domestic (federal, state or local) or foreign law, statute, ordinance, license, rule, regulation, policy or guideline, order, demand, writ, injunction, decree or judgment of any Governmental Entity, other than such noncompliance, defaults or violations that would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. Except for statutory or regulatory restrictions of general application or as set forth on Schedule D, no Governmental Entity has placed any restriction on the business or properties of

the Company or any Company Subsidiary that would, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(n) Employee Benefit Matters. Except as would not reasonably be expected to have, either individually or in the aggregate, a Company Material Adverse Effect: (A) each "employee benefit plan" (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("*ERISA*")) providing benefits to any current or former employee, officer or director of the Company or any member of its "*Controlled Group*" (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the "*Code*")) that is sponsored, maintained or contributed to by the Company or any member of its Controlled Group and for which the Company or any member of its Controlled Group would have any liability, whether actual or contingent (each, a "*Plan*") has been maintained in compliance with its terms and with the requirements of all applicable statutes, rules and regulations, including ERISA and the Code; (B) with respect to each Plan subject to Title IV of ERISA (including, for purposes of this clause (B), any plan subject to Title IV of ERISA that the Company or any member of its Controlled Group previously maintained or contributed to in the six years prior to the Signing Date), (1) no "reportable event" (within the meaning of Section 4043(c) of ERISA), other than a reportable event for which the notice period referred to in Section 4043(c) of ERISA has been waived, has occurred in the three years prior to the Signing Date or is reasonably expected to occur, (2) no "accumulated funding deficiency" (within the meaning of Section 302 of ERISA or Section 412 of the Code), whether or not waived, has occurred in the three years prior to the Signing Date or is reasonably expected to occur, (3) the fair market value of the assets under each Plan exceeds the present value of all benefits accrued under such Plan (determined based on the assumptions used to fund such Plan) and (4) neither the Company nor any member of its Controlled Group has incurred in the six years prior to the Signing Date, or reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the PBGC in the ordinary course and without default) in respect of a Plan (including any Plan that is a "multiemployer plan", within the meaning of Section 4001(c)(3) of ERISA); and (C) each Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service with respect to its qualified status that has not been revoked, or such a determination letter has been timely applied for but not received by the Signing Date, and nothing has occurred, whether by action or by failure to act, which could reasonably be expected to cause the loss, revocation or denial of such qualified status or favorable determination letter.

(o) Taxes. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (i) the Company and the Company Subsidiaries have filed all federal, state, local and foreign income and franchise Tax returns required to be filed through the Signing Date, subject to permitted extensions, and have paid all Taxes due thereon, and (ii) no Tax deficiency has been determined adversely to the Company or any of the Company Subsidiaries, nor does the Company have any knowledge of any Tax deficiencies. "*Tax*" or "*Taxes*" means any federal, state, local or foreign income, gross receipts, property, sales, use, license, excise, franchise, employment, payroll, withholding, alternative or add on minimum, ad valorem, transfer or excise tax, or any other tax, custom, duty,

governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or penalty, imposed by any Governmental Entity.

(p) Properties and Leases. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries have good and marketable title to all real properties and all other properties and assets owned by them, in each case free from liens, encumbrances, claims and defects that would affect the value thereof or interfere with the use made or to be made thereof by them. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries hold all leased real or personal property under valid and enforceable leases with no exceptions that would interfere with the use made or to be made thereof by them.

(q) Environmental Liability. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect:

(i) there is no legal, administrative, or other proceeding, claim or action of any nature seeking to impose, or that would reasonably be expected to result in the imposition of, on the Company or any Company Subsidiary, any liability relating to the release of hazardous substances as defined under any local, state or federal environmental statute, regulation or ordinance, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, pending or, to the Company's knowledge, threatened against the Company or any Company Subsidiary;

(ii) to the Company's knowledge, there is no reasonable basis for any such proceeding, claim or action; and

(iii) neither the Company nor any Company Subsidiary is subject to any agreement, order, judgment or decree by or with any court, Governmental Entity or third party imposing any such environmental liability.

(r) Risk Management Instruments. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, all derivative instruments, including, swaps, caps, floors and option agreements, whether entered into for the Company's own account, or for the account of one or more of the Company Subsidiaries or its or their customers, were entered into (i) only in the ordinary course of business, (ii) in accordance with prudent practices and in all material respects with all applicable laws, rules, regulations and regulatory policies and (iii) with counterparties believed to be financially responsible at the time; and each of such instruments constitutes the valid and legally binding obligation of the Company or one of the Company Subsidiaries, enforceable in accordance with its terms, except as may be limited by the Bankruptcy Exceptions. Neither the Company or the Company Subsidiaries, nor, to the knowledge of the Company, any other party thereto, is in breach of any of its obligations under any such agreement or arrangement other than such breaches that would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(s) Agreements with Regulatory Agencies. Except as set forth on Schedule E, neither the Company nor any Company Subsidiary is subject to any material cease-and-desist or other similar order or enforcement action issued by, or is a party to any material written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any capital directive by, or since December 31, 2006, has adopted any board resolutions at the request of, any Governmental Entity (other than the Appropriate Federal Banking Agencies with jurisdiction over the Company and the Company Subsidiaries) that currently restricts in any material respect the conduct of its business or that in any material manner relates to its capital adequacy, its liquidity and funding policies and practices, its ability to pay dividends, its credit, risk management or compliance policies or procedures, its internal controls, its management or its operations or business (each item in this sentence, a "*Regulatory Agreement*"), nor has the Company or any Company Subsidiary been advised since December 31, 2006 by any such Governmental Entity that it is considering issuing, initiating, ordering, or requesting any such Regulatory Agreement. The Company and each Company Subsidiary are in compliance in all material respects with each Regulatory Agreement to which it is party or subject, and neither the Company nor any Company Subsidiary has received any notice from any Governmental Entity indicating that either the Company or any Company Subsidiary is not in compliance in all material respects with any such Regulatory Agreement. "*Appropriate Federal Banking Agency*" means the "appropriate Federal banking agency" with respect to the Company or such Company Subsidiaries, as applicable, as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)).

(t) Insurance. The Company and the Company Subsidiaries are insured with reputable insurers against such risks and in such amounts as the management of the Company reasonably has determined to be prudent and consistent with industry practice. The Company and the Company Subsidiaries are in material compliance with their insurance policies and are not in default under any of the material terms thereof, each such policy is outstanding and in full force and effect, all premiums and other payments due under any material policy have been paid, and all claims thereunder have been filed in due and timely fashion, except, in each case, as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(u) Intellectual Property. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (i) the Company and each Company Subsidiary owns or otherwise has the right to use, all intellectual property rights, including all trademarks, trade dress, trade names, service marks, domain names, patents, inventions, trade secrets, know-how, works of authorship and copyrights therein, that are used in the conduct of their existing businesses and all rights relating to the plans, design and specifications of any of its branch facilities ("*Proprietary Rights*") free and clear of all liens and any claims of ownership by current or former employees, contractors, designers or others and (ii) neither the Company nor any of the Company Subsidiaries is materially infringing, diluting, misappropriating or violating, nor has the Company or any of the Company Subsidiaries received any written (or, to the knowledge of the Company, oral) communications alleging that any of them has materially infringed, diluted, misappropriated or violated, any of the Proprietary Rights owned by any other person. Except as would not, individually or in the aggregate, reasonably be

expected to have a Company Material Adverse Effect, to the Company's knowledge, no other person is infringing, diluting, misappropriating or violating, nor has the Company or any of the Company Subsidiaries sent any written communications since January 1, 2006 alleging that any person has infringed, diluted, misappropriated or violated, any of the Proprietary Rights owned by the Company and the Company Subsidiaries.

(v) Brokers and Finders. No broker, finder or investment banker is entitled to any financial advisory, brokerage, finder's or other fee or commission in connection with this Agreement or the Warrant or the transactions contemplated hereby or thereby based upon arrangements made by or on behalf of the Company or any Company Subsidiary for which the Investor could have any liability.

Article III Covenants

3.1 Commercially Reasonable Efforts. Subject to the terms and conditions of this Agreement, each of the parties will use its commercially reasonable efforts in good faith to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or desirable, or advisable under applicable laws, so as to permit consummation of the Purchase as promptly as practicable and otherwise to enable consummation of the transactions contemplated hereby and shall use commercially reasonable efforts to cooperate with the other party to that end.

3.2 Expenses. Unless otherwise provided in this Agreement or the Warrant, each of the parties hereto will bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated under this Agreement and the Warrant, including fees and expenses of its own financial or other consultants, investment bankers, accountants and counsel.

3.3 Sufficiency of Authorized Warrant Preferred Stock; Exchange Listing.

(a) During the period from the Closing Date until the date on which the Warrant has been fully exercised, the Company shall at all times have reserved for issuance, free of preemptive or similar rights, a sufficient number of authorized and unissued Warrant Shares to effectuate such exercise.

(b) If the Company lists its Common Stock on any national securities exchange, the Company shall, if requested by the Investor, promptly use its reasonable best efforts to cause the Preferred Shares and Warrant Shares to be approved for listing on a national securities exchange as promptly as practicable following such request.

3.4 Certain Notifications Until Closing. From the Signing Date until the Closing, the Company shall promptly notify the Investor of (i) any fact, event or circumstance of which it is aware and which would reasonably be expected to cause any representation or warranty of the Company contained in this Agreement to be untrue or inaccurate in any material respect or to

cause any covenant or agreement of the Company contained in this Agreement not to be complied with or satisfied in any material respect and (ii) except as Previously Disclosed, any fact, circumstance, event, change, occurrence, condition or development of which the Company is aware and which, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect; *provided, however*, that delivery of any notice pursuant to this Section 3.4 shall not limit or affect any rights of or remedies available to the Investor; *provided, further*, that a failure to comply with this Section 3.4 shall not constitute a breach of this Agreement or the failure of any condition set forth in Section 1.2 to be satisfied unless the underlying Company Material Adverse Effect or material breach would independently result in the failure of a condition set forth in Section 1.2 to be satisfied.

3.5 Access, Information and Confidentiality.

(a) From the Signing Date until the date when the Investor holds an amount of Preferred Shares having an aggregate liquidation value of less than 10% of the Purchase Price, the Company will permit the Investor and its agents, consultants, contractors and advisors (x) acting through the Appropriate Federal Banking Agency, or otherwise to the extent necessary to evaluate, manage, or transfer its investment in the Company, to examine the corporate books and make copies thereof and to discuss the affairs, finances and accounts of the Company and the Company Subsidiaries with the principal officers of the Company, all upon reasonable notice and at such reasonable times and as often as the Investor may reasonably request and (y) to review any information material to the Investor's investment in the Company provided by the Company to its Appropriate Federal Banking Agency. Any investigation pursuant to this Section 3.5 shall be conducted during normal business hours and in such manner as not to interfere unreasonably with the conduct of the business of the Company, and nothing herein shall require the Company or any Company Subsidiary to disclose any information to the Investor to the extent (i) prohibited by applicable law or regulation, or (ii) that such disclosure would reasonably be expected to cause a violation of any agreement to which the Company or any Company Subsidiary is a party or would cause a risk of a loss of privilege to the Company or any Company Subsidiary (*provided* that the Company shall use commercially reasonable efforts to make appropriate substitute disclosure arrangements under circumstances where the restrictions in this clause (ii) apply).

(b) From the Signing Date until the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole, the Company will deliver, or will cause to be delivered, to the Investor:

(i) as soon as available after the end of each fiscal year of the Company, and in any event within 90 days thereafter, a consolidated balance sheet of the Company as of the end of such fiscal year, and consolidated statements of income, retained earnings and cash flows of the Company for such year, in each case prepared in accordance with GAAP and setting forth in each case in comparative form the figures for the previous fiscal year of the Company, and which shall be audited to the extent audited financial statements are available; and

(ii) as soon as available after the end of the first, second and third quarterly periods in each fiscal year of the Company, a copy of any quarterly reports provided to other stockholders of the Company or Company management.

(c) The Investor will use reasonable best efforts to hold, and will use reasonable best efforts to cause its agents, consultants, contractors and advisors to hold, in confidence all non-public records, books, contracts, instruments, computer data and other data and information (collectively, "Information") concerning the Company furnished or made available to it by the Company or its representatives pursuant to this Agreement (except to the extent that such information can be shown to have been (i) previously known by such party on a non-confidential basis, (ii) in the public domain through no fault of such party or (iii) later lawfully acquired from other sources by the party to which it was furnished (and without violation of any other confidentiality obligation)); *provided* that nothing herein shall prevent the Investor from disclosing any Information to the extent required by applicable laws or regulations or by any subpoena or similar legal process.

(d) The Investor's information rights pursuant to Section 3.5(b) may be assigned by the Investor to a transferee or assignee of the Purchased Securities or the Warrant Shares or with a liquidation preference or, in the case of the Warrant, the liquidation preference of the underlying shares of Warrant Preferred Stock, no less than an amount equal to 2% of the initial aggregate liquidation preference of the Preferred Shares.

Article IV Additional Agreements

4.1 Purchase for Investment. The Investor acknowledges that the Purchased Securities and the Warrant Shares have not been registered under the Securities Act or under any state securities laws. The Investor (a) is acquiring the Purchased Securities pursuant to an exemption from registration under the Securities Act solely for investment with no present intention to distribute them to any person in violation of the Securities Act or any applicable U.S. state securities laws, (b) will not sell or otherwise dispose of any of the Purchased Securities or the Warrant Shares, except in compliance with the registration requirements or exemption provisions of the Securities Act and any applicable U.S. state securities laws, and (c) has such knowledge and experience in financial and business matters and in investments of this type that it is capable of evaluating the merits and risks of the Purchase and of making an informed investment decision.

4.2 Legends.

(a) The Investor agrees that all certificates or other instruments representing the Warrant will bear a legend substantially to the following effect:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD

OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS.

THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COPY OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID."

(b) In addition, the Investor agrees that all certificates or other instruments representing the Preferred Shares and the Warrant Shares will bear a legend substantially to the following effect:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT ARE NOT SAVINGS ACCOUNTS, DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY.

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS. EACH PURCHASER OF THE SECURITIES REPRESENTED BY THIS INSTRUMENT IS NOTIFIED THAT THE SELLER MAY BE RELYING ON THE EXEMPTION FROM SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. ANY TRANSFEREE OF THE SECURITIES REPRESENTED BY THIS INSTRUMENT BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (2) AGREES THAT IT WILL NOT OFFER, SELL OR OTHERWISE TRANSFER THE SECURITIES REPRESENTED BY THIS INSTRUMENT EXCEPT (A) PURSUANT TO A REGISTRATION STATEMENT WHICH IS THEN EFFECTIVE UNDER THE SECURITIES ACT, (B) FOR SO LONG AS THE SECURITIES REPRESENTED BY THIS INSTRUMENT ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER

TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (C) TO THE ISSUER OR (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THE SECURITIES REPRESENTED BY THIS INSTRUMENT ARE TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COPY OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID.”

(c) In the event that any Purchased Securities or Warrant Shares (i) become registered under the Securities Act or (ii) are eligible to be transferred without restriction in accordance with Rule 144 or another exemption from registration under the Securities Act (other than Rule 144A), the Company shall issue new certificates or other instruments representing such Purchased Securities or Warrant Shares, which shall not contain the applicable legends in Sections 4.2(a) and (b) above; *provided* that the Investor surrenders to the Company the previously issued certificates or other instruments.

4.3 Certain Transactions. The Company will not merge or consolidate with, or sell, transfer or lease all or substantially all of its property or assets to, any other party unless the successor, transferee or lessee party (or its ultimate parent entity), as the case may be (if not the Company), expressly assumes the due and punctual performance and observance of each and every covenant, agreement and condition of this Agreement to be performed and observed by the Company.

4.4 Transfer of Purchased Securities and Warrant Shares; Restrictions on Exercise of the Warrant. Subject to compliance with applicable securities laws, the Investor shall be permitted to transfer, sell, assign or otherwise dispose of (“*Transfer*”) all or a portion of the Purchased Securities or Warrant Shares at any time, and the Company shall take all steps as may be reasonably requested by the Investor to facilitate the Transfer of the Purchased Securities and the Warrant Shares; *provided* that the Investor shall not Transfer any Purchased Securities or Warrant Shares if such transfer would require the Company to be subject to the periodic reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 (the “*Exchange Act*”). In furtherance of the foregoing, the Company shall provide reasonable cooperation to facilitate any Transfers of the Purchased Securities or Warrant Shares, including, as is reasonable under the circumstances, by furnishing such information concerning the Company and its business as a proposed transferee may reasonably request (including such information as is required by Section 4.5(k)) and making management of the Company

reasonably available to respond to questions of a proposed transferee in accordance with customary practice, subject in all cases to the proposed transferee agreeing to a customary confidentiality agreement.

4.5 Registration Rights.

(a) Unless and until the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall have no obligation to comply with the provisions of this Section 4.5 (other than Section 4.5(b)(iv)-(vi)); *provided* that the Company covenants and agrees that it shall comply with this Section 4.5 as soon as practicable after the date that it becomes subject to such reporting requirements.

(b) Registration.

(i) Subject to the terms and conditions of this Agreement, the Company covenants and agrees that as promptly as practicable after the date that the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act (and in any event no later than 30 days thereafter), the Company shall prepare and file with the SEC a Shelf Registration Statement covering all Registrable Securities (or otherwise designate an existing Shelf Registration Statement filed with the SEC to cover the Registrable Securities), and, to the extent the Shelf Registration Statement has not theretofore been declared effective or is not automatically effective upon such filing, the Company shall use reasonable best efforts to cause such Shelf Registration Statement to be declared or become effective and to keep such Shelf Registration Statement continuously effective and in compliance with the Securities Act and usable for resale of such Registrable Securities for a period from the date of its initial effectiveness until such time as there are no Registrable Securities remaining (including by refiling such Shelf Registration Statement (or a new Shelf Registration Statement) if the initial Shelf Registration Statement expires). Notwithstanding the foregoing, if the Company is not eligible to file a registration statement on Form S-3, then the Company shall not be obligated to file a Shelf Registration Statement unless and until requested to do so in writing by the Investor.

(ii) Any registration pursuant to Section 4.5(b)(i) shall be effected by means of a shelf registration on an appropriate form under Rule 415 under the Securities Act (a "*Shelf Registration Statement*"). If the Investor or any other Holder intends to distribute any Registrable Securities by means of an underwritten offering it shall promptly so advise the Company and the Company shall take all reasonable steps to facilitate such distribution, including the actions required pursuant to Section 4.5(d); *provided* that the Company shall not be required to facilitate an underwritten offering of Registrable Securities unless the expected gross proceeds from such offering exceed (i) 2% of the initial aggregate liquidation preference of the Preferred Shares if such initial aggregate liquidation preference is less than \$2 billion and (ii) \$200 million if the initial aggregate liquidation preference of the Preferred Shares is equal to or greater than \$2 billion. The lead underwriters in any such distribution shall be selected by the Holders of a majority

of the Registrable Securities to be distributed; *provided* that to the extent appropriate and permitted under applicable law, such Holders shall consider the qualifications of any broker-dealer Affiliate of the Company in selecting the lead underwriters in any such distribution.

(iii) The Company shall not be required to effect a registration (including a resale of Registrable Securities from an effective Shelf Registration Statement) or an underwritten offering pursuant to Section 4.5(b): (A) with respect to securities that are not Registrable Securities; or (B) if the Company has notified the Investor and all other Holders that in the good faith judgment of the Board of Directors, it would be materially detrimental to the Company or its securityholders for such registration or underwritten offering to be effected at such time, in which event the Company shall have the right to defer such registration for a period of not more than 45 days after receipt of the request of the Investor or any other Holder; *provided* that such right to delay a registration or underwritten offering shall be exercised by the Company (1) only if the Company has generally exercised (or is concurrently exercising) similar black-out rights against holders of similar securities that have registration rights and (2) not more than three times in any 12-month period and not more than 90 days in the aggregate in any 12-month period.

(iv) If during any period when an effective Shelf Registration Statement is not available, the Company proposes to register any of its equity securities, other than a registration pursuant to Section 4.5(b)(i) or a Special Registration, and the registration form to be filed may be used for the registration or qualification for distribution of Registrable Securities, the Company will give prompt written notice to the Investor and all other Holders of its intention to effect such a registration (but in no event less than ten days prior to the anticipated filing date) and will include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within ten business days after the date of the Company's notice (a "Piggyback Registration"). Any such person that has made such a written request may withdraw its Registrable Securities from such Piggyback Registration by giving written notice to the Company and the managing underwriter, if any, on or before the fifth business day prior to the planned effective date of such Piggyback Registration. The Company may terminate or withdraw any registration under this Section 4.5(b)(iv) prior to the effectiveness of such registration, whether or not Investor or any other Holders have elected to include Registrable Securities in such registration.

(v) If the registration referred to in Section 4.5(b)(iv) is proposed to be underwritten, the Company will so advise Investor and all other Holders as a part of the written notice given pursuant to Section 4.5(b)(iv). In such event, the right of Investor and all other Holders to registration pursuant to Section 4.5(b) will be conditioned upon such persons' participation in such underwriting and the inclusion of such person's Registrable Securities in the underwriting if such securities are of the same class of securities as the securities to be offered in the underwritten offering, and each such person will (together with the Company and the other persons distributing their securities through such underwriting) enter into an underwriting agreement in customary form with

the underwriter or underwriters selected for such underwriting by the Company; *provided* that the Investor (as opposed to other Holders) shall not be required to indemnify any person in connection with any registration. If any participating person disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to the Company, the managing underwriters and the Investor (if the Investor is participating in the underwriting).

(vi) If either (x) the Company grants "piggyback" registration rights to one or more third parties to include their securities in an underwritten offering under the Shelf Registration Statement pursuant to Section 4.5(b)(ii) or (y) a Piggyback Registration under Section 4.5(b)(iv) relates to an underwritten offering on behalf of the Company, and in either case the managing underwriters advise the Company that in their reasonable opinion the number of securities requested to be included in such offering exceeds the number which can be sold without adversely affecting the marketability of such offering (including an adverse effect on the per share offering price), the Company will include in such offering only such number of securities that in the reasonable opinion of such managing underwriters can be sold without adversely affecting the marketability of the offering (including an adverse effect on the per share offering price), which securities will be so included in the following order of priority: (A) first, in the case of a Piggyback Registration under Section 4.5(b)(iv), the securities the Company proposes to sell, (B) then the Registrable Securities of the Investor and all other Holders who have requested inclusion of Registrable Securities pursuant to Section 4.5(b)(ii) or Section 4.5(b)(iv), as applicable, *pro rata* on the basis of the aggregate number of such securities or shares owned by each such person and (C) lastly, any other securities of the Company that have been requested to be so included, subject to the terms of this Agreement; *provided, however,* that if the Company has, prior to the Signing Date, entered into an agreement with respect to its securities that is inconsistent with the order of priority contemplated hereby then it shall apply the order of priority in such conflicting agreement to the extent that it would otherwise result in a breach under such agreement.

(c) Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance hereunder shall be borne by the Company. All Selling Expenses incurred in connection with any registrations hereunder shall be borne by the holders of the securities so registered *pro rata* on the basis of the aggregate offering or sale price of the securities so registered.

(d) Obligations of the Company. Whenever required to effect the registration of any Registrable Securities or facilitate the distribution of Registrable Securities pursuant to an effective Shelf Registration Statement, the Company shall, as expeditiously as reasonably practicable:

(i) Prepare and file with the SEC a prospectus supplement or post-effective amendment with respect to a proposed offering of Registrable Securities pursuant to an effective registration statement, subject to Section 4.5(d), keep such registration

statement effective and keep such prospectus supplement current until the securities described therein are no longer Registrable Securities.

(ii) Prepare and file with the SEC such amendments and supplements to the applicable registration statement and the prospectus or prospectus supplement used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(iii) Furnish to the Holders and any underwriters such number of copies of the applicable registration statement and each such amendment and supplement thereto (including in each case all exhibits) and of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned or to be distributed by them.

(iv) Use its reasonable best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders or any managing underwriter(s), to keep such registration or qualification in effect for so long as such registration statement remains in effect, and to take any other action which may be reasonably necessary to enable such seller to consummate the disposition in such jurisdictions of the securities owned by such Holder; *provided* that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(v) Notify each Holder of Registrable Securities at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the applicable prospectus, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing.

(vi) Give written notice to the Holders:

(A) when any registration statement filed pursuant to Section 4.5(a) or any amendment thereto has been filed with the SEC (except for any amendment effected by the filing of a document with the SEC pursuant to the Exchange Act) and when such registration statement or any post-effective amendment thereto has become effective;

(B) of any request by the SEC for amendments or supplements to any registration statement or the prospectus included therein or for additional information;

(C) of the issuance by the SEC of any stop order suspending the effectiveness of any registration statement or the initiation of any proceedings for that purpose;

(D) of the receipt by the Company or its legal counsel of any notification with respect to the suspension of the qualification of the applicable Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose;

(E) of the happening of any event that requires the Company to make changes in any effective registration statement or the prospectus related to the registration statement in order to make the statements therein not misleading (which notice shall be accompanied by an instruction to suspend the use of the prospectus until the requisite changes have been made); and

(F) if at any time the representations and warranties of the Company contained in any underwriting agreement contemplated by Section 4.5(d)(x) cease to be true and correct.

(vii) Use its reasonable best efforts to prevent the issuance or obtain the withdrawal of any order suspending the effectiveness of any registration statement referred to in Section 4.5(d)(vi)(C) at the earliest practicable time.

(viii) Upon the occurrence of any event contemplated by Section 4.5(d)(v) or 4.5(d)(vi)(E), promptly prepare a post-effective amendment to such registration statement or a supplement to the related prospectus or file any other required document so that, as thereafter delivered to the Holders and any underwriters, the prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Company notifies the Holders in accordance with Section 4.5(d)(vi)(E) to suspend the use of the prospectus until the requisite changes to the prospectus have been made, then the Holders and any underwriters shall suspend use of such prospectus and use their reasonable best efforts to return to the Company all copies of such prospectus (at the Company's expense) other than permanent file copies then in such Holders' or underwriters' possession. The total number of days that any such suspension may be in effect in any 12-month period shall not exceed 90 days.

(ix) Use reasonable best efforts to procure the cooperation of the Company's transfer agent in settling any offering or sale of Registrable Securities, including with respect to the transfer of physical stock certificates into book-entry form in accordance with any procedures reasonably requested by the Holders or any managing underwriter(s).

(x) If an underwritten offering is requested pursuant to Section 4.5(b)(ii), enter into an underwriting agreement in customary form, scope and substance and take all

such other actions reasonably requested by the Holders of a majority of the Registrable Securities being sold in connection therewith or by the managing underwriter(s), if any, to expedite or facilitate the underwritten disposition of such Registrable Securities, and in connection therewith in any underwritten offering (including making members of management and executives of the Company available to participate in "road shows", similar sales events and other marketing activities), (A) make such representations and warranties to the Holders that are selling stockholders and the managing underwriter(s), if any, with respect to the business of the Company and its subsidiaries, and the Shelf Registration Statement, prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, in customary form, substance and scope, and, if true, confirm the same if and when requested, (B) use its reasonable best efforts to furnish the underwriters with opinions of counsel to the Company, addressed to the managing underwriter(s), if any, covering the matters customarily covered in such opinions requested in underwritten offerings, (C) use its reasonable best efforts to obtain "cold comfort" letters from the independent certified public accountants of the Company (and, if necessary, any other independent certified public accountants of any business acquired by the Company for which financial statements and financial data are included in the Shelf Registration Statement) who have certified the financial statements included in such Shelf Registration Statement, addressed to each of the managing underwriter(s), if any, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters, (D) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures customary in underwritten offerings (provided that the Investor shall not be obligated to provide any indemnity), and (E) deliver such documents and certificates as may be reasonably requested by the Holders of a majority of the Registrable Securities being sold in connection therewith, their counsel and the managing underwriter(s), if any, to evidence the continued validity of the representations and warranties made pursuant to clause (i) above and to evidence compliance with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.

(xi) Make available for inspection by a representative of Holders that are selling stockholders, the managing underwriter(s), if any, and any attorneys or accountants retained by such Holders or managing underwriter(s), at the offices where normally kept, during reasonable business hours, financial and other records, pertinent corporate documents and properties of the Company, and cause the officers, directors and employees of the Company to supply all information in each case reasonably requested (and of the type customarily provided in connection with due diligence conducted in connection with a registered public offering of securities) by any such representative, managing underwriter(s), attorney or accountant in connection with such Shelf Registration Statement.

(xii) Use reasonable best efforts to cause all such Registrable Securities to be listed on each national securities exchange on which similar securities issued by the Company are then listed or, if no similar securities issued by the Company are then listed on any national securities exchange, use its reasonable best efforts to cause all such

Registrable Securities to be listed on such securities exchange as the Investor may designate.

(xiii) If requested by Holders of a majority of the Registrable Securities being registered and/or sold in connection therewith, or the managing underwriter(s), if any, promptly include in a prospectus supplement or amendment such information as the Holders of a majority of the Registrable Securities being registered and/or sold in connection therewith or managing underwriter(s), if any, may reasonably request in order to permit the intended method of distribution of such securities and make all required filings of such prospectus supplement or such amendment as soon as practicable after the Company has received such request.

(xiv) Timely provide to its security holders earning statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

(e) Suspension of Sales. Upon receipt of written notice from the Company that a registration statement, prospectus or prospectus supplement contains or may contain an untrue statement of a material fact or omits or may omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that circumstances exist that make inadvisable use of such registration statement, prospectus or prospectus supplement, the Investor and each Holder of Registrable Securities shall forthwith discontinue disposition of Registrable Securities until the Investor and/or Holder has received copies of a supplemented or amended prospectus or prospectus supplement, or until the Investor and/or such Holder is advised in writing by the Company that the use of the prospectus and, if applicable, prospectus supplement may be resumed, and, if so directed by the Company, the Investor and/or such Holder shall deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in the Investor and/or such Holder's possession, of the prospectus and, if applicable, prospectus supplement covering such Registrable Securities current at the time of receipt of such notice. The total number of days that any such suspension may be in effect in any 12-month period shall not exceed 90 days.

(f) Termination of Registration Rights. A Holder's registration rights as to any securities held by such Holder (and its Affiliates, partners, members and former members) shall not be available unless such securities are Registrable Securities.

(g) Furnishing Information.

(i) Neither the Investor nor any Holder shall use any free writing prospectus (as defined in Rule 405) in connection with the sale of Registrable Securities without the prior written consent of the Company.

(ii) It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 4.5(d) that Investor and/or the selling Holders and the underwriters, if any, shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of

disposition of such securities as shall be required to effect the registered offering of their Registrable Securities.

(h) Indemnification.

(i) The Company agrees to indemnify each Holder and, if a Holder is a person other than an individual, such Holder's officers, directors, employees, agents, representatives and Affiliates, and each Person, if any, that controls a Holder within the meaning of the Securities Act (each, an "Indemnitee"), against any and all losses, claims, damages, actions, liabilities, costs and expenses (including reasonable fees, expenses and disbursements of attorneys and other professionals incurred in connection with investigating, defending, settling, compromising or paying any such losses, claims, damages, actions, liabilities, costs and expenses), joint or several, arising out of or based upon any untrue statement or alleged untrue statement of material fact contained in any registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto or any documents incorporated therein by reference or contained in any free writing prospectus (as such term is defined in Rule 405) prepared by the Company or authorized by it in writing for use by such Holder (or any amendment or supplement thereto); or any omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided*, that the Company shall not be liable to such Indemnitee in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon (A) an untrue statement or omission made in such registration statement, including any such preliminary prospectus or final prospectus contained therein or any such amendments or supplements thereto or contained in any free writing prospectus (as such term is defined in Rule 405) prepared by the Company or authorized by it in writing for use by such Holder (or any amendment or supplement thereto), in reliance upon and in conformity with information regarding such Indemnitee or its plan of distribution or ownership interests which was furnished in writing to the Company by such Indemnitee for use in connection with such registration statement, including any such preliminary prospectus or final prospectus contained therein or any such amendments or supplements thereto, or (B) offers or sales effected by or on behalf of such Indemnitee "by means of" (as defined in Rule 159A) a "free writing prospectus" (as defined in Rule 405) that was not authorized in writing by the Company.

(ii) If the indemnification provided for in Section 4.5(h)(i) is unavailable to an Indemnitee with respect to any losses, claims, damages, actions, liabilities, costs or expenses referred to therein or is insufficient to hold the Indemnitee harmless as contemplated therein, then the Company, in lieu of indemnifying such Indemnitee, shall contribute to the amount paid or payable by such Indemnitee as a result of such losses, claims, damages, actions, liabilities, costs or expenses in such proportion as is appropriate to reflect the relative fault of the Indemnitee, on the one hand, and the Company, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, actions, liabilities, costs or expenses as well as any other relevant

equitable considerations. The relative fault of the Company, on the one hand, and of the Indemnitee, on the other hand, shall be determined by reference to, among other factors, whether the untrue statement of a material fact or omission to state a material fact relates to information supplied by the Company or by the Indemnitee and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; the Company and each Holder agree that it would not be just and equitable if contribution pursuant to this Section 4.5(h)(ii) were determined by *pro rata* allocation or by any other method of allocation that does not take account of the equitable considerations referred to in Section 4.5(h)(i). No Indemnitee guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from the Company if the Company was not guilty of such fraudulent misrepresentation.

(i) Assignment of Registration Rights. The rights of the Investor to registration of Registrable Securities pursuant to Section 4.5(b) may be assigned by the Investor to a transferee or assignee of Registrable Securities with a liquidation preference or, in the case of the Warrant, the liquidation preference of the underlying shares of Warrant Preferred Stock, no less than an amount equal to (i) 2% of the initial aggregate liquidation preference of the Preferred Shares if such initial aggregate liquidation preference is less than \$2 billion and (ii) \$200 million if the initial aggregate liquidation preference of the Preferred Shares is equal to or greater than \$2 billion; *provided, however*, the transferor shall, within ten days after such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the number and type of Registrable Securities that are being assigned.

(j) Clear Market. With respect to any underwritten offering of Registrable Securities by the Investor or other Holders pursuant to this Section 4.5, the Company agrees not to effect (other than pursuant to such registration or pursuant to a Special Registration) any public sale or distribution, or to file any Shelf Registration Statement (other than such registration or a Special Registration) covering any preferred stock of the Company or any securities convertible into or exchangeable or exercisable for preferred stock of the Company, during the period not to exceed ten days prior and 60 days following the effective date of such offering or such longer period up to 90 days as may be requested by the managing underwriter for such underwritten offering. The Company also agrees to cause such of its directors and senior executive officers to execute and deliver customary lock-up agreements in such form and for such time period up to 90 days as may be requested by the managing underwriter. "*Special Registration*" means the registration of (A) equity securities and/or options or other rights in respect thereof solely registered on Form S-4 or Form S-8 (or successor form) or (B) shares of equity securities and/or options or other rights in respect thereof to be offered to directors, members of management, employees, consultants, customers, lenders or vendors of the Company or Company Subsidiaries or in connection with dividend reinvestment plans.

(k) Rule 144; Rule 144A. With a view to making available to the Investor and Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its reasonable best efforts to:

(i) make and keep public information available, as those terms are understood and defined in Rule 144(c)(1) or any similar or analogous rule promulgated under the Securities Act, at all times after the Signing Date;

(ii) (A) file with the SEC, in a timely manner, all reports and other documents required of the Company under the Exchange Act, and (B) if at any time the Company is not required to file such reports, make available, upon the request of any Holder, such information necessary to permit sales pursuant to Rule 144A (including the information required by Rule 144A(d)(4) under the Securities Act);

(iii) so long as the Investor or a Holder owns any Registrable Securities, furnish to the Investor or such Holder forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of Rule 144 under the Securities Act, and of the Exchange Act; a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as the Investor or Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities to the public without registration; and

(iv) take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Securities Act.

(l) As used in this Section 4.5, the following terms shall have the following respective meanings:

(i) “*Holder*” means the Investor and any other holder of Registrable Securities to whom the registration rights conferred by this Agreement have been transferred in compliance with Section 4.5(h) hereof.

(ii) “*Holders’ Counsel*” means one counsel for the selling Holders chosen by Holders holding a majority interest in the Registrable Securities being registered.

(iii) “*Register*,” “*registered*,” and “*registration*” shall refer to a registration effected by preparing and (A) filing a registration statement or amendment thereto in compliance with the Securities Act and applicable rules and regulations thereunder, and the declaration or ordering of effectiveness of such registration statement or amendment thereto or (B) filing a prospectus and/or prospectus supplement in respect of an appropriate effective registration statement on Form S-3.

(iv) “*Registrable Securities*” means (A) all Preferred Shares, (B) the Warrant (subject to Section 4.5(q)) and (C) any equity securities issued or issuable directly or indirectly with respect to the securities referred to in the foregoing clauses (A) or (B) by way of conversion, exercise or exchange thereof, including the Warrant Shares, or share dividend or share split or in connection with a combination of shares, recapitalization, reclassification, merger, amalgamation, arrangement, consolidation or other

reorganization, *provided* that, once issued, such securities will not be Registrable Securities when (1) they are sold pursuant to an effective registration statement under the Securities Act, (2) except as provided below in Section 4.5(p), they may be sold pursuant to Rule 144 without limitation thereunder on volume or manner of sale, (3) they shall have ceased to be outstanding or (4) they have been sold in a private transaction in which the transferor's rights under this Agreement are not assigned to the transferee of the securities. No Registrable Securities may be registered under more than one registration statement at any one time.

(v) “*Registration Expenses*” mean all expenses incurred by the Company in effecting any registration pursuant to this Agreement (whether or not any registration or prospectus becomes effective or final) or otherwise complying with its obligations under this Section 4.5, including all registration, filing and listing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses, expenses incurred in connection with any “road show”, the reasonable fees and disbursements of Holders’ Counsel, and expenses of the Company’s independent accountants in connection with any regular or special reviews or audits incident to or required by any such registration, but shall not include Selling Expenses.

(vi) “*Rule 144*”, “*Rule 144A*”, “*Rule 159A*”, “*Rule 405*” and “*Rule 415*” mean, in each case, such rule promulgated under the Securities Act (or any successor provision), as the same shall be amended from time to time.

(vii) “*Selling Expenses*” mean all discounts, selling commissions and stock transfer taxes applicable to the sale of Registrable Securities and fees and disbursements of counsel for any Holder (other than the fees and disbursements of Holders’ Counsel included in Registration Expenses).

(m) At any time, any holder of Securities (including any Holder) may elect to forfeit its rights set forth in this Section 4.5 from that date forward; *provided*, that a Holder forfeiting such rights shall nonetheless be entitled to participate under Section 4.5(b)(iv) – (vi) in any Pending Underwritten Offering to the same extent that such Holder would have been entitled to if the holder had not withdrawn; and *provided, further*, that no such forfeiture shall terminate a Holder’s rights or obligations under Section 4.5(g) with respect to any prior registration or Pending Underwritten Offering. “*Pending Underwritten Offering*” means, with respect to any Holder forfeiting its rights pursuant to this Section 4.5(m), any underwritten offering of Registrable Securities in which such Holder has advised the Company of its intent to register its Registrable Securities either pursuant to Section 4.5(b)(ii) or 4.5(b)(iv) prior to the date of such Holder’s forfeiture.

(n) Specific Performance. The parties hereto acknowledge that there would be no adequate remedy at law if the Company fails to perform any of its obligations under this Section 4.5 and that the Investor and the Holders from time to time may be irreparably harmed by any such failure, and accordingly agree that the Investor and such Holders, in addition to any other remedy to which they may be entitled at law or in equity, to the fullest extent permitted and

enforceable under applicable law shall be entitled to compel specific performance of the obligations of the Company under this Section 4.5 in accordance with the terms and conditions of this Section 4.5.

(o) No Inconsistent Agreements. The Company shall not, on or after the Signing Date, enter into any agreement with respect to its securities that may impair the rights granted to the Investor and the Holders under this Section 4.5 or that otherwise conflicts with the provisions hereof in any manner that may impair the rights granted to the Investor and the Holders under this Section 4.5. In the event the Company has, prior to the Signing Date, entered into any agreement with respect to its securities that is inconsistent with the rights granted to the Investor and the Holders under this Section 4.5 (including agreements that are inconsistent with the order of priority contemplated by Section 4.5(b)(vi)) or that may otherwise conflict with the provisions hereof, the Company shall use its reasonable best efforts to amend such agreements to ensure they are consistent with the provisions of this Section 4.5.

(p) Certain Offerings by the Investor. In the case of any securities held by the Investor that cease to be Registrable Securities solely by reason of clause (2) in the definition of "Registrable Securities," the provisions of Sections 4.5(b)(ii), clauses (iv), (ix) and (x)-(xii) of Section 4.5(d), Section 4.5(h) and Section 4.5(j) shall continue to apply until such securities otherwise cease to be Registrable Securities. In any such case, an "underwritten" offering or other disposition shall include any distribution of such securities on behalf of the Investor by one or more broker-dealers, an "underwriting agreement" shall include any purchase agreement entered into by such broker-dealers, and any "registration statement" or "prospectus" shall include any offering document approved by the Company and used in connection with such distribution.

(q) Registered Sales of the Warrant. The Holders agree to sell the Warrant or any portion thereof under the Shelf Registration Statement only beginning 30 days after notifying the Company of any such sale, during which 30-day period the Investor and all Holders of the Warrant shall take reasonable steps to agree to revisions to the Warrant to permit a public distribution of the Warrant, including entering into a warrant agreement and appointing a warrant agent.

4.6 Depository Shares. Upon request by the Investor at any time following the Closing Date, the Company shall promptly enter into a depository arrangement, pursuant to customary agreements reasonably satisfactory to the Investor and with a depository reasonably acceptable to the Investor, pursuant to which the Preferred Shares or the Warrant Shares may be deposited and depository shares, each representing a fraction of a Preferred Share or Warrant Share, as applicable, as specified by the Investor, may be issued. From and after the execution of any such depository arrangement, and the deposit of any Preferred Shares or Warrant Shares, as applicable, pursuant thereto, the depository shares issued pursuant thereto shall be deemed "Preferred Shares", "Warrant Shares" and, as applicable, "Registrable Securities" for purposes of this Agreement.

4.7 Restriction on Dividends and Repurchases.

(a) Prior to the earlier of (x) the third anniversary of the Closing Date and (y) the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, declare or pay any dividend or make any distribution on capital stock or other equity securities of any kind of the Company or any Company Subsidiary (other than (i) regular quarterly cash dividends of not more than the amount of the last quarterly cash dividend per share declared or, if lower, announced to its holders of Common Stock an intention to declare, on the Common Stock prior to November 17, 2008, as adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction, (ii) dividends payable solely in shares of Common Stock, (iii) regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares, (iv) dividends or distributions by any wholly-owned Company Subsidiary or (v) dividends or distributions by any Company Subsidiary required pursuant to binding contractual agreements entered into prior to November 17, 2008).

(b) During the period beginning on the third anniversary of the Closing Date and ending on the earlier of (i) the tenth anniversary of the Closing Date and (ii) the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, (A) pay any per share dividend or distribution on capital stock or other equity securities of any kind of the Company at a per annum rate that is in excess of 103% of the aggregate per share dividends and distributions for the immediately prior fiscal year (other than regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares); *provided* that no increase in the aggregate amount of dividends or distributions on Common Stock shall be permitted as a result of any dividends or distributions paid in shares of Common Stock, any stock split or any similar transaction or (B) pay aggregate dividends or distributions on capital stock or other equity securities of any kind of any Company Subsidiary that is in excess of 103% of the aggregate dividends and distributions paid for the immediately prior fiscal year (other than in the case of this clause (B), (1) regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares, (2) dividends or distributions by any wholly-owned Company Subsidiary, (3) dividends or distributions by any Company Subsidiary required pursuant to binding contractual agreements entered into prior to November 17, 2008) or (4) dividends or distributions on newly issued shares of capital stock for cash or other property.

(c) Prior to the earlier of (x) the tenth anniversary of the Closing Date and (y) the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, redeem, purchase or acquire any shares of Common Stock or other capital stock or other equity securities of any kind of the Company or any Company Subsidiary, or any trust preferred securities issued by the Company or any Affiliate of the Company, other

than (i) redemptions, purchases or other acquisitions of the Preferred Shares and Warrant Shares, (ii) in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice, (iii) the acquisition by the Company or any of the Company Subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Company or any other Company Subsidiary), including as trustees or custodians, (iv) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock or trust preferred securities for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case set forth in this clause (iv), solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock (clauses (ii) and (iii), collectively, the "*Permitted Repurchases*"), (v) redemptions of securities held by the Company or any wholly-owned Company Subsidiary or (vi) redemptions, purchases or other acquisitions of capital stock or other equity securities of any kind of any Company Subsidiary required pursuant to binding contractual agreements entered into prior to November 17, 2008.

(d) Until such time as the Investor ceases to own any Preferred Shares or Warrant Shares, the Company shall not repurchase any Preferred Shares or Warrant Shares from any holder thereof, whether by means of open market purchase, negotiated transaction, or otherwise, other than Permitted Repurchases, unless it offers to repurchase a ratable portion of the Preferred Shares or Warrant Shares, as the case may be, then held by the Investor on the same terms and conditions.

(e) During the period beginning on the tenth anniversary of the Closing and ending on the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, (i) declare or pay any dividend or make any distribution on capital stock or other equity securities of any kind of the Company or any Company Subsidiary; or (ii) redeem, purchase or acquire any shares of Common Stock or other capital stock or other equity securities of any kind of the Company or any Company Subsidiary, or any trust preferred securities issued by the Company or any Affiliate of the Company, other than (A) redemptions, purchases or other acquisitions of the Preferred Shares and Warrant Shares, (B) regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares, or (C) dividends or distributions by any wholly-owned Company Subsidiary.

(f) "*Junior Stock*" means Common Stock and any other class or series of stock of the Company the terms of which expressly provide that it ranks junior to the Preferred Shares as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Company. "*Parity Stock*" means any class or series of stock of the Company the terms of which do not expressly provide that such class or series will rank senior or junior to the Preferred Shares as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Company (in each case without regard to whether dividends accrue cumulatively or non-cumulatively).

4.8 Executive Compensation. Until such time as the Investor ceases to own any debt or equity securities of the Company acquired pursuant to this Agreement or the Warrant, the Company shall take all necessary action to ensure that its Benefit Plans with respect to its Senior Executive Officers comply in all respects with Section 111(b) of the EESA as implemented by any guidance or regulation thereunder that has been issued and is in effect as of the Closing Date, and shall not adopt any new Benefit Plan with respect to its Senior Executive Officers that does not comply therewith. "*Senior Executive Officers*" means the Company's "senior executive officers" as defined in subsection 111(b)(3) of the EESA and regulations issued thereunder, including the rules set forth in 31 C.F.R. Part 30.

4.9 Related Party Transactions. Until such time as the Investor ceases to own any Purchased Securities or Warrant Shares, the Company and the Company Subsidiaries shall not enter into transactions with Affiliates or related persons (within the meaning of Item 404 under the SEC's Regulation S-K) unless (i) such transactions are on terms no less favorable to the Company and the Company Subsidiaries than could be obtained from an unaffiliated third party, and (ii) have been approved by the audit committee of the Board of Directors or comparable body of independent directors of the Company.

4.10 Bank and Thrift Holding Company Status. If the Company is a Bank Holding Company or a Savings and Loan Holding Company on the Signing Date, then the Company shall maintain its status as a Bank Holding Company or Savings and Loan Holding Company, as the case may be, for as long as the Investor owns any Purchased Securities or Warrant Shares. The Company shall redeem all Purchased Securities and Warrant Shares held by the Investor prior to terminating its status as a Bank Holding Company or Savings and Loan Holding Company, as applicable. "*Bank Holding Company*" means a company registered as such with the Board of Governors of the Federal Reserve System (the "*Federal Reserve*") pursuant to 12 U.S.C. §1842 and the regulations of the Federal Reserve promulgated thereunder. "*Savings and Loan Holding Company*" means a company registered as such with the Office of Thrift Supervision pursuant to 12 U.S.C. §1467(a) and the regulations of the Office of Thrift Supervision promulgated thereunder.

4.11 Predominantly Financial. For as long as the Investor owns any Purchased Securities or Warrant Shares, the Company, to the extent it is not itself an insured depository institution, agrees to remain predominantly engaged in financial activities. A company is predominantly engaged in financial activities if the annual gross revenues derived by the company and all subsidiaries of the company (excluding revenues derived from subsidiary depository institutions), on a consolidated basis, from engaging in activities that are financial in nature or are incidental to a financial activity under subsection (k) of Section 4 of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(k)) represent at least 85 percent of the consolidated annual gross revenues of the company.

Article V Miscellaneous

5.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by either the Investor or the Company if the Closing shall not have occurred by the 30th calendar day following the Signing Date; *provided, however*, that in the event the Closing has not occurred by such 30th calendar day, the parties will consult in good faith to determine whether to extend the term of this Agreement, it being understood that the parties shall be required to consult only until the fifth day after such 30th calendar day and not be under any obligation to extend the term of this Agreement thereafter; *provided, further*, that the right to terminate this Agreement under this Section 5.1(a) shall not be available to any party whose breach of any representation or warranty or failure to perform any obligation under this Agreement shall have caused or resulted in the failure of the Closing to occur on or prior to such date; or

(b) by either the Investor or the Company in the event that any Governmental Entity shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and nonappealable; or

(c) by the mutual written consent of the Investor and the Company.

In the event of termination of this Agreement as provided in this Section 5.1, this Agreement shall forthwith become void and there shall be no liability on the part of either party hereto except that nothing herein shall relieve either party from liability for any breach of this Agreement.

5.2 Survival of Representations and Warranties. All covenants and agreements, other than those which by their terms apply in whole or in part after the Closing, shall terminate as of the Closing. The representations and warranties of the Company made herein or in any certificates delivered in connection with the Closing shall survive the Closing without limitation.

5.3 Amendment. No amendment of any provision of this Agreement will be effective unless made in writing and signed by an officer or a duly authorized representative of each party; *provided* that the Investor may unilaterally amend any provision of this Agreement to the extent required to comply with any changes after the Signing Date in applicable federal statutes. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative of any rights or remedies provided by law.

5.4 Waiver of Conditions. The conditions to each party's obligation to consummate the Purchase are for the sole benefit of such party and may be waived by such party in whole or in part to the extent permitted by applicable law. No waiver will be effective unless it is in a writing signed by a duly authorized officer of the waiving party that makes express reference to the provision or provisions subject to such waiver.

5.5 Governing Law: Submission to Jurisdiction, Etc. This Agreement will be governed by and construed in accordance with the federal law of the United States if and to

the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State. Each of the parties hereto agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia and the United States Court of Federal Claims for any and all civil actions, suits or proceedings arising out of or relating to this Agreement or the Warrant or the transactions contemplated hereby or thereby, and (b) that notice may be served upon (i) the Company at the address and in the manner set forth for notices to the Company in Section 5.6 and (ii) the Investor in accordance with federal law. To the extent permitted by applicable law, each of the parties hereto hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to this Agreement or the Warrant or the transactions contemplated hereby or thereby.

5.6 Notices. Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second business day following the date of dispatch if delivered by a recognized next day courier service. All notices to the Company shall be delivered as set forth in Schedule A, or pursuant to such other instruction as may be designated in writing by the Company to the Investor. All notices to the Investor shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the Investor to the Company.

If to the Investor:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW, Room 2312
Washington, D.C. 20220
Attention: Assistant General Counsel (Banking and Finance)
Facsimile: (202) 622-1974

5.7 Definitions

(a) When a reference is made in this Agreement to a subsidiary of a person, the term “*subsidiary*” means any corporation, partnership, joint venture, limited liability company or other entity (x) of which such person or a subsidiary of such person is a general partner or (y) of which a majority of the voting securities or other voting interests, or a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the board of directors or persons performing similar functions with respect to such entity, is directly or indirectly owned by such person and/or one or more subsidiaries thereof.

(b) The term “*Affiliate*” means, with respect to any person, any person directly or indirectly controlling, controlled by or under common control with, such other person. For purposes of this definition, “*control*” (including, with correlative meanings, the terms “*controlled by*” and “*under common control with*”) when used with respect to any person, means the possession, directly or indirectly, of the power to cause the direction of management and/or

policies of such person, whether through the ownership of voting securities by contract or otherwise.

(c) The terms "*knowledge of the Company*" or "*Company's knowledge*" mean the actual knowledge after reasonable and due inquiry of the "*officers*" (as such term is defined in Rule 3b-2 under the Exchange Act, but excluding any Vice President or Secretary) of the Company.

5.8 Assignment. Neither this Agreement nor any right, remedy, obligation nor liability arising hereunder or by reason hereof shall be assignable by any party hereto without the prior written consent of the other party, and any attempt to assign any right, remedy, obligation or liability hereunder without such consent shall be void, except (a) an assignment, in the case of a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Company's stockholders (a "*Business Combination*") where such party is not the surviving entity, or a sale of substantially all of its assets, to the entity which is the survivor of such Business Combination or the purchaser in such sale and (b) as provided in Sections 3.5 and 4.5.

5.9 Severability. If any provision of this Agreement or the Warrant, or the application thereof to any person or circumstance, is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, will remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination, the parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

5.10 No Third Party Beneficiaries. Nothing contained in this Agreement, expressed or implied, is intended to confer upon any person or entity other than the Company and the Investor any benefit, right or remedies, except that the provisions of Section 4.5 shall inure to the benefit of the persons referred to in that Section.

* * *

ANNEX A

FORM OF CERTIFICATE OF DESIGNATIONS FOR PREFERRED STOCK

[SEE ATTACHED]

FORM OF [CERTIFICATE OF DESIGNATIONS]
OF
FIXED RATE CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [●]
OF
[●]

[Insert name of Issuer], a [corporation/bank/banking association] organized and existing under the laws of the *[Insert jurisdiction of organization]* (the “Issuer”), in accordance with the provisions of Section[s] [●] of the *[Insert applicable statute]* thereof, does hereby certify:

The board of directors of the Issuer (the “Board of Directors”) or an applicable committee of the Board of Directors, in accordance with the [[certificate of incorporation/articles of association] and bylaws] of the Issuer and applicable law, adopted the following resolution on [●] creating a series of [●] shares of Preferred Stock of the Issuer designated as “Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]”.

RESOLVED, that pursuant to the provisions of the [[certificate of incorporation/articles of association] and the bylaws] of the Issuer and applicable law, a series of Preferred Stock, par value \$[●] per share, of the Issuer be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Part 1. Designation and Number of Shares. There is hereby created out of the authorized and unissued shares of preferred stock of the Issuer a series of preferred stock designated as the “Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]” (the “Designated Preferred Stock”). The authorized number of shares of Designated Preferred Stock shall be [●].

Part 2. Standard Provisions. The Standard Provisions contained in Schedule A attached hereto are incorporated herein by reference in their entirety and shall be deemed to be a part of this [Certificate of Designations] to the same extent as if such provisions had been set forth in full herein.

Part 3. Definitions. The following terms are used in this [Certificate of Designations] (including the Standard Provisions in Schedule A hereto) as defined below:

(a) “Common Stock” means the common stock, par value \$[●] per share, of the Issuer.

(b) “Dividend Payment Date” means February 15, May 15, August 15 and November 15 of each year.

(c) “Junior Stock” means the Common Stock, [*Insert titles of any existing Junior Stock*] and any other class or series of stock of the Issuer the terms of which expressly provide that it ranks junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer.

(d) “Liquidation Amount” means \$[1,000]¹ per share of Designated Preferred Stock.

(e) “Minimum Amount” means \$[*Insert \$ amount equal to 25% of the aggregate value of the Designated Preferred Stock issued on the Original Issue Date*].

(f) “Parity Stock” means any class or series of stock of the Issuer (other than Designated Preferred Stock) the terms of which do not expressly provide that such class or series will rank senior or junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer (in each case without regard to whether dividends accrue cumulatively or non-cumulatively). Without limiting the foregoing, Parity Stock shall include the Issuer’s [*Insert title(s) of existing classes or series of Parity Stock*].

(g) “Signing Date” means [*Insert date of applicable securities purchase agreement*].

Part. 4. Certain Voting Matters. [*To be inserted if the Charter provides for voting in proportion to liquidation preferences*: Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Designated Preferred Stock and any Voting Parity Stock has been cast or given on any matter on which the holders of shares of Designated Preferred Stock are entitled to vote shall be determined by the Issuer by reference to the specified liquidation amount of the shares voted or covered by the consent as if the Issuer were liquidated on the record date for such vote or consent, if any, or, in the absence of a record date, on the date for such vote or consent. For purposes of determining the voting rights of the holders of Designated Preferred Stock under Section 7 of the Standard Provisions forming part of this [Certificate of Designations], each holder will be entitled to one vote for each \$1,000 of liquidation preference to which such holder’s shares are entitled.] [*To be inserted if the Charter does not provide for voting in proportion to liquidation preferences*: Holders of shares of Designated Preferred Stock will be entitled to one vote for each such share on any matter on which holders of Designated Preferred Stock are entitled to vote, including any action by written consent.]

[*Remainder of Page Intentionally Left Blank*]

¹ If Issuer desires to issue shares with a higher dollar amount liquidation preference, liquidation preference references will be modified accordingly. In such case (in accordance with Section 4.6 of the Securities Purchase Agreement), the issuer will be required to enter into a deposit agreement.

IN WITNESS WHEREOF, *[Insert name of Issuer]* has caused this [Certificate of Designations] to be signed by [●], its [●], this [●] day of [●].

[Insert name of Issuer]

By: _____

Name:

Title:

STANDARD PROVISIONS

Section 1. General Matters. Each share of Designated Preferred Stock shall be identical in all respects to every other share of Designated Preferred Stock. The Designated Preferred Stock shall be perpetual, subject to the provisions of Section 5 of these Standard Provisions that form a part of the Certificate of Designations. The Designated Preferred Stock shall rank equally with Parity Stock and shall rank senior to Junior Stock with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Issuer.

Section 2. Standard Definitions. As used herein with respect to Designated Preferred Stock:

(a) “Applicable Dividend Rate” means (i) during the period from the Original Issue Date to, but excluding, the first day of the first Dividend Period commencing on or after the fifth anniversary of the Original Issue Date, 5% per annum and (ii) from and after the first day of the first Dividend Period commencing on or after the fifth anniversary of the Original Issue Date, 9% per annum.

(b) “Appropriate Federal Banking Agency” means the “appropriate Federal banking agency” with respect to the Issuer as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)), or any successor provision.

(c) “Business Combination” means a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Issuer’s stockholders.

(d) “Business Day” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

(e) “Bylaws” means the bylaws of the Issuer, as they may be amended from time to time.

(f) “Certificate of Designations” means the Certificate of Designations or comparable instrument relating to the Designated Preferred Stock, of which these Standard Provisions form a part, as it may be amended from time to time.

(g) “Charter” means the Issuer’s certificate or articles of incorporation, articles of association, or similar organizational document.

(h) “Dividend Period” has the meaning set forth in Section 3(a).

(i) “Dividend Record Date” has the meaning set forth in Section 3(a).

(j) “Liquidation Preference” has the meaning set forth in Section 4(a).

(k) “Original Issue Date” means the date on which shares of Designated Preferred Stock are first issued.

(l) “Preferred Director” has the meaning set forth in Section 7(b).

(m) “Preferred Stock” means any and all series of preferred stock of the Issuer, including the Designated Preferred Stock.

(n) “Qualified Equity Offering” means the sale and issuance for cash by the Issuer to persons other than the Issuer or any of its subsidiaries after the Original Issue Date of shares of perpetual Preferred Stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Issuer at the time of issuance under the applicable risk-based capital guidelines of the Issuer’s Appropriate Federal Banking Agency (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to November 17, 2008).

(o) “Standard Provisions” mean these Standard Provisions that form a part of the Certificate of Designations relating to the Designated Preferred Stock.

(p) “Successor Preferred Stock” has the meaning set forth in Section 5(a).

(q) “Voting Parity Stock” means, with regard to any matter as to which the holders of Designated Preferred Stock are entitled to vote as specified in Sections 7(a) and 7(b) of these Standard Provisions that form a part of the Certificate of Designations, any and all series of Parity Stock upon which like voting rights have been conferred and are exercisable with respect to such matter.

Section 3. Dividends.

(a) Rate. Holders of Designated Preferred Stock shall be entitled to receive, on each share of Designated Preferred Stock if, as and when declared by the Board of Directors or any duly authorized committee of the Board of Directors, but only out of assets legally available therefor, cumulative cash dividends with respect to each Dividend Period (as defined below) at a rate per annum equal to the Applicable Dividend Rate on (i) the Liquidation Amount per share of Designated Preferred Stock and (ii) the amount of accrued and unpaid dividends for any prior Dividend Period on such share of Designated Preferred Stock, if any. Such dividends shall begin to accrue and be cumulative from the Original Issue Date, shall compound on each subsequent Dividend Payment Date (*i.e.*, no dividends shall accrue on other dividends unless and until the first Dividend Payment Date for such other dividends has passed without such other dividends having been paid on such date) and shall be payable quarterly in arrears on each Dividend Payment Date, commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date. In the event that any Dividend Payment Date would otherwise fall on a day that is not a Business Day, the dividend payment due on that date will be postponed to the next day that is a Business Day and no additional dividends will accrue as a result of that postponement. The period from and including any Dividend Payment Date to, but excluding, the next Dividend Payment Date is a “Dividend Period”, provided that the initial

Dividend Period shall be the period from and including the Original Issue Date to, but excluding, the next Dividend Payment Date.

Dividends that are payable on Designated Preferred Stock in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends payable on Designated Preferred Stock on any date prior to the end of a Dividend Period, and for the initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month.

Dividends that are payable on Designated Preferred Stock on any Dividend Payment Date will be payable to holders of record of Designated Preferred Stock as they appear on the stock register of the Issuer on the applicable record date, which shall be the 15th calendar day immediately preceding such Dividend Payment Date or such other record date fixed by the Board of Directors or any duly authorized committee of the Board of Directors that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date"). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Holders of Designated Preferred Stock shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on Designated Preferred Stock as specified in this Section 3 (subject to the other provisions of the Certificate of Designations).

(b) Priority of Dividends. So long as any share of Designated Preferred Stock remains outstanding, no dividend or distribution shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than dividends payable solely in shares of Common Stock) or Parity Stock, subject to the immediately following paragraph in the case of Parity Stock, and no Common Stock, Junior Stock or Parity Stock shall be, directly or indirectly, purchased, redeemed or otherwise acquired for consideration by the Issuer or any of its subsidiaries unless all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been or are contemporaneously declared and paid in full (or have been declared and a sum sufficient for the payment thereof has been set aside for the benefit of the holders of shares of Designated Preferred Stock on the applicable record date). The foregoing limitation shall not apply to (i) redemptions, purchases or other acquisitions of shares of Common Stock or other Junior Stock in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice; (ii) the acquisition by the Issuer or any of its subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Issuer or any of its subsidiaries), including as trustees or custodians; and (iii) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside for the benefit of the holders thereof on the applicable record date) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period related to such Dividend Payment Date) in full upon Designated Preferred Stock and any shares of Parity Stock, all dividends declared on Designated Preferred Stock and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared *pro rata* so that the respective amounts of such dividends declared shall bear the same ratio to each other as all accrued and unpaid dividends per share on the shares of Designated Preferred Stock (including, if applicable as provided in Section 3(a) above, dividends on such amount) and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) (subject to their having been declared by the Board of Directors or a duly authorized committee of the Board of Directors out of legally available funds and including, in the case of Parity Stock that bears cumulative dividends, all accrued but unpaid dividends) bear to each other. If the Board of Directors or a duly authorized committee of the Board of Directors determines not to pay any dividend or a full dividend on a Dividend Payment Date, the Issuer will provide written notice to the holders of Designated Preferred Stock prior to such Dividend Payment Date.

Subject to the foregoing, and not otherwise, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or any duly authorized committee of the Board of Directors may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and holders of Designated Preferred Stock shall not be entitled to participate in any such dividends.

Section 4. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Issuer, whether voluntary or involuntary, holders of Designated Preferred Stock shall be entitled to receive for each share of Designated Preferred Stock, out of the assets of the Issuer or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Issuer, subject to the rights of any creditors of the Issuer, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Issuer ranking junior to Designated Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) the Liquidation Amount per share and (ii) the amount of any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount), whether or not declared, to the date of payment (such amounts collectively, the "Liquidation Preference").

(b) Partial Payment. If in any distribution described in Section 4(a) above the assets of the Issuer or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as

to such distribution, holders of Designated Preferred Stock and the holders of such other stock shall share ratably in any such distribution in proportion to the full respective distributions to which they are entitled.

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as to such distribution has been paid in full, the holders of other stock of the Issuer shall be entitled to receive all remaining assets of the Issuer (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 4, the merger or consolidation of the Issuer with any other corporation or other entity, including a merger or consolidation in which the holders of Designated Preferred Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Issuer, shall not constitute a liquidation, dissolution or winding up of the Issuer.

Section 5. Redemption.

(a) Optional Redemption. Except as provided below, the Designated Preferred Stock may not be redeemed prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date. On or after the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, out of funds legally available therefor, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption.

Notwithstanding the foregoing, prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption; *provided* that (x) the Issuer (or any successor by Business Combination) has received aggregate gross proceeds of not less than the Minimum Amount (plus the "Minimum Amount" as defined in the relevant certificate of designations for each other outstanding series of preferred stock of such successor that was originally issued to the United States Department of the Treasury (the "Successor Preferred Stock") in connection with the Troubled Asset Relief Program Capital Purchase Program) from one or more Qualified Equity Offerings (including Qualified Equity Offerings of such successor), and (y) the aggregate

redemption price of the Designated Preferred Stock (and any Successor Preferred Stock) redeemed pursuant to this paragraph may not exceed the aggregate net cash proceeds received by the Issuer (or any successor by Business Combination) from such Qualified Equity Offerings (including Qualified Equity Offerings of such successor).

The redemption price for any shares of Designated Preferred Stock shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Issuer or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 3 above.

(b) No Sinking Fund. The Designated Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Designated Preferred Stock will have no right to require redemption or repurchase of any shares of Designated Preferred Stock.

(c) Notice of Redemption. Notice of every redemption of shares of Designated Preferred Stock shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Issuer. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Designated Preferred Stock designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Designated Preferred Stock. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Designated Preferred Stock at such time and in any manner permitted by such facility. Each notice of redemption given to a holder shall state: (1) the redemption date; (2) the number of shares of Designated Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of part of the shares of Designated Preferred Stock at the time outstanding, the shares to be redeemed shall be selected either *pro rata* or in such other manner as the Board of Directors or a duly authorized committee thereof may determine to be fair and equitable. Subject to the provisions hereof, the Board of Directors or a duly authorized committee thereof shall have full power and authority to prescribe the terms and conditions upon which shares of Designated Preferred Stock shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption

have been deposited by the Issuer, in trust for the *pro rata* benefit of the holders of the shares called for redemption, with a bank or trust company doing business in the Borough of Manhattan, The City of New York, and having a capital and surplus of at least \$500 million and selected by the Board of Directors, so as to be and continue to be available solely therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption from such bank or trust company, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Issuer, after which time the holders of the shares so called for redemption shall look only to the Issuer for payment of the redemption price of such shares.

(f) Status of Redeemed Shares. Shares of Designated Preferred Stock that are redeemed, repurchased or otherwise acquired by the Issuer shall revert to authorized but unissued shares of Preferred Stock (*provided* that any such cancelled shares of Designated Preferred Stock may be reissued only as shares of any series of Preferred Stock other than Designated Preferred Stock).

Section 6. Conversion. Holders of Designated Preferred Stock shares shall have no right to exchange or convert such shares into any other securities.

Section 7. Voting Rights.

(a) General. The holders of Designated Preferred Stock shall not have any voting rights except as set forth below or as otherwise from time to time required by law.

(b) Preferred Stock Directors. Whenever, at any time or times, dividends payable on the shares of Designated Preferred Stock have not been paid for an aggregate of six quarterly Dividend Periods or more, whether or not consecutive, the authorized number of directors of the Issuer shall automatically be increased by two and the holders of the Designated Preferred Stock shall have the right, with holders of shares of any one or more other classes or series of Voting Parity Stock outstanding at the time, voting together as a class, to elect two directors (hereinafter the "Preferred Directors" and each a "Preferred Director") to fill such newly created directorships at the Issuer's next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of stockholders until all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been declared and paid in full at which time such right shall terminate with respect to the Designated Preferred Stock, except as herein or by law expressly provided, subject to revesting in the event of each and every subsequent default of the character above mentioned; *provided* that it shall be a qualification for election for any Preferred Director that the election of such Preferred Director shall not cause the Issuer to violate any corporate governance requirements of any securities exchange or other trading facility on which securities of the Issuer may then be listed or traded that listed or traded companies must have a majority of independent directors. Upon any

termination of the right of the holders of shares of Designated Preferred Stock and Voting Parity Stock as a class to vote for directors as provided above, the Preferred Directors shall cease to be qualified as directors, the term of office of all Preferred Directors then in office shall terminate immediately and the authorized number of directors shall be reduced by the number of Preferred Directors elected pursuant hereto. Any Preferred Director may be removed at any time, with or without cause, and any vacancy created thereby may be filled, only by the affirmative vote of the holders a majority of the shares of Designated Preferred Stock at the time outstanding voting separately as a class together with the holders of shares of Voting Parity Stock, to the extent the voting rights of such holders described above are then exercisable. If the office of any Preferred Director becomes vacant for any reason other than removal from office as aforesaid, the remaining Preferred Director may choose a successor who shall hold office for the unexpired term in respect of which such vacancy occurred.

(c) Class Voting Rights as to Particular Matters. So long as any shares of Designated Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by the Charter, the vote or consent of the holders of at least 66 2/3% of the shares of Designated Preferred Stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) Authorization of Senior Stock. Any amendment or alteration of the Certificate of Designations for the Designated Preferred Stock or the Charter to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of capital stock of the Issuer ranking senior to Designated Preferred Stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Issuer;

(ii) Amendment of Designated Preferred Stock. Any amendment, alteration or repeal of any provision of the Certificate of Designations for the Designated Preferred Stock or the Charter (including, unless no vote on such merger or consolidation is required by Section 7(c)(iii) below, any amendment, alteration or repeal by means of a merger, consolidation or otherwise) so as to adversely affect the rights, preferences, privileges or voting powers of the Designated Preferred Stock; or

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Any consummation of a binding share exchange or reclassification involving the Designated Preferred Stock, or of a merger or consolidation of the Issuer with another corporation or other entity, unless in each case (x) the shares of Designated Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Issuer is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions

thereof, of Designated Preferred Stock immediately prior to such consummation, taken as a whole;

provided, however, that for all purposes of this Section 7(c), any increase in the amount of the authorized Preferred Stock, including any increase in the authorized amount of Designated Preferred Stock necessary to satisfy preemptive or similar rights granted by the Issuer to other persons prior to the Signing Date, or the creation and issuance, or an increase in the authorized or issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series of Preferred Stock, or any securities convertible into or exchangeable or exercisable for any other series of Preferred Stock, ranking equally with and/or junior to Designated Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon liquidation, dissolution or winding up of the Issuer will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and shall not require the affirmative vote or consent of, the holders of outstanding shares of the Designated Preferred Stock.

(d) Changes after Provision for Redemption. No vote or consent of the holders of Designated Preferred Stock shall be required pursuant to Section 7(c) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of the Designated Preferred Stock shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been deposited in trust for such redemption, in each case pursuant to Section 5 above.

(e) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Designated Preferred Stock (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules of the Board of Directors or any duly authorized committee of the Board of Directors, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Charter, the Bylaws, and applicable law and the rules of any national securities exchange or other trading facility on which Designated Preferred Stock is listed or traded at the time.

Section 8. Record Holders. To the fullest extent permitted by applicable law, the Issuer and the transfer agent for Designated Preferred Stock may deem and treat the record holder of any share of Designated Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Issuer nor such transfer agent shall be affected by any notice to the contrary.

Section 9. Notices. All notices or communications in respect of Designated Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Charter or Bylaws or by applicable law. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any similar facility, such notices may be given to the holders of Designated Preferred Stock in any manner permitted by such facility.

Section 10. No Preemptive Rights. No share of Designated Preferred Stock shall have any rights of preemption whatsoever as to any securities of the Issuer, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 11. Replacement Certificates. The Issuer shall replace any mutilated certificate at the holder's expense upon surrender of that certificate to the Issuer. The Issuer shall replace certificates that become destroyed, stolen or lost at the holder's expense upon delivery to the Issuer of reasonably satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be reasonably required by the Issuer.

Section 12. Other Rights. The shares of Designated Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Charter or as provided by applicable law.

ANNEX B

**FORM OF CERTIFICATE OF DESIGNATIONS
FOR WARRANT PREFERRED STOCK**

[SEE ATTACHED]

FORM OF [CERTIFICATE OF DESIGNATIONS]
OF
FIXED RATE CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [●]
OF
[●]

[*Insert name of Issuer*], a [corporation/bank/banking association] organized and existing under the laws of the [*Insert jurisdiction of organization*] (the "Issuer"), in accordance with the provisions of Section[s] [●] of the [*Insert applicable statute*] thereof, does hereby certify:

The board of directors of the Issuer (the "Board of Directors") or an applicable committee of the Board of Directors, in accordance with the [[certificate of incorporation/articles of association] and bylaws] of the Issuer and applicable law, adopted the following resolution on [●] creating a series of [●] shares of Preferred Stock of the Issuer designated as "Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]".

RESOLVED, that pursuant to the provisions of the [[certificate of incorporation/articles of association] and the bylaws] of the Issuer and applicable law, a series of Preferred Stock, par value \$[●] per share, of the Issuer be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Part 1. Designation and Number of Shares. There is hereby created out of the authorized and unissued shares of preferred stock of the Issuer a series of preferred stock designated as the "Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]" (the "Designated Preferred Stock"). The authorized number of shares of Designated Preferred Stock shall be [●].

Part 2. Standard Provisions. The Standard Provisions contained in Schedule A attached hereto are incorporated herein by reference in their entirety and shall be deemed to be a part of this [Certificate of Designations] to the same extent as if such provisions had been set forth in full herein.

Part 3. Definitions. The following terms are used in this [Certificate of Designations] (including the Standard Provisions in Schedule A hereto) as defined below:

(a) "Common Stock" means the common stock, par value \$[●] per share, of the Issuer.

(b) "Dividend Payment Date" means February 15, May 15, August 15 and November 15 of each year.

(c) “Junior Stock” means the Common Stock, *[Insert titles of any existing Junior Stock]* and any other class or series of stock of the Issuer the terms of which expressly provide that it ranks junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer.

(d) “Liquidation Amount” means \$[1,000]¹ per share of Designated Preferred Stock.

(e) “Minimum Amount” means \$*[Insert \$ amount equal to 25% of the aggregate value of the Designated Preferred Stock issued on the Original Issue Date]*.

(f) “Parity Stock” means any class or series of stock of the Issuer (other than Designated Preferred Stock) the terms of which do not expressly provide that such class or series will rank senior or junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer (in each case without regard to whether dividends accrue cumulatively or non-cumulatively). Without limiting the foregoing, Parity Stock shall include the Issuer’s UST Preferred Stock [and] *[Insert title(s) of any other classes or series of Parity Stock]*.

(g) “Signing Date” means *[Insert date of applicable securities purchase agreement]*.

(h) “UST Preferred Stock” means the Issuer’s Fixed Rate Cumulative Perpetual Preferred Stock, Series [●].

Part. 4. Certain Voting Matters. *[To be inserted if the Charter provides for voting in proportion to liquidation preferences:* Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Designated Preferred Stock and any Voting Parity Stock has been cast or given on any matter on which the holders of shares of Designated Preferred Stock are entitled to vote shall be determined by the Issuer by reference to the specified liquidation amount of the shares voted or covered by the consent as if the Issuer were liquidated on the record date for such vote or consent, if any, or, in the absence of a record date, on the date for such vote or consent. For purposes of determining the voting rights of the holders of Designated Preferred Stock under Section 7 of the Standard Provisions forming part of this [Certificate of Designations], each holder will be entitled to one vote for each \$1,000 of liquidation preference to which such holder’s shares are entitled.] *[To be inserted if the Charter does not provide for voting in proportion to liquidation preferences:* Holders of shares of Designated Preferred Stock will be entitled to one vote for each such share on any matter on which holders of Designated Preferred Stock are entitled to vote, including any action by written consent.]

[Remainder of Page Intentionally Left Blank]

¹ If Issuer desires to issue shares with a higher dollar amount liquidation preference, liquidation preference references will be modified accordingly. In such case (in accordance with Section 4.6 of the Securities Purchase Agreement), the issuer will be required to enter into a deposit agreement.

IN WITNESS WHEREOF, [*Insert name of Issuer*] has caused this [Certificate of Designations] to be signed by [●], its [●], this [●] day of [●].

[Insert name of Issuer]

By: _____

Name:

Title:

STANDARD PROVISIONS

Section 1. General Matters. Each share of Designated Preferred Stock shall be identical in all respects to every other share of Designated Preferred Stock. The Designated Preferred Stock shall be perpetual, subject to the provisions of Section 5 of these Standard Provisions that form a part of the Certificate of Designations. The Designated Preferred Stock shall rank equally with Parity Stock and shall rank senior to Junior Stock with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Issuer.

Section 2. Standard Definitions. As used herein with respect to Designated Preferred Stock:

(a) “Appropriate Federal Banking Agency” means the “appropriate Federal banking agency” with respect to the Issuer as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)), or any successor provision.

(b) “Business Combination” means a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Issuer’s stockholders.

(c) “Business Day” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

(d) “Bylaws” means the bylaws of the Issuer, as they may be amended from time to time.

(e) “Certificate of Designations” means the Certificate of Designations or comparable instrument relating to the Designated Preferred Stock, of which these Standard Provisions form a part, as it may be amended from time to time.

(f) “Charter” means the Issuer’s certificate or articles of incorporation, articles of association, or similar organizational document.

(g) “Dividend Period” has the meaning set forth in Section 3(a).

(h) “Dividend Record Date” has the meaning set forth in Section 3(a).

(i) “Liquidation Preference” has the meaning set forth in Section 4(a).

(j) “Original Issue Date” means the date on which shares of Designated Preferred Stock are first issued.

(k) “Preferred Director” has the meaning set forth in Section 7(b).

(l) “Preferred Stock” means any and all series of preferred stock of the Issuer, including the Designated Preferred Stock.

(m) “Qualified Equity Offering” means the sale and issuance for cash by the Issuer to persons other than the Issuer or any of its subsidiaries after the Original Issue Date of shares of perpetual Preferred Stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Issuer at the time of issuance under the applicable risk-based capital guidelines of the Issuer’s Appropriate Federal Banking Agency (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to November 17, 2008).

(n) “Standard Provisions” mean these Standard Provisions that form a part of the Certificate of Designations relating to the Designated Preferred Stock.

(o) “Successor Preferred Stock” has the meaning set forth in Section 5(a).

(p) “Voting Parity Stock” means, with regard to any matter as to which the holders of Designated Preferred Stock are entitled to vote as specified in Sections 7(a) and 7(b) of these Standard Provisions that form a part of the Certificate of Designations, any and all series of Parity Stock upon which like voting rights have been conferred and are exercisable with respect to such matter.

Section 3. Dividends.

(a) Rate. Holders of Designated Preferred Stock shall be entitled to receive, on each share of Designated Preferred Stock if, as and when declared by the Board of Directors or any duly authorized committee of the Board of Directors, but only out of assets legally available therefor, cumulative cash dividends with respect to each Dividend Period (as defined below) at a per annum rate of 9.0% on (i) the Liquidation Amount per share of Designated Preferred Stock and (ii) the amount of accrued and unpaid dividends for any prior Dividend Period on such share of Designated Preferred Stock, if any. Such dividends shall begin to accrue and be cumulative from the Original Issue Date, shall compound on each subsequent Dividend Payment Date (*i.e.*, no dividends shall accrue on other dividends unless and until the first Dividend Payment Date for such other dividends has passed without such other dividends having been paid on such date) and shall be payable quarterly in arrears on each Dividend Payment Date, commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date. In the event that any Dividend Payment Date would otherwise fall on a day that is not a Business Day, the dividend payment due on that date will be postponed to the next day that is a Business Day and no additional dividends will accrue as a result of that postponement. The period from and including any Dividend Payment Date to, but excluding, the next Dividend Payment Date is a “Dividend Period”, provided that the initial Dividend Period shall be the period from and including the Original Issue Date to, but excluding, the next Dividend Payment Date.

Dividends that are payable on Designated Preferred Stock in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends payable on Designated Preferred Stock on any date prior to the end of a

Dividend Period, and for the initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month.

Dividends that are payable on Designated Preferred Stock on any Dividend Payment Date will be payable to holders of record of Designated Preferred Stock as they appear on the stock register of the Issuer on the applicable record date, which shall be the 15th calendar day immediately preceding such Dividend Payment Date or such other record date fixed by the Board of Directors or any duly authorized committee of the Board of Directors that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date"). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Holders of Designated Preferred Stock shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on Designated Preferred Stock as specified in this Section 3 (subject to the other provisions of the Certificate of Designations).

(b) Priority of Dividends. So long as any share of Designated Preferred Stock remains outstanding, no dividend or distribution shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than dividends payable solely in shares of Common Stock) or Parity Stock, subject to the immediately following paragraph in the case of Parity Stock, and no Common Stock, Junior Stock or Parity Stock shall be, directly or indirectly, purchased, redeemed or otherwise acquired for consideration by the Issuer or any of its subsidiaries unless all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been or are contemporaneously declared and paid in full (or have been declared and a sum sufficient for the payment thereof has been set aside for the benefit of the holders of shares of Designated Preferred Stock on the applicable record date). The foregoing limitation shall not apply to (i) redemptions, purchases or other acquisitions of shares of Common Stock or other Junior Stock in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice; (ii) the acquisition by the Issuer or any of its subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Issuer or any of its subsidiaries), including as trustees or custodians; and (iii) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside for the benefit of the holders thereof on the applicable record date) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period related to such Dividend Payment Date) in full upon Designated Preferred Stock and any shares of Parity Stock, all dividends declared on Designated Preferred Stock and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend

payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared *pro rata* so that the respective amounts of such dividends declared shall bear the same ratio to each other as all accrued and unpaid dividends per share on the shares of Designated Preferred Stock (including, if applicable as provided in Section 3(a) above, dividends on such amount) and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) (subject to their having been declared by the Board of Directors or a duly authorized committee of the Board of Directors out of legally available funds and including, in the case of Parity Stock that bears cumulative dividends, all accrued but unpaid dividends) bear to each other. If the Board of Directors or a duly authorized committee of the Board of Directors determines not to pay any dividend or a full dividend on a Dividend Payment Date, the Issuer will provide written notice to the holders of Designated Preferred Stock prior to such Dividend Payment Date.

Subject to the foregoing, and not otherwise, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or any duly authorized committee of the Board of Directors may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and holders of Designated Preferred Stock shall not be entitled to participate in any such dividends.

Section 4. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Issuer, whether voluntary or involuntary, holders of Designated Preferred Stock shall be entitled to receive for each share of Designated Preferred Stock, out of the assets of the Issuer or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Issuer, subject to the rights of any creditors of the Issuer, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Issuer ranking junior to Designated Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) the Liquidation Amount per share and (ii) the amount of any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount), whether or not declared, to the date of payment (such amounts collectively, the "Liquidation Preference").

(b) Partial Payment. If in any distribution described in Section 4(a) above the assets of the Issuer or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as to such distribution, holders of Designated Preferred Stock and the holders of such other stock shall share ratably in any such distribution in proportion to the full respective distributions to which they are entitled.

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as to such

distribution has been paid in full, the holders of other stock of the Issuer shall be entitled to receive all remaining assets of the Issuer (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 4, the merger or consolidation of the Issuer with any other corporation or other entity, including a merger or consolidation in which the holders of Designated Preferred Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Issuer, shall not constitute a liquidation, dissolution or winding up of the Issuer.

Section 5. Redemption.

(a) Optional Redemption. Except as provided below, the Designated Preferred Stock may not be redeemed prior to the later of (i) first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date; and (ii) the date on which all outstanding shares of UST Preferred Stock have been redeemed, repurchased or otherwise acquired by the Issuer. On or after the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, out of funds legally available therefor, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption.

Notwithstanding the foregoing, prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency and subject to the requirement that all outstanding shares of UST Preferred Stock shall previously have been redeemed, repurchased or otherwise acquired by the Issuer, may redeem, in whole or in part, at any time and from time to time, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption; *provided* that (x) the Issuer (or any successor by Business Combination) has received aggregate gross proceeds of not less than the Minimum Amount (plus the "Minimum Amount" as defined in the relevant certificate of designations for each other outstanding series of preferred stock of such successor that was originally issued to the United States Department of the Treasury (the "Successor Preferred Stock") in connection with the Troubled Asset Relief Program Capital Purchase Program) from one or more Qualified Equity Offerings (including Qualified Equity Offerings of such successor), and (y) the aggregate redemption price of the Designated Preferred Stock (and any Successor Preferred Stock) redeemed pursuant to this paragraph may not exceed the aggregate net cash proceeds received by the Issuer (or any

successor by Business Combination) from such Qualified Equity Offerings (including Qualified Equity Offerings of such successor).

The redemption price for any shares of Designated Preferred Stock shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Issuer or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 3 above.

(b) No Sinking Fund. The Designated Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Designated Preferred Stock will have no right to require redemption or repurchase of any shares of Designated Preferred Stock.

(c) Notice of Redemption. Notice of every redemption of shares of Designated Preferred Stock shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Issuer. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Designated Preferred Stock designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Designated Preferred Stock. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Designated Preferred Stock at such time and in any manner permitted by such facility. Each notice of redemption given to a holder shall state: (1) the redemption date; (2) the number of shares of Designated Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of part of the shares of Designated Preferred Stock at the time outstanding, the shares to be redeemed shall be selected either *pro rata* or in such other manner as the Board of Directors or a duly authorized committee thereof may determine to be fair and equitable. Subject to the provisions hereof, the Board of Directors or a duly authorized committee thereof shall have full power and authority to prescribe the terms and conditions upon which shares of Designated Preferred Stock shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption have been deposited by the Issuer, in trust for the *pro rata* benefit of the holders of the shares called for redemption, with a bank or trust company doing business in the Borough of

Manhattan, The City of New York, and having a capital and surplus of at least \$500 million and selected by the Board of Directors, so as to be and continue to be available solely therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption from such bank or trust company, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Issuer, after which time the holders of the shares so called for redemption shall look only to the Issuer for payment of the redemption price of such shares.

(f) Status of Redeemed Shares. Shares of Designated Preferred Stock that are redeemed, repurchased or otherwise acquired by the Issuer shall revert to authorized but unissued shares of Preferred Stock (*provided* that any such cancelled shares of Designated Preferred Stock may be reissued only as shares of any series of Preferred Stock other than Designated Preferred Stock).

Section 6. Conversion. Holders of Designated Preferred Stock shares shall have no right to exchange or convert such shares into any other securities.

Section 7. Voting Rights.

(a) General. The holders of Designated Preferred Stock shall not have any voting rights except as set forth below or as otherwise from time to time required by law.

(b) Preferred Stock Directors. Whenever, at any time or times, dividends payable on the shares of Designated Preferred Stock have not been paid for an aggregate of six quarterly Dividend Periods or more, whether or not consecutive, the authorized number of directors of the Issuer shall automatically be increased by two and the holders of the Designated Preferred Stock shall have the right, with holders of shares of any one or more other classes or series of Voting Parity Stock outstanding at the time, voting together as a class, to elect two directors (hereinafter the "Preferred Directors" and each a "Preferred Director") to fill such newly created directorships at the Issuer's next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of stockholders until all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been declared and paid in full at which time such right shall terminate with respect to the Designated Preferred Stock, except as herein or by law expressly provided, subject to reversion in the event of each and every subsequent default of the character above mentioned; *provided* that it shall be a qualification for election for any Preferred Director that the election of such Preferred Director shall not cause the Issuer to violate any corporate governance requirements of any securities exchange or other trading facility on which securities of the Issuer may then be listed or traded that listed or traded companies must have a majority of independent directors. Upon any termination of the right of the holders of shares of Designated Preferred Stock and Voting Parity Stock as a class to vote for directors as provided above, the Preferred Directors shall cease to be

qualified as directors, the term of office of all Preferred Directors then in office shall terminate immediately and the authorized number of directors shall be reduced by the number of Preferred Directors elected pursuant hereto. Any Preferred Director may be removed at any time, with or without cause, and any vacancy created thereby may be filled, only by the affirmative vote of the holders a majority of the shares of Designated Preferred Stock at the time outstanding voting separately as a class together with the holders of shares of Voting Parity Stock, to the extent the voting rights of such holders described above are then exercisable. If the office of any Preferred Director becomes vacant for any reason other than removal from office as aforesaid, the remaining Preferred Director may choose a successor who shall hold office for the unexpired term in respect of which such vacancy occurred.

(c) Class Voting Rights as to Particular Matters. So long as any shares of Designated Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by the Charter, the vote or consent of the holders of at least 66 2/3% of the shares of Designated Preferred Stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) Authorization of Senior Stock. Any amendment or alteration of the Certificate of Designations for the Designated Preferred Stock or the Charter to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of capital stock of the Issuer ranking senior to Designated Preferred Stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Issuer;

(ii) Amendment of Designated Preferred Stock. Any amendment, alteration or repeal of any provision of the Certificate of Designations for the Designated Preferred Stock or the Charter (including, unless no vote on such merger or consolidation is required by Section 7(c)(iii) below, any amendment, alteration or repeal by means of a merger, consolidation or otherwise) so as to adversely affect the rights, preferences, privileges or voting powers of the Designated Preferred Stock; or

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Any consummation of a binding share exchange or reclassification involving the Designated Preferred Stock, or of a merger or consolidation of the Issuer with another corporation or other entity, unless in each case (x) the shares of Designated Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Issuer is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of Designated Preferred Stock immediately prior to such consummation, taken as a whole;

provided, however, that for all purposes of this Section 7(c), any increase in the amount of the authorized Preferred Stock, including any increase in the authorized amount of Designated Preferred Stock necessary to satisfy preemptive or similar rights granted by the Issuer to other persons prior to the Signing Date, or the creation and issuance, or an increase in the authorized or issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series of Preferred Stock, or any securities convertible into or exchangeable or exercisable for any other series of Preferred Stock, ranking equally with and/or junior to Designated Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon liquidation, dissolution or winding up of the Issuer will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and shall not require the affirmative vote or consent of, the holders of outstanding shares of the Designated Preferred Stock.

(d) Changes after Provision for Redemption. No vote or consent of the holders of Designated Preferred Stock shall be required pursuant to Section 7(c) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of the Designated Preferred Stock shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been deposited in trust for such redemption, in each case pursuant to Section 5 above.

(e) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Designated Preferred Stock (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules of the Board of Directors or any duly authorized committee of the Board of Directors, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Charter, the Bylaws, and applicable law and the rules of any national securities exchange or other trading facility on which Designated Preferred Stock is listed or traded at the time.

Section 8. Record Holders. To the fullest extent permitted by applicable law, the Issuer and the transfer agent for Designated Preferred Stock may deem and treat the record holder of any share of Designated Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Issuer nor such transfer agent shall be affected by any notice to the contrary.

Section 9. Notices. All notices or communications in respect of Designated Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Charter or Bylaws or by applicable law. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any similar facility, such notices may be given to the holders of Designated Preferred Stock in any manner permitted by such facility.

Section 10. No Preemptive Rights. No share of Designated Preferred Stock shall have any rights of preemption whatsoever as to any securities of the Issuer, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 11. Replacement Certificates. The Issuer shall replace any mutilated certificate at the holder's expense upon surrender of that certificate to the Issuer. The Issuer shall replace certificates that become destroyed, stolen or lost at the holder's expense upon delivery to the Issuer of reasonably satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be reasonably required by the Issuer.

Section 12. Other Rights. The shares of Designated Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Charter or as provided by applicable law.

FORM OF WAIVER

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

I acknowledge that this regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) that I have with my employer or in which I participate as they relate to the period the United States holds any equity or debt securities of my employer acquired through the TARP Capital Purchase Program.

This waiver includes all claims I may have under the laws of the United States or any state related to the requirements imposed by the aforementioned regulation, including without limitation a claim for any compensation or other payments I would otherwise receive, any challenge to the process by which this regulation was adopted and any tort or constitutional claim about the effect of these regulations on my employment relationship.

FORM OF OPINION

- (a) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state of its incorporation.
- (b) The Preferred Shares have been duly and validly authorized, and, when issued and delivered pursuant to the Agreement, the Preferred Shares will be duly and validly issued and fully paid and non-assessable, will not be issued in violation of any preemptive rights, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock issued on the Closing Date with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.
- (c) The Warrant has been duly authorized and, when executed and delivered as contemplated by the Agreement, will constitute a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity.
- (d) The shares of Warrant Preferred Stock issuable upon exercise of the Warrant have been duly authorized and reserved for issuance upon exercise of the Warrant and when so issued in accordance with the terms of the Warrant will be validly issued, fully paid and non-assessable, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.
- (e) The Company has the corporate power and authority to execute and deliver the Agreement and the Warrant and to carry out its obligations thereunder (which includes the issuance of the Preferred Shares, Warrant and Warrant Shares).
- (f) The execution, delivery and performance by the Company of the Agreement and the Warrant and the consummation of the transactions contemplated thereby have been duly authorized by all necessary corporate action on the part of the Company and its stockholders, and no further approval or authorization is required on the part of the Company.
- (g) The Agreement is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity; *provided, however*, such counsel need express no opinion with respect to Section 4.5(h) or the severability provisions of the Agreement insofar as Section 4.5(h) is concerned.

ANNEX E

FORM OF WARRANT

[SEE ATTACHED]

FORM OF WARRANT TO PURCHASE PREFERRED STOCK

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS. THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COPY OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID.

**WARRANT
to purchase**

Shares of Preferred Stock

of _____

Issue Date: _____

1. Definitions. Unless the context otherwise requires, when used herein the following terms shall have the meanings indicated.

“*Board of Directors*” means the board of directors of the Company, including any duly authorized committee thereof.

“*business day*” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

“*Charter*” means, with respect to any Person, its certificate or articles of incorporation, articles of association, or similar organizational document.

“*Company*” means the Person whose name, corporate or other organizational form and jurisdiction of organization is set forth in Item 1 of Schedule A hereto.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*Exercise Price*” means the amount set forth in Item 2 of Schedule A hereto.

“*Expiration Time*” has the meaning set forth in Section 3.

“*Issue Date*” means the date set forth in Item 3 of Schedule A hereto.

“*Liquidation Amount*” means the amount set forth in Item 4 of Schedule A hereto.

“*Original Warrantholder*” means the United States Department of the Treasury. Any actions specified to be taken by the Original Warrantholder hereunder may only be taken by such Person and not by any other Warrantholder.

“*Person*” has the meaning given to it in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act.

“*Preferred Stock*” means the series of perpetual preferred stock set forth in Item 5 of Schedule A hereto.

“*Purchase Agreement*” means the Securities Purchase Agreement – Standard Terms incorporated into the Letter Agreement, dated as of the date set forth in Item 6 of Schedule A hereto, as amended from time to time, between the Company and the United States Department of the Treasury (the “*Letter Agreement*”), including all annexes and schedules thereto.

“*Regulatory Approvals*” with respect to the Warrantholder, means, to the extent applicable and required to permit the Warrantholder to exercise this Warrant for shares of Preferred Stock and to own such Preferred Stock without the Warrantholder being in violation of applicable law, rule or regulation, the receipt of any necessary approvals and authorizations of, filings and registrations with, notifications to, or expiration or termination of any applicable waiting period under, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Securities Act*” means the Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*Shares*” has the meaning set forth in Section 2.

“*Warrantholder*” has the meaning set forth in Section 2.

“*Warrant*” means this Warrant, issued pursuant to the Purchase Agreement.

2. Number of Shares; Exercise Price. This certifies that, for value received, the United States Department of the Treasury or its permitted assigns (the “*Warrantholder*”) is entitled, upon the terms and subject to the conditions hereinafter set forth, to acquire from the

Company, in whole or in part, after the receipt of all applicable Regulatory Approvals, if any, up to an aggregate of the number of fully paid and nonassessable shares of Preferred Stock set forth in Item 7 of Schedule A hereto (the “*Shares*”), at a purchase price per share of Preferred Stock equal to the Exercise Price.

3. Exercise of Warrant; Term. Subject to Section 2, to the extent permitted by applicable laws and regulations, the right to purchase the Shares represented by this Warrant is exercisable, in whole or in part by the Warrantholder, at any time or from time to time after the execution and delivery of this Warrant by the Company on the date hereof, but in no event later than 5:00 p.m., New York City time on the tenth anniversary of the Issue Date (the “*Expiration Time*”), by (A) the surrender of this Warrant and Notice of Exercise annexed hereto, duly completed and executed on behalf of the Warrantholder, at the principal executive office of the Company located at the address set forth in Item 8 of Schedule A hereto (or such other office or agency of the Company in the United States as it may designate by notice in writing to the Warrantholder at the address of the Warrantholder appearing on the books of the Company), and (B) payment of the Exercise Price for the Shares thereby purchased, by having the Company withhold, from the shares of Preferred Stock that would otherwise be delivered to the Warrantholder upon such exercise, shares of Preferred Stock issuable upon exercise of the Warrant with an aggregate Liquidation Amount equal in value to the aggregate Exercise Price as to which this Warrant is so exercised.

If the Warrantholder does not exercise this Warrant in its entirety, the Warrantholder will be entitled to receive from the Company within a reasonable time, and in any event not exceeding three business days, a new warrant in substantially identical form for the purchase of that number of Shares equal to the difference between the number of Shares subject to this Warrant and the number of Shares as to which this Warrant is so exercised. Notwithstanding anything in this Warrant to the contrary, the Warrantholder hereby acknowledges and agrees that its exercise of this Warrant for Shares is subject to the condition that the Warrantholder will have first received any applicable Regulatory Approvals.

4. Issuance of Shares; Authorization. Certificates for Shares issued upon exercise of this Warrant will be issued in such name or names as the Warrantholder may designate and will be delivered to such named Person or Persons within a reasonable time, not to exceed three business days after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant. The Company hereby represents and warrants that any Shares issued upon the exercise of this Warrant in accordance with the provisions of Section 3 will be duly and validly authorized and issued, fully paid and nonassessable and free from all taxes, liens and charges (other than liens or charges created by the Warrantholder, income and franchise taxes incurred in connection with the exercise of the Warrant or taxes in respect of any transfer occurring contemporaneously therewith). The Company agrees that the Shares so issued will be deemed to have been issued to the Warrantholder as of the close of business on the date on which this Warrant and payment of the Exercise Price are delivered to the Company in accordance with the terms of this Warrant, notwithstanding that the stock transfer books of the Company may then be closed or certificates representing such Shares may not be actually delivered on such date. The Company will at all times reserve and keep available, out of its authorized but unissued preferred stock, solely for the purpose of providing for the exercise of this Warrant, the aggregate number of shares of Preferred Stock then issuable upon exercise of this Warrant at any

time. The Company will use reasonable best efforts to ensure that the Shares may be issued without violation of any applicable law or regulation or of any requirement of any securities exchange on which the Shares are listed or traded.

5. No Rights as Stockholders; Transfer Books. This Warrant does not entitle the Warrantholder to any voting rights or other rights as a stockholder of the Company prior to the date of exercise hereof. The Company will at no time close its transfer books against transfer of this Warrant in any manner which interferes with the timely exercise of this Warrant.

6. Charges, Taxes and Expenses. Issuance of certificates for Shares to the Warrantholder upon the exercise of this Warrant shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company.

7. Transfer/Assignment.

(A) Subject to compliance with clause (B) of this Section 7, this Warrant and all rights hereunder are transferable, in whole or in part, upon the books of the Company by the registered holder hereof in person or by duly authorized attorney, and a new warrant shall be made and delivered by the Company, of the same tenor and date as this Warrant but registered in the name of one or more transferees, upon surrender of this Warrant, duly endorsed, to the office or agency of the Company described in Section 3. All expenses (other than stock transfer taxes) and other charges payable in connection with the preparation, execution and delivery of the new warrants pursuant to this Section 7 shall be paid by the Company.

(B) The transfer of the Warrant and the Shares issued upon exercise of the Warrant are subject to the restrictions set forth in Section 4.4 of the Purchase Agreement. If and for so long as required by the Purchase Agreement, this Warrant shall contain the legends as set forth in Section 4.2(a) of the Purchase Agreement.

8. Exchange and Registry of Warrant. This Warrant is exchangeable, upon the surrender hereof by the Warrantholder to the Company, for a new warrant or warrants of like tenor and representing the right to purchase the same aggregate number of Shares. The Company shall maintain a registry showing the name and address of the Warrantholder as the registered holder of this Warrant. This Warrant may be surrendered for exchange or exercise in accordance with its terms, at the office of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

9. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in the case of any such loss, theft or destruction, upon receipt of a bond, indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company shall make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of Shares as provided for in such lost, stolen, destroyed or mutilated Warrant.

10. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a business day, then such action may be taken or such right may be exercised on the next succeeding day that is a business day.

11. Rule 144 Information. The Company covenants that it will use its reasonable best efforts to timely file all reports and other documents required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations promulgated by the SEC thereunder (or, if the Company is not required to file such reports, it will, upon the request of any Warrantholder, make publicly available such information as necessary to permit sales pursuant to Rule 144 under the Securities Act), and it will use reasonable best efforts to take such further action as any Warrantholder may reasonably request, in each case to the extent required from time to time to enable such holder to, if permitted by the terms of this Warrant and the Purchase Agreement, sell this Warrant without registration under the Securities Act within the limitation of the exemptions provided by (A) Rule 144 under the Securities Act, as such rule may be amended from time to time, or (B) any successor rule or regulation hereafter adopted by the SEC. Upon the written request of any Warrantholder, the Company will deliver to such Warrantholder a written statement that it has complied with such requirements.

12. Adjustments and Other Rights. For so long as the Original Warrantholder holds this Warrant or any portion thereof, if any event occurs that, in the good faith judgment of the Board of Directors of the Company, would require adjustment of the Exercise Price or number of Shares into which this Warrant is exercisable in order to fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of the Purchase Agreement and this Warrant, then the Board of Directors shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of the Board of Directors, to protect such purchase rights as aforesaid.

Whenever the Exercise Price or the number of Shares into which this Warrant is exercisable shall be adjusted as provided in this Section 12, the Company shall forthwith file at the principal office of the Company a statement showing in reasonable detail the facts requiring such adjustment and the Exercise Price that shall be in effect and the number of Shares into which this Warrant shall be exercisable after such adjustment, and the Company shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each Warrantholder at the address appearing in the Company's records.

13. No Impairment. The Company will not, by amendment of its Charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrantholder.

14. Governing Law. This Warrant will be governed by and construed in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and

to be performed entirely within such State. Each of the Company and the Warrantholder agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia for any civil action, suit or proceeding arising out of or relating to this Warrant or the transactions contemplated hereby, and (b) that notice may be served upon the Company at the address in Section 17 below and upon the Warrantholder at the address for the Warrantholder set forth in the registry maintained by the Company pursuant to Section 8 hereof. To the extent permitted by applicable law, each of the Company and the Warrantholder hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to the Warrant or the transactions contemplated hereby or thereby.

15. Binding Effect. This Warrant shall be binding upon any successors or assigns of the Company.

16. Amendments. This Warrant may be amended and the observance of any term of this Warrant may be waived only with the written consent of the Company and the Warrantholder.

17. Notices. Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second business day following the date of dispatch if delivered by a recognized next day courier service. All notices hereunder shall be delivered as set forth in Item 9 of Schedule A hereto, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

18. Entire Agreement. This Warrant, the forms attached hereto and Schedule A hereto (the terms of which are incorporated by reference herein), and the Letter Agreement (including all documents incorporated therein), contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior and contemporaneous arrangements or undertakings with respect thereto.

[Remainder of page intentionally left blank]

[Form of Notice of Exercise]

Date: _____

TO: [Company]

RE: Election to Purchase Preferred Stock

The undersigned, pursuant to the provisions set forth in the attached Warrant, hereby agrees to subscribe for and purchase such number of shares of Preferred Stock covered by the Warrant such that after giving effect to an exercise pursuant to Section 3(B) of the Warrant, the undersigned will receive the net number of shares of Preferred Stock set forth below. The undersigned, in accordance with Section 3 of the Warrant, hereby agrees to pay the aggregate Exercise Price for such shares of Preferred Stock in the manner set forth in Section 3(B) of the Warrant.

Number of Shares of Preferred Stock:¹ _____

The undersigned agrees that it is exercising the attached Warrant in full and that, upon receipt by the undersigned of the number of shares of Preferred Stock set forth above, such Warrant shall be deemed to be cancelled and surrendered to the Company.

Holder: _____
By: _____
Name: _____
Title: _____

1. Number of shares to be received by the undersigned upon exercise of the attached Warrant pursuant to Section 3(B) thereof.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by a duly authorized officer.

Dated: _____

COMPANY: _____

By: _____
Name:
Title:

Attest:

By: _____
Name:
Title:

[Signature Page to Warrant]

SCHEDULE A

Item 1

Name:

Corporate or other organizational form:

Jurisdiction of organization:

Item 2

Exercise Price:²

Item 3

Issue Date:

Item 4

Liquidation Amount:

Item 5

Series of Perpetual Preferred Stock:

Item 6

Date of Letter Agreement between the Company and the United States Department of the Treasury:

Item 7

Number of shares of Preferred Stock:³

Item 8

Company's address:

Item 9

Notice information:

² \$0.01 per share or such greater amount as the Charter may require as the par value of the Preferred Stock.

³ The initial number of shares of Preferred Stock for which this Warrant is exercisable shall include the number of shares required to effect the cashless exercise pursuant to Section 3(B) of this Warrant (e.g., such number of shares of Preferred Stock having an aggregate Liquidation Amount equal in value to the aggregate Exercise Price) such that, following exercise of this Warrant and payment of the Exercise Price in accordance with such Section 3(B), the net number of shares of Preferred Stock delivered to the Warranholder (and rounded to the nearest whole share) would have an aggregate Liquidation Amount equal to 5% of the aggregate amount invested by the United States Department of the Treasury on the investment date.

SCHEDULE A

ADDITIONAL TERMS AND CONDITIONS

Company Information:

Name of the Company:	Valley Commerce Bancorp
Corporate or other organizational form:	Corporation
Jurisdiction of Organization:	California
Appropriate Federal Banking Agency:	Federal Reserve
Notice Information:	Valley Commerce Bancorp 200 S. Court Street Visalia, CA 93291 Attn: Chief Financial Officer

Terms of the Purchase:

Series of Preferred Stock Purchased:	Series B
Per Share Liquidation Preference of Preferred Stock:	\$1,000.00
Number of Shares of Preferred Stock Purchased:	7,700
Dividend Payment Dates on the Preferred Stock:	February 15, May 15, August 15 and November 15
Series of Warrant Preferred Stock:	Series C
Number of Warrant Shares:	385.00385
Number of Net Warrant Shares (after net settlement):	385
Exercise Price of the Warrant:	0.01 per share
Purchase Price:	\$7,700,000

Closing:

Location of Closing:	Telephonic
Time of Closing:	9:15 a.m. Eastern Time

Date of Closing:

January 30, 2009

Wire Information for Closing:

ABA Number [REDACTED]
Bank: Valley Business Bank
Account Name: [REDACTED]
Account Number: [REDACTED]
Beneficiary: Valley Commerce Bancorp
Contact Name: [REDACTED]
Contact's email: [REDACTED]

SCHEDULE B

CAPITALIZATION

Capitalization Date: December 31, 2008

Common Stock

Par value:	None
Total Authorized:	30,000,000
Outstanding:	2,473,739
Subject to warrants, options, convertible securities, etc.:	165,734
Reserved for benefit plans and other issuances:	
Remaining authorized but unissued:	
Shares issued after Capitalization Date (other than pursuant to warrants, options, convertible securities, etc. as set forth above):	none

Preferred Stock

Par value:	None
Total Authorized:	10,000,000 (30,000 designated as Series A)
Outstanding (by series):	None
Reserved for issuance:	30,000 (Series A)
Remaining authorized but unissued:	10,000,000

Holder of 5% or more of any class of capital stock

The Banc Fund Company, LLC (201,989 shares of common stock (approximately 8.6% of outstanding shares of common stock))

Primary Address

208 South LaSalle Street
Chicago, Illinois 60604

Wellington Management Company, LLP (182,609
shares of common stock (approximately 7.8% of
outstanding common stock))

75 State Street
Boston, Massachusetts 02109

SCHEDULE C

LITIGATION

List any exceptions to the representation and warranty in Section 2.2(l) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box: .

SCHEDULE D

COMPLIANCE WITH LAWS

List any exceptions to the representation and warranty in the second sentence of Section 2.2(m) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box: .

List any exceptions to the representation and warranty in the last sentence of Section 2.2(m) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box: .

SCHEDULE E

REGULATORY AGREEMENTS

List any exceptions to the representation and warranty in Section 2.2(s) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box: .

Valley Commerce Bancorp

Financial Statements for
Quarter ended September 30, 2008
(As included in the company's Quarterly Report on Form 10-Q)

PART 1 – FINANCIAL INFORMATION
ITEM 1 – FINANCIAL STATEMENTS

VALLEY COMMERCE BANCORP
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	<u>September 30,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Assets		
Cash and due from banks	\$ 8,123,564	\$ 9,297,346
Federal funds sold	15,150,000	-
Total cash and cash equivalents	23,273,564	9,297,346
Available-for-sale investment securities, at fair value	41,960,000	56,615,000
Loans, less allowance for loan losses of \$2,841,058 at September 30, 2008 and \$1,757,591 at December 31, 2007 (Note 3)	224,946,922	199,514,271
Bank premises and equipment, net	4,075,339	3,037,063
Cash surrender value of bank-owned life insurance	6,374,564	6,184,531
Accrued interest receivable and other assets	5,395,655	4,432,665
Total assets	<u>\$ 306,026,044</u>	<u>\$ 279,080,876</u>
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing	\$ 65,897,907	\$ 66,992,568
Interest-bearing	192,594,697	148,393,500
Total deposits	<u>258,492,604</u>	<u>215,386,068</u>
Accrued interest payable and other liabilities	2,058,334	1,778,548
Short-term debt	8,000,000	21,804,000
Long-term debt	5,488,248	8,146,049
Junior subordinated deferrable interest debentures	3,093,000	3,093,000
Total liabilities	<u>277,132,186</u>	<u>250,207,665</u>
Commitments and contingencies (Note 4)		
Shareholders' equity (Note 5 and 9):		
Serial preferred stock - no par value; 10,000,000 shares authorized, none issued		
Common stock - no par value; 30,000,000 shares authorized; issued and outstanding 2,460,667 shares at September 30, 2008 and 2,516,257 shares at December 31, 2007	24,434,218	23,511,066
Retained earnings	5,077,137	5,423,324
Accumulated other comprehensive loss, net of taxes (Note 7)	(617,497)	(61,179)
Total shareholders' equity	<u>28,893,858</u>	<u>28,873,211</u>
Total liabilities and shareholders' equity	<u>\$ 306,026,044</u>	<u>\$ 279,080,876</u>

See notes to unaudited condensed consolidated financial statements.

VALLEY COMMERCE BANCORP
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	<u>For the Three Months</u> <u>Ended September 30,</u>		<u>For the Nine Months</u> <u>Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Interest Income:				
Interest and fees on loans	\$3,906,358	\$4,164,148	\$11,650,825	\$12,071,084
Interest on investment securities:				
Taxable	295,626	358,814	1,012,564	1,141,512
Exempt from Federal income taxes	202,673	192,494	596,206	573,734
Interest on Federal funds sold	98,944	834	147,044	2,835
Total interest income	<u>4,503,601</u>	<u>4,716,290</u>	<u>13,406,639</u>	<u>13,789,165</u>
Interest Expense:				
Interest on deposits	1,318,806	1,534,709	3,701,771	4,484,395
Interest on short-term debt	51,958	131,308	245,684	484,758
Interest on long-term debt	70,506	90,652	234,393	272,432
Interest on junior subordinated deferrable interest debentures	48,096	68,450	155,718	203,097
Total interest expense	<u>1,489,366</u>	<u>1,825,119</u>	<u>4,337,566</u>	<u>5,444,682</u>
Net interest income before provision for loan losses	3,014,235	2,891,171	9,069,073	8,344,483
Provision for loan losses	400,000	-	1,200,000	-
Net interest income after provision for loan losses	<u>2,614,235</u>	<u>2,891,171</u>	<u>7,869,073</u>	<u>8,344,483</u>
Non-Interest Income:				
Service charges	192,352	156,207	528,046	431,773
Gain (loss) on sale of available-for-sale investment securities, net	-	-	46,412	(1,145)
Mortgage loan brokerage fees	8,674	19,213	42,475	66,543
Earnings on cash surrender value of life insurance policies	68,408	66,564	201,027	194,691
Other	42,255	57,862	174,442	181,154
Total non-interest income	<u>311,689</u>	<u>299,846</u>	<u>992,402</u>	<u>873,016</u>
Non-Interest Expense:				
Salaries and employee benefits	1,265,201	1,147,489	3,821,499	3,563,025
Occupancy and equipment	334,931	260,942	934,215	756,218
Other	645,578	740,994	2,080,154	2,055,402
Total non-interest expense	<u>2,245,710</u>	<u>2,149,425</u>	<u>6,835,868</u>	<u>6,374,645</u>
Income before provision for income taxes	680,214	1,041,592	2,025,607	2,842,854
Provision for income taxes	202,000	320,000	594,000	857,000
Net income	<u>\$ 478,214</u>	<u>\$ 721,592</u>	<u>\$ 1,431,607</u>	<u>\$ 1,985,854</u>
Basic earnings per share (Notes 2 and 6)	<u>\$ 0.19</u>	<u>\$ 0.29</u>	<u>\$ 0.58</u>	<u>\$ 0.81</u>
Diluted earnings per share (Notes 2 and 6)	<u>\$ 0.19</u>	<u>\$ 0.28</u>	<u>\$ 0.57</u>	<u>\$ 0.77</u>

See notes to unaudited condensed consolidated financial statements.

VALLEY COMMERCE BANCORP
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	For the Nine Months	
	Ended September 30,	
	2008	2007
Cash Flows from Operating Activities:		
Net income	\$ 1,431,607	\$ 1,985,854
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,200,000	-
Increase (decrease) in deferred loan origination fees, net	69,943	(43,423)
Depreciation	339,685	220,049
Amortization of intangibles	7,718	46,903
(Gain) loss on sale of available-for-sale investment securities, net	(46,412)	1,145
Dividends on Federal Home Loan Bank stock	(69,100)	(62,500)
(Accretion of discounts) amortization of premiums on investment securities, net	(19,501)	102,629
Increase in cash surrender value of bank-owned life insurance	(190,033)	(189,911)
Stock-based compensation expense	45,836	23,013
Deferred tax benefit from exercise of stock options	-	335,894
Loss on disposition of premises and equipment	685	1,255
Deferred tax benefit	-	30,541
Decrease in accrued interest receivable and other assets	(919,419)	(239,125)
Increase in accrued interest payable and other liabilities	177,670	207,764
Net cash provided by operating activities	<u>2,028,679</u>	<u>2,420,088</u>
Cash Flows from Investing Activities:		
Proceeds from matured and called available-for-sale investment securities	9,500,000	5,115,000
Proceeds from sales of available-for-sale investment securities	4,546,412	1,510,000
Purchases of available-for-sale investment securities	(2,958,048)	(8,152,270)
Proceeds from principal repayments from available-for-sale mortgage-backed securities	2,673,412	1,730,897
Redemption of Federal Home Loan Bank Stock, net	425,900	335,600
Net increase in loans	(26,702,594)	(15,747,241)
Purchase of premises and equipment	(1,380,896)	(994,886)
Proceeds from sale of equipment	2,250	9,313
Net cash used in investing activities	<u>(13,893,564)</u>	<u>(16,193,587)</u>

Continued on next page.

VALLEY COMMERCE BANCORP
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
(Continued)

	For the Nine Months Ended September 30,	
	2008	2007
Cash Flows from Financing Activities:		
Net increase in noninterest-bearing and interest-bearing deposits	\$ 2,835,440	\$ 6,427,150
Net increase (decrease) in time deposits	40,271,096	(3,598,582)
Proceeds from exercised stock options	3,975	556,336
Cash paid to repurchase common stock	(804,118)	-
(Payments on) proceeds from short-term borrowings, net	(13,804,000)	7,240,300
Payments on long-term debt	(2,657,801)	(350,264)
Cash paid to repurchase fractional shares	(3,489)	(5,392)
Net cash provided by financing activities	<u>25,841,103</u>	<u>10,269,548</u>
Increase (decrease) in cash and cash equivalents	13,976,218	(3,503,951)
Cash and Cash Equivalents at Beginning of Year	<u>9,297,346</u>	<u>13,265,547</u>
Cash and Cash Equivalents at End of Period	<u>\$ 23,273,564</u>	<u>\$ 9,761,596</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	\$ 4,333,367	\$ 5,324,309
Income taxes	\$ 1,435,000	\$ 740,000
Non-Cash Investing Activities:		
Net change in unrealized loss on available-for-sale securities	\$ (958,137)	\$ (9,705)
Non-cash Financing Activities:		
Cumulative effect of adopting EITF 06-04	\$ 102,115	

See notes to unaudited condensed consolidated financial statements.

VALLEY COMMERCE BANCORP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. GENERAL

On February 2, 2002, Valley Commerce Bancorp (the "Company") was incorporated as a bank holding company for the purpose of acquiring Valley Business Bank (the "Bank") in a bank holding company reorganization. The new corporate structure provided the Company and the Bank greater flexibility to expand and diversify. The reorganization was completed on November 21, 2002, subsequent to which the Bank continued its operations as previously conducted, but as a wholly owned subsidiary of the Company.

The Bank commenced operations in 1996 and operates branches in Visalia, Fresno, Woodlake and Tipton, and a loan production office in Tulare. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

2. BASIS OF PRESENTATION

The interim unaudited condensed consolidated financial statements of Valley Commerce Bancorp and subsidiary have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These interim condensed consolidated financial statements include the accounts of Valley Commerce Bancorp and its wholly owned subsidiary Valley Business Bank (the "Bank") (collectively, the "Company"). Valley Commerce Trust I, a wholly-owned subsidiary formed for the exclusive purpose of issuing trust preferred securities, is not consolidated into the Company's consolidated financial statements and, accordingly, is accounted for under the equity method. The Company's investment in the Trust is included in accrued interest receivable and other assets on the consolidated balance sheet. All significant intercompany accounts and transactions have been eliminated in consolidation. All adjustments (consisting only of normal recurring adjustments) which, in the opinion of Management, are necessary for a fair presentation of Valley Commerce Bancorp's (the "Company") consolidated financial position at September 30, 2008 and December 31, 2007, the results of its operations for the three- and nine-month periods ended September 30, 2008 and 2007, and its cash flows for the nine-month periods ended September 30, 2008 and 2007 have been included therein. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted, however, the Company believes that the disclosures made are adequate to make the information not misleading. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2007 Annual Report on Form 10-K. The results of operations and cash flows for the interim periods presented are not necessarily indicative of the results for a full year.

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

Management has determined that because all of the commercial banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No single customer accounts for more than 10% of the revenues of the Company or the Bank.

On May 20, 2008 the Company declared a 5% stock dividend payable on June 25, 2008 for all shareholders of record on June 11, 2008. All earnings per share and per share amounts have been retroactively adjusted to reflect the stock dividend.

3. LOANS

Outstanding loans are summarized below, in thousands:

	September 30, 2008	December 31, 2007
Commercial	\$ 58,260,762	\$ 41,823,876
Real estate – mortgage	126,124,251	106,872,707
Real estate – construction	37,444,465	44,896,223
Agricultural	4,330,981	4,987,839
Consumer	2,001,244	2,994,997
	<u>228,161,703</u>	<u>201,575,642</u>
Deferred loan fees, net	(373,723)	(303,780)
Allowance for loan losses	(2,841,058)	(1,757,591)
	<u>\$ 224,946,922</u>	<u>\$ 199,514,271</u>

4. COMMITMENTS AND CONTINGENCIES

The Company is party to claims and legal proceeding arising in the ordinary course of business. In the opinion of the Company's management, the amount of ultimate liability with respect to such proceedings will not have a material adverse effect on the financial condition or result of operations of the Company taken as a whole.

In the normal course of business, the Company has various outstanding commitments to extend credit which are not reflected in the financial statements, including loan commitments of \$48.1 million and \$53.5 million and letters of credit of \$0.3 million and \$0.2 million at September 30, 2008 and December 31, 2007, respectively.

At September 30, 2008, consumer loan commitments, which are generally unsecured, represent approximately 5% of total commitments. Agricultural loan commitments represent approximately 4% of total commitments and are generally secured by crops and/or real estate. Commercial loan commitments represent approximately 67% of total commitments and are generally secured by various assets of the borrower. Real estate loan commitments represent the remaining 24% of total commitments. In addition, the majority of the Bank's commitments have variable interest rates. Total commitments do not necessarily represent future cash requirements. Each loan commitment and the amount and type of collateral obtained, if any, are evaluated on an individual basis. Collateral held varies, but may include real property, bank deposits, debt or equity securities or business assets.

Stand-by letters of credit are conditional commitments written to guarantee the performance of a customer to a third party. These guarantees are primarily related to the purchases of inventory by commercial customers and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to customers and, accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The deferred liability related to the Company's stand-by letters of credit was not significant at September 30, 2008 or December 31, 2007.

5. STOCK BASED COMPENSATION

On May 15, 2007, the Company's shareholders approved the Valley Commerce Bancorp 2007 Equity Incentive Plan ("Incentive Plan"). The Incentive Plan provides for awards of stock options, restricted stock awards, qualified performance-based awards and stock grants. Under the plan, 91,461 shares of common stock are reserved for issuance to employees and directors under incentive and nonstatutory agreements. The purpose of the Incentive Plan is to promote the long-term success of the Company and the creation of shareholder value. The Board of Directors believes that the availability of stock options and other forms of stock awards will be a key factor in the ability of the Company to attract and retain qualified individuals. Additional information on the Incentive Plan may be obtained from the Company's 2008 Annual Proxy Statement.

The prior plan, the Valley Commerce Bancorp Amended and Restated 1997 Stock Option Plan ("Prior Plan") was established in 1997 and expired on February 17, 2007. There were 36,750 options outstanding at September 30, 2008 granted under the Incentive Plan.

During the nine-month periods ended September 30, 2008 and 2007, no options were granted by the Company to its officers or directors. Compensation cost related to stock options recognized in operating results under SFAS No. 123R were \$14,678 and \$7,671 in the three month periods ended September 30, 2008 and 2007, respectively. Compensation cost related to stock options recognized in operating results under SFAS No. 123R were \$45,836 and \$23,013 in the nine-month periods ended September 30, 2008 and 2007, respectively. Compensation expense is recognized over the vesting period on a straight line accounting basis.

SFAS 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as a cash flow from financing in the statement of cash flows. The excess tax benefits for the three months ended September 30, 2008 and 2007 were \$1,579 and \$2,153, respectively. The excess tax benefits for the nine months ended September 30, 2008 and 2007 were \$5,270 and \$6,459, respectively.

The following table summarizes information about stock option activity for the nine months ended September 30, 2008:

	For the Nine Months Ended September 30, 2008			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Incentive:				
Options outstanding at January 1, 2008	75,455	\$ 8.20		
Options granted	-	-		
Options exercised	(362)	10.97		
Options cancelled	(3,768)	13.71		
Options outstanding, September 30, 2008	71,326	10.88	6.70 years	\$ 163,626(1)
Options exercisable, September 30, 2008	32,721	7.59	4.54 years	196,427(1)
Options vested or expected to vest after September 30, 2008	60,689	10.88	6.70 years	155,877(1)
Nonstatutory:				
Options outstanding at January 1, 2008	109,181	\$ 8.67		
Options granted	-	-		
Options exercised	-	-		
Options cancelled	-	-		
Options outstanding, September 30, 2008	109,181	8.67	4.63 years	\$ 568,516(1)
Options exercisable, September 30, 2008	104,771	8.29	4.63 years	568,516(1)
Options vested or expected to vest after September 30, 2008	102,575	8.67	4.78 years	490,284(1)

(1) Excluded from the aggregate intrinsic values in the table above are 36,750 incentive options with a weighted average price of \$13.81 and 11,025 non-statutory options with a weighted average price of \$17.69 because the option exercise price was greater than quoted price of the Company's common stock at September 30, 2008.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for options that were in-the-money at September 30, 2008. There were 362 and 102,478 options exercised during the nine months ended September 30, 2008 and 2007, respectively. The total intrinsic value, which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise, of options exercised during the nine months ended September 30, 2008 and 2007 was \$1,100 and \$864,016,

respectively. During the nine months ended September 30, 2008 and 2007, the amount of cash received from the exercise of stock options was \$3,975 and \$556,336, respectively. There were no options that vested during the three months ended September 30, 2008 and 2007. The total fair value of shares vested during the nine months ended September 30, 2008 and 2007 was \$124,251 and \$163,117, respectively.

Management estimates expected forfeitures and recognizes compensation costs only for those equity awards expected to vest. As of September 30, 2008, there was \$209,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. The cost is expected to be realized over a weighted average period of 1.93 years and will be adjusted for subsequent changes in estimated forfeitures.

6. EARNINGS PER SHARE COMPUTATION

Basic earnings per share are computed by dividing net income by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if outstanding stock options were exercised. Diluted earnings per share are computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of options. Earnings per share computations have been retroactively adjusted for stock splits and stock dividends for all periods presented. On May 20, 2008 the Company declared a 5% stock dividend payable on June 25, 2008 for all shareholders of record on June 11, 2008. All earnings per share and per share amounts have been retroactively adjusted to reflect the stock dividend.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Earnings Per Share:				
Basic earnings per share	\$ 0.19	\$ 0.29	\$ 0.58	\$ 0.81
Diluted earnings per share	\$ 0.19	\$ 0.28	\$ 0.57	\$ 0.77
Weighted Average Number of Shares Outstanding:				
Basic shares	2,460,667	2,482,278	2,470,959	2,456,711
Diluted shares	2,501,471	2,561,270	2,521,742	2,590,110

There were 47,775 and 47,633 options excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2008, respectively as they were identified as anti-dilutive. There were no options excluded for the 2007 period.

7. COMPREHENSIVE INCOME

Comprehensive income includes net income and other comprehensive income. The Company's only source of other comprehensive income is derived from unrealized gains and losses on investment securities available for sale. The Company's comprehensive income was as follows:

(In thousands)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2008	2007	2008	2007
Net income	\$ 478	\$ 722	\$ 1,432	\$ 1,986
Other comprehensive income (loss):				
Unrealized holding loss on available-for-sale investment securities, net of tax	(364)	384	(557)	(20)
Total other comprehensive income	<u>\$ 114</u>	<u>\$ 1,106</u>	<u>\$ 875</u>	<u>\$ 1,966</u>

8. INCOME TAXES

The Company files its income taxes on a consolidated basis with its subsidiaries. The allocation of income tax expense represents each entity's proportionate share of the consolidated provision for income taxes.

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying condensed consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of tax expense in the condensed consolidated statements of income. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the nine months ended September 30, 2008.

9. STOCK REPURCHASE

In 2007, the Board of Directors approved a plan to incrementally repurchase up to an aggregate of \$3,000,000 of the Company's common stock. The program commenced in November of 2007 and was extended by the Board of Directors in November 2008, to continue for an additional period of twelve months, subject to earlier termination at the Company's discretion. The number, price and timing of the repurchase shall be at the Company's sole discretion and the plan may be re-evaluated depending on market conditions, liquidity needs or other factors. The Board, based on such re-evaluations, may suspend, terminate, modify or cancel the plan at any time without notice. During the nine months ended September 30, 2008, the Company repurchased 53,032 shares for a total cost of \$804,118 or an average price of \$15.16 per share. Since the plan adoption the Company has repurchased 80,472 shares for a total cost of \$1,185,927 at an average price of \$14.74 per share.

10. FAIR VALUE MEASUREMENT

On January 1, 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. There was no cumulative effect adjustment to beginning retained earnings recorded upon adoption and no impact on the financial statements in the first nine months of 2008.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and non recurring basis as of September 30, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value based on the hierarchy:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

(in thousands)	Fair Value September 30, 2008	Fair Value Measurements at September 30, 2008, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale investment securities	\$ 41,960	—	\$ 41,960	—

The fair value of securities available for sale equals quoted market price, if available. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities. Changes in fair market value are recorded in other comprehensive income.

Financial assets and liabilities measured at fair value on a non-recurring basis are summarized below:

(in thousands)	Fair Value September 30, 2008	Fair Value Measurements at September 30, 2008, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	\$ 2,953,000	\$ —	\$ 2,953,000	\$ —

Impaired loans are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses expense on the Condensed Consolidated Statement of Income. Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had outstanding principal balances of \$2,953,000 at September 30, 2008, with a valuation allowance of \$506,000 at September 30, 2008. Declines in the fair value of collateral on impaired loans and therefore the increase in specific allocations of the allowance for loan losses, were \$506,000 during the nine months ended September 30, 2008.

11. NEW ACCOUNTING PRONOUNCEMENTS

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles"(SFAS No. 162). This standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. The provisions of SFAS No. 162 did not have a material impact on the Company's condensed consolidated financial statements.

On October 10, 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. The FSP clarifies the application of FASB Statement No. 157, Fair Value Measurements, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP is effective immediately, and includes prior period financial statements that have not yet been issued, and therefore the Company is subject to the

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provision of the FSP effective September 30, 2008. The implementation of FSP FAS 157-3 did not affect the Company's fair value measurement as of September 30, 2008.

12. SUBSEQUENT EVENTS

On October 21, 2008, the Company extended its Stock Repurchase Plan for an additional period of twelve months, subject to earlier termination at the Company's discretion. The number, price and timing of the repurchase shall be at the Company's sole discretion and the plan may be re-evaluated depending on market conditions, liquidity needs or other factors. The Board, based on such re-evaluations, may suspend, terminate, modify or cancel the plan at any time without notice.

Valley Commerce Bancorp

Financial Statements for
Quarter ended June 30, 2008

(As included in the company's Quarterly Report on Form 10-Q)

PART 1 – FINANCIAL INFORMATION
ITEM 1 – FINANCIAL STATEMENTS

VALLEY COMMERCE BANCORP
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	June 30, 2008	December 31, 2007
Assets		
Cash and due from banks	\$ 11,634,305	\$ 9,297,346
Federal funds sold	23,605,000	-
Total cash and cash equivalents	35,239,305	9,297,346
Available-for-sale investment securities, at fair value	42,805,000	56,615,000
Loans, less allowance for loan losses of \$2,565,288 at June 30, 2008 and \$1,757,591 at December 31, 2007 (Note 3)	215,985,317	199,514,271
Bank premises and equipment, net	4,115,944	3,037,063
Cash surrender value of bank-owned life insurance	6,310,270	6,184,531
Accrued interest receivable and other assets	4,990,369	4,432,665
 Total assets	 <u>\$ 309,446,205</u>	 <u>\$ 279,080,876</u>
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing	\$ 69,209,893	\$ 66,992,568
Interest-bearing	192,791,446	148,393,500
Total deposits	262,001,339	215,386,068
Accrued interest payable and other liabilities	2,046,692	1,778,548
Short-term debt	8,000,000	21,804,000
Long-term debt	5,541,494	8,146,049
Junior subordinated deferrable interest debentures	3,093,000	3,093,000
Total liabilities	<u>280,682,525</u>	<u>250,207,665</u>
Commitments and contingencies (Note 4)		
Shareholders' equity (Note 5 and 9):		
Serial preferred stock - no par value; 10,000,000 shares authorized, none issued		
Common stock - no par value; 30,000,000 shares authorized; issued and outstanding – 2,460,667 shares at June 30, 2008 and 2,516,257 shares at December 31, 2007	24,434,218	23,511,066
Retained earnings	4,582,666	5,423,324
Accumulated other comprehensive loss, net of taxes (Note 7)	(253,204)	(61,179)
Total shareholders' equity	<u>28,763,680</u>	<u>28,873,211</u>
Total liabilities and shareholders' equity	<u>\$ 309,446,205</u>	<u>\$ 279,080,876</u>

See notes to unaudited condensed consolidated financial statements.

VALLEY COMMERCE BANCORP
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Interest Income:				
Interest and fees on loans	\$ 3,897,251	\$ 4,066,212	\$ 7,744,467	\$ 7,906,936
Interest on investment securities:				
Taxable	311,273	357,855	716,938	782,698
Exempt from Federal income taxes	197,981	190,705	393,533	381,240
Interest on Federal funds sold	47,507	1,667	48,100	2,001
Total interest income	<u>4,454,012</u>	<u>4,616,439</u>	<u>8,903,038</u>	<u>9,072,875</u>
Interest Expense:				
Interest on deposits	1,176,589	1,521,781	2,382,965	2,949,686
Interest on short-term debt	56,599	176,073	193,726	353,450
Interest on long-term debt	77,097	90,359	163,887	181,780
Interest on junior subordinated deferrable interest debentures	47,941	67,675	107,622	134,647
Total interest expense	<u>1,358,226</u>	<u>1,855,888</u>	<u>2,848,200</u>	<u>3,619,563</u>
Net interest income before provision for loan losses	3,095,786	2,760,551	6,054,838	5,453,312
Provision for loan losses	400,000	-	800,000	-
Net interest income after provision for loan losses	<u>2,695,786</u>	<u>2,760,551</u>	<u>5,254,838</u>	<u>5,453,312</u>
Non-Interest Income:				
Service charges	165,244	137,039	335,694	275,566
Gain (loss) on sale of available-for-sale investment securities, net	46,412	(1,145)	46,412	(1,145)
Mortgage loan brokerage fees	25,721	23,560	33,801	47,330
Earnings on cash surrender value of life insurance policies	66,865	64,349	132,619	128,127
Other	85,393	58,319	132,187	123,292
Total non-interest income	<u>389,635</u>	<u>282,122</u>	<u>680,713</u>	<u>573,170</u>
Non-Interest Expense:				
Salaries and employee benefits	1,273,029	1,165,354	2,556,298	2,415,536
Occupancy and equipment	313,292	249,309	599,284	495,276
Other	728,390	698,760	1,434,576	1,314,408
Total non-interest expense	<u>2,314,711</u>	<u>2,113,423</u>	<u>4,590,158</u>	<u>4,225,220</u>
Income before provision for income taxes	770,710	929,250	1,345,393	1,801,262
Provision for income taxes	235,000	258,000	392,000	537,000
Net income	<u>\$ 535,710</u>	<u>\$ 671,250</u>	<u>\$ 953,393</u>	<u>\$ 1,264,262</u>
Basic earnings per share (Notes 2 and 6)	<u>\$ 0.22</u>	<u>\$ 0.27</u>	<u>\$ 0.39</u>	<u>\$ 0.52</u>
Diluted earnings per share (Notes 2 and 6)	<u>\$ 0.22</u>	<u>\$ 0.26</u>	<u>\$ 0.38</u>	<u>\$ 0.50</u>

See notes to unaudited condensed consolidated financial statements.

VALLEY COMMERCE BANCORP
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	For the Six Months	
	Ended June 30,	
	2008	2007
Cash Flows from Operating Activities:		
Net income	\$ 953,393	\$ 1,264,262
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	800,000	-
Increase in deferred loan origination fees, net	81,621	42,945
Depreciation	213,470	142,999
Amortization of intangibles	7,718	31,269
(Gain) loss on sale of available-for-sale investment securities, net	(46,412)	1,145
Dividends on Federal Home Loan Bank stock	(45,800)	(45,700)
(Accretion of discounts) amortization of premiums on investment securities, net	(66,380)	55,722
Increase in cash surrender value of bank-owned life insurance	(227,855)	(123,147)
Stock-based compensation expense	34,850	15,342
Loss on disposition of premises and equipment	558	1,255
Decrease in accrued interest receivable and other assets	(582,218)	(278,060)
Increase in accrued interest payable and other liabilities	268,144	301,388
Net cash provided by operating activities	<u>1,391,089</u>	<u>1,409,420</u>
Cash Flows from Investing Activities:		
Proceeds from matured and called available-for-sale investment securities	8,500,000	2,000,000
Proceeds from sales of available-for-sale investment securities	4,500,000	2,623,855
Purchases of available-for-sale investment securities	(1,455,840)	(2,226,905)
Proceeds from principal repayments from available-for-sale mortgage-backed securities	1,993,103	1,114,134
Redemption of Federal Home Loan Bank Stock, net	256,100	633,200
Net increase in loans	(17,352,667)	(12,697,695)
Purchase of premises and equipment	(1,292,909)	(344,903)
Proceeds from sale of equipment		9,313
Net cash used in investing activities	<u>(4,852,213)</u>	<u>(8,889,001)</u>

Continued on next page.

VALLEY COMMERCE BANCORP
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
(Continued)

	For the Six Months Ended June 30,	
	2008	2007
Cash Flows from Financing Activities:		
Net increase in noninterest-bearing and interest-bearing deposits	\$ 5,781,333	\$ 2,898,956
Net increase in time deposits	40,833,937	3,349,731
Proceeds from exercised stock options	3,975	13,000
Cash paid to repurchase common stock	(804,118)	-
Decrease in short-term borrowings	(13,804,000)	(3,547,000)
Payments on long-term advance	(2,604,555)	(299,563)
Cash paid to repurchase fractional shares	(3,489)	(5,390)
Net cash provided by financing activities	29,403,083	2,409,734
Increase (decrease) in cash and cash equivalents	25,941,959	(5,069,847)
Cash and Cash Equivalents at Beginning of Year	9,297,346	13,265,547
Cash and Cash Equivalents at End of Period	\$ 35,239,305	\$ 8,195,700
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	\$ 2,771,740	\$ 3,461,916
Income taxes	\$ 1,027,000	\$ 615,000
Non-Cash Investing Activities:		
Net change in unrealized loss on available-for-sale securities	\$ (339,118)	\$ (577,049)
Non-cash Financing Activities:		
Cumulative effect of adopting EITF 06-04	\$ 102,115	

See notes to unaudited condensed consolidated financial statements.

VALLEY COMMERCE BANCORP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. GENERAL

On February 2, 2002, Valley Commerce Bancorp (the "Company") was incorporated as a bank holding company for the purpose of acquiring Valley Business Bank (the "Bank") in a bank holding company reorganization. The new corporate structure provides the Company and the Bank greater flexibility to expand and diversify. The reorganization was completed on November 21, 2002, subsequent to which the Bank continued its operations as previously conducted, but as a wholly owned subsidiary of the Company.

The Bank commenced operations in 1996 and operates branches in Visalia, Fresno, Woodlake and Tipton, and a loan production office in Tulare. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

2. BASIS OF PRESENTATION

The interim unaudited condensed consolidated financial statements of Valley Commerce Bancorp and subsidiary have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These interim condensed consolidated financial statements include the accounts of Valley Commerce Bancorp and its wholly owned subsidiary Valley Business Bank (the "Bank") (collectively, the "Company"). Valley Commerce Trust I, a wholly-owned subsidiary formed for the exclusive purpose of issuing trust preferred securities, is not consolidated into the Company's consolidated financial statements and, accordingly, is accounted for under the equity method. The Company's investment in the Trust is included in accrued interest receivable and other assets on the consolidated balance sheet. All significant intercompany accounts and transactions have been eliminated in consolidation. All adjustments (consisting only of normal recurring adjustments) which, in the opinion of Management, are necessary for a fair presentation of Valley Commerce Bancorp's (the "Company") consolidated financial position at June 30, 2008 and December 31, 2007, the results of its operations for the three- and six-month periods ended June 30, 2008 and 2007, and its cash flows for the six-month periods ended June 30, 2008 and 2007 have been included therein. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted, however, the Company believes that the disclosures made are adequate to make the information not misleading. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2007 Annual Report on Form 10-K. The results of operations and cash flows for the interim periods presented are not necessarily indicative of the results for a full year.

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

Management has determined that because all of the commercial banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No single customer accounts for more than 10% of the revenues of the Company or the Bank.

On May 20, 2008 the Company declared a 5% stock dividend payable on June 25, 2008 for all shareholders of record on June 11, 2008. All earnings per share and per share amounts have been retroactively adjusted to reflect the stock dividend.

3. LOANS

Outstanding loans are summarized below, in thousands:

	June 30, 2008	December 31, 2007
Commercial	\$ 52,997,717	\$ 41,823,876
Real estate – mortgage	120,209,570	106,872,707
Real estate – construction	38,636,186	44,896,223
Agricultural	4,868,658	4,987,839
Consumer	<u>2,223,875</u>	<u>2,994,997</u>
	218,936,006	201,575,642
Deferred loan fees, net	(385,401)	(303,780)
Allowance for loan losses	<u>(2,565,288)</u>	<u>(1,757,591)</u>
	<u>\$ 215,985,317</u>	<u>\$ 199,514,271</u>

4. COMMITMENTS AND CONTINGENCIES

The Company is party to claims and legal proceeding arising in the ordinary course of business. In the opinion of the Company's management, the amount of ultimate liability with respect to such proceedings will not have a material adverse effect on the financial condition or result of operations of the Company taken as a whole.

In the normal course of business, the Company has various outstanding commitments to extend credit which are not reflected in the financial statements, including loan commitments of \$55.2 million and \$53.5 million and letters of credit of \$0.3 million and \$0.2 million at June 30, 2008 and December 31, 2007, respectively.

At June 30, 2008, consumer loan commitments, which are generally unsecured, represent approximately 4% of total commitments. Agricultural loan commitments represent approximately 2% of total commitments and are generally secured by crops and/or real estate. Commercial loan commitments represent approximately 67% of total commitments and are generally secured by various assets of the borrower. Real estate loan commitments represent the remaining 27% of total commitments. In addition, the majority of the Bank's commitments have variable interest rates. Total commitments do not necessarily represent future cash requirements. Each loan commitment and the amount and type of collateral obtained, if any, are evaluated on an individual basis. Collateral held varies, but may include real property, bank deposits, debt or equity securities or business assets.

Stand-by letters of credit are conditional commitments written to guarantee the performance of a customer to a third party. These guarantees are primarily related to the purchases of inventory by commercial customers and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to customers and, accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The deferred liability related to the Company's stand-by letters of credit was not significant at June 30, 2008 or December 31, 2007.

5. STOCK BASED COMPENSATION

On May 15, 2007, the Company's shareholders approved the Valley Commerce Bancorp 2007 Equity Incentive Plan ("Incentive Plan"). The Incentive Plan provides for awards of stock options, restricted stock awards, qualified performance-based awards and stock grants. Under the plan, 91,451 shares of common stock are reserved for issuance to employees and directors under incentive and nonstatutory agreements. The purpose of the Incentive Plan is to promote the long-term success of the Company and the creation of shareholder value. The Board of Directors believes that the availability of stock options and other forms of stock awards will be a key factor in the ability of the Company to attract and retain qualified individuals. Additional information on the Incentive Plan may be obtained from the Company's 2008 Annual Proxy Statement.

The prior plan, the Valley Commerce Bancorp Amended and Restated 1997 Stock Option Plan ("Prior Plan") was established in 1997 and expired on February 17, 2007. There were 36,750 options outstanding at June 30, 2008 granted under the Incentive Plan.

During the six-month periods ended June 30, 2008 and 2007, no options were granted by the Company to its officers or directors. Compensation cost related to stock options recognized in operating results under SFAS No. 123R were \$14,640 and \$7,671 in the three month periods ended June 30, 2008 and 2007, respectively. Compensation cost related to stock options recognized in operating results under SFAS No. 123R were \$31,159 and \$15,342 in the six-month periods ended June 30, 2008 and 2007, respectively. Compensation expense is recognized over the vesting period on a straight line accounting basis.

SFAS 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as a cash flow from financing in the statement of cash flows. The excess tax benefits for the three months ended June 30, 2008 and 2007 were \$1,577 and \$2,153, respectively. The excess tax benefits for the six months ended June 30, 2008 and 2007 were \$3,691 and \$4,306, respectively.

The following table summarizes information about stock option activity for the six months ended June 30, 2008:

	For the Six Months Ended June 30, 2008			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Incentive:				
Options outstanding at January 1, 2008	75,467	\$ 8.20		
Options granted	-	-		
Options exercised	(345)	10.97		
Options cancelled	(3,786)	13.71		
Options outstanding at June 30, 2008	71,336	10.88	6.95 years	\$ 260,847(1)
Options exercisable at June 30, 2008	32,728	7.59	4.79 years	219,361(1)
Options vested or expected to vest after June 30, 2008	60,698	10.88	6.95 years	206,907(1)
Nonstatutory:				
Options outstanding at January 1, 2008	109,181	\$ 8.67		
Options granted	-	-		
Options exercised	-	-		
Options cancelled	-	-		
Options outstanding at June 30, 2008	109,181	8.67	4.88 years	\$ 650,958(1)
Options exercisable at June 30, 2008	104,771	8.29	4.88 years	650,958(1)
Options vested or expected to vest after June 30, 2008	98,424	8.29	4.88 years	628,553(1)

(1) 11,025 non-statutory options with a weighted average price of \$17.69 and 36,750 incentive options with a weighted average price of \$13.81 are excluded from intrinsic value from table above because the exercise price is greater than the stock price at June 30, 2008.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for options that were in-the-money at June 30, 2008. There were 364 and 1,914 options exercised during the six months ended June 30, 2008 and 2007, respectively. The total intrinsic value, which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise, of options exercised during the six months ended June 30, 2008 and 2007 was \$1,100 and \$24,000, respectively. During the six months ended June 30, 2008 and 2007, the amount of cash received from the exercise of stock options was \$3,975 and

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\$13,000, respectively. The total fair value of shares vested during the three months ended June 30, 2008 and 2007 was \$84,000 and \$119,000, respectively. The total fair value of shares vested during the six months ended June 30, 2008 and 2007 was \$122,000 and \$161,000, respectively.

Management estimates expected forfeitures and recognizes compensation costs only for those equity awards expected to vest. As of June 30, 2008, there was \$201,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. The cost is expected to be realized over a weighted average period of 4.5 years and will be adjusted for subsequent changes in estimated forfeitures.

6. EARNINGS PER SHARE COMPUTATION

Basic earnings per share are computed by dividing net income by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if outstanding stock options were exercised. Diluted earnings per share are computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of options. Earnings per share computations have been retroactively adjusted for stock splits and stock dividends for all periods presented. On May 20, 2008 the Company declared a 5% stock dividend payable on June 25, 2008 for all shareholders of record on June 11, 2008. All earnings per share and per share amounts have been retroactively adjusted to reflect the stock dividend.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Earnings Per Share:				
Basic earnings per share	\$ 0.22	\$ 0.27	\$ 0.39	\$ 0.52
Diluted earnings per share	\$ 0.22	\$ 0.26	\$ 0.38	\$ 0.50
Weighted Average Number of Shares Outstanding:				
Basic shares	2,473,839	2,444,601	2,473,839	2,443,923
Diluted shares	2,485,022	2,546,051	2,491,638	2,546,501

There were 47,775 options excluded from the computation of diluted earnings per share for the 2008 period as they were identified as anti-dilutive. There were no options excluded for the 2007 period.

7. COMPREHENSIVE INCOME

Comprehensive income includes net income and other comprehensive income. The Company's only source of other comprehensive income is derived from unrealized gains and losses on investment securities available for sale. The Company's comprehensive income was as follows:

(In thousands)	For the Three Months Ended		For the Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Net income	\$ 536	\$ 671	\$ 953	\$ 1,264
Other comprehensive (loss):				
Unrealized holding loss on available-for-sale investment securities, net of tax	(683)	(459)	(192)	(404)
Total other comprehensive (loss) income	<u>\$ (147)</u>	<u>\$ 212</u>	<u>\$ 761</u>	<u>\$ 860</u>

8. INCOME TAXES

The Company files its income taxes on a consolidated basis with its subsidiaries. The allocation of income tax expense represents each entity's proportionate share of the consolidated provision for income taxes.

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying condensed consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of tax expense in the condensed consolidated statements of income. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the six months ended June 30, 2008.

9. STOCK REPURCHASE

In 2007, the Board of Directors approved a plan to incrementally repurchase up to an aggregate of \$3,000,000 of the Company's common stock. The program commenced in November of 2007 and will continue for a period of twelve months thereafter, subject to earlier termination at the Company's discretion. The number, price and timing of the repurchase shall be at the Company's sole discretion and the plan may be re-evaluated depending on market conditions, liquidity needs or other factors. The Board, based on such re-evaluations, may suspend, terminate, modify or cancel the plan at any time without notice. During the six months ended June 30, 2008, the Company repurchased 53,032 shares for a total cost of \$804,118 or an average price of \$15.16 per share. Since the plan adoption the Company has repurchased 80,472 shares for a total cost of \$1,185,927 at an average price of \$14.74 per share.

10. FAIR VALUE MEASUREMENT

On January 1, 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. There was no cumulative effect adjustment to beginning retained earnings recorded upon adoption and no impact on the financial statements in the first half of 2008.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and includes

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situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

(in thousands)	Fair Value Measurements at June 30, 2008, Using			
	Fair Value June 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale investment securities	\$ 42,805	—	\$ 42,805	—

The fair value of securities available for sale equals quoted market price, if available. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities. Changes in fair market value are recorded in other comprehensive income.

Financial assets and liabilities measured at fair value on a non-recurring basis are summarized below:

(in thousands)	Fair Value Measurements at June 30, 2008, Using			
	Fair Value June 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	\$ 1,373,000	—	\$ 1,373,000	\$ —

Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses expense on the Condensed Consolidated Statement of Income. Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had outstanding principal balances of \$1,373,000 at June 30, 2008, with a valuation allowance of \$102,000 at June 30, 2008. Declines in the fair value of collateral on impaired loans and therefore the increase in specific allocations of the allowance for loan losses, were \$102,000 during the six months ended June 30, 2008.

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and related notes appearing in Item 1, Financial Statements, in this Quarterly Report on Form 10-Q and the consolidated financial statements and notes thereto included in Valley Commerce Bancorp's Annual Report filed on form 10-K for the year ended December 31, 2007.

Introduction

Overview

Valley Commerce Bancorp (the Company) is the holding company for Valley Business Bank (the Bank), a California state chartered bank. The Company's principal business is to provide financial services through its banking subsidiary in its primary market areas of Tulare and Fresno Counties in California. The Company derives its income primarily from interest and fees earned on loans and, to a lesser extent, interest on investment securities, fees for services provided to

Valley Commerce Bancorp

Financial Statements for
Quarter ended March 31, 2008

(As included in the company's Quarterly Report on Form 10-Q)

PART 1 – FINANCIAL INFORMATION
ITEM 1 – FINANCIAL STATEMENTS

VALLEY COMMERCE BANCORP
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Assets		
Cash and due from banks	\$ 10,319,745	\$ 9,297,346
Federal funds sold	5,000,000	-
Total cash and cash equivalents	<u>15,319,745</u>	<u>9,297,346</u>
Available-for-sale investment securities, at fair value	49,963,000	56,615,000
Loans, less allowance for loan losses of \$2,146,035 at March 31, 2008 and \$1,757,591 at December 31, 2007 (Note 3)	210,672,859	199,514,271
Bank premises and equipment, net	3,176,310	3,037,063
Cash surrender value of bank-owned life insurance	6,246,864	6,184,531
Accrued interest receivable and other assets	4,447,787	4,432,665
Total assets	<u>\$ 289,826,565</u>	<u>\$ 279,080,876</u>
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest bearing	\$ 64,347,897	\$ 66,992,568
Interest bearing	164,818,506	148,393,500
Total deposits	<u>229,166,403</u>	<u>215,386,068</u>
Accrued interest payable and other liabilities	2,312,105	1,778,548
Short-term debt	19,163,000	21,804,000
Long-term debt	7,194,091	8,146,049
Junior subordinated deferrable interest debentures	3,093,000	3,093,000
Total liabilities	<u>260,928,599</u>	<u>250,207,665</u>
Commitments and contingencies (Note 4)		
Shareholders' equity (Note 5 and 10):		
Serial preferred stock - no par value; 10,000,000 shares authorized, none issued	-	-
Common stock - no par value; 30,000,000 shares authorized; issued and outstanding - 2,343,748 shares at March 31, 2008 and 2,396,435 shares at December 31, 2007	23,015,207	23,511,066
Retained earnings	5,453,440	5,423,324
Accumulated other comprehensive income (loss), net of taxes (Note 7)	429,319	(61,179)
Total shareholders' equity	<u>28,897,966</u>	<u>28,873,211</u>
Total liabilities and shareholders' equity	<u>\$ 289,826,565</u>	<u>\$ 279,080,876</u>

See notes to unaudited condensed consolidated financial statements.

VALLEY COMMERCE BANCORP
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	For the Three Months Ended March 31,	
	2008	2007
Interest Income:		
Interest and fees on loans	\$ 3,847,216	\$ 3,840,724
Interest on investment securities:		
Taxable	405,665	424,843
Exempt from Federal income taxes	195,552	190,535
Interest on Federal funds sold	593	334
Total interest income	<u>4,449,026</u>	<u>4,456,436</u>
Interest Expense:		
Interest on deposits	1,206,376	1,427,905
Interest on short-term borrowings	137,127	177,377
Interest on long-term borrowings	86,790	91,421
Interest on junior subordinated deferrable interest debentures	59,681	66,972
Total interest expense	<u>1,489,974</u>	<u>1,763,675</u>
Net interest income before provision for loan losses	2,959,052	2,692,761
Provision for Loan Losses	400,000	-
Net interest income after provision for loan losses	<u>2,559,052</u>	<u>2,692,761</u>
Non-Interest Income:		
Service charges	170,450	138,527
Mortgage loan brokerage fees	8,080	23,770
Earnings on cash surrender value of life insurance policies	65,754	63,778
Other	46,794	64,973
Total non-interest income	<u>291,078</u>	<u>291,048</u>
Non-Interest Expense:		
Salaries and employee benefits	1,283,269	1,250,182
Occupancy and equipment	285,992	245,967
Other	706,186	615,648
Total non-interest expense	<u>2,275,447</u>	<u>2,111,797</u>
Income before provision for income taxes	574,683	872,012
Provision for Income Taxes	157,000	279,000
Net income	<u>\$ 417,683</u>	<u>\$ 593,012</u>
Basic earnings per share (Note 6)	<u>\$ 0.18</u>	<u>\$ 0.25</u>
Diluted earnings per share (Note 6)	<u>\$ 0.17</u>	<u>\$ 0.24</u>

See notes to unaudited condensed consolidated financial statements.

VALLEY COMMERCE BANCORP
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended March 31,	
	2008	2007
Cash Flows from Operating Activities:		
Net income	\$ 417,683	\$ 593,012
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	400,000	-
Decrease in deferred loan origination fees, net	(2,196)	(11,528)
Depreciation	103,803	72,506
Amortization of intangibles	7,718	15,635
Loss on disposition of premises and equipment	-	1,255
Dividends on Federal Home Loan Bank stock	(22,200)	(26,600)
(Accretion of discounts) amortization of premiums on investment securities, net	(20,338)	169
Increase in cash surrender value of bank owned life insurance	(62,333)	(61,288)
Stock-based compensation expense	18,633	7,670
Increase in accrued interest receivable and other assets	(30,597)	(345,813)
Increase in accrued interest payable and other liabilities	270,145	187,846
Net cash provided by operating activities	<u>1,080,318</u>	<u>432,864</u>
Cash Flows from Investing Activities:		
Proceeds from matured and called available-for-sale investment securities	6,500,000	1,615,000
Proceeds from principal repayments from available-for-sale mortgage-backed securities	854,090	536,298
Redemption of Federal Home Loan Bank Stock, net	-	369,900
Net increase in loans	(11,556,392)	(6,189,554)
Purchase of premises and equipment	(243,050)	(188,701)
Net cash used in investing activities	<u>(4,445,352)</u>	<u>(3,857,057)</u>

Continued on next page.

VALLEY COMMERCE BANCORP
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
(Continued)

	For the Three Months	
	Ended March 31,	
	<u>2008</u>	<u>2007</u>
Cash Flows from Financing Activities:		
Net increase (decrease) in noninterest-bearing and interest-bearing deposits	\$ 5,455,831	\$ (1,916,451)
Net increase in time deposits	8,324,503	4,070,279
Proceeds from exercised stock options	4,175	13,000
Cash paid to repurchase common stock	(804,118)	-
Net decrease in short-term borrowings	(2,641,000)	(3,879,000)
Payments on long-term advances	(951,958)	(249,478)
Net cash provided by (used in) financing activities	<u>9,387,433</u>	<u>(1,961,650)</u>
Increase (decrease) in cash and cash equivalents	6,022,399	(5,385,843)
Cash and Cash Equivalents at Beginning of Year	<u>9,297,346</u>	<u>13,265,547</u>
Cash and Cash Equivalents at End of Period	<u>\$ 15,319,745</u>	<u>\$ 7,879,704</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	\$ 1,444,561	\$ 1,662,351
Income taxes	\$ -	\$ 400,000
Non-Cash Investing Activities:		
Net change in unrealized gain (loss) on available-for-sale securities	\$ 490,498	\$ 100,467
Non-Cash Financing Activities:		
Cumulative effect of adopting EITF 06-04	\$ 102,115	

See notes to unaudited condensed consolidated financial statements.

VALLEY COMMERCE BANCORP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. GENERAL

On February 2, 2002, Valley Commerce Bancorp (the "Company") was incorporated as a bank holding company for the purpose of acquiring Valley Business Bank (the "Bank"), formerly Bank of Visalia, in a one bank holding company reorganization. The new corporate structure provides the Company and the Bank greater flexibility to expand and diversify. The reorganization was completed on November 21, 2002, subsequent to which the Bank continued its operations as previously conducted, but as a wholly owned subsidiary of the Company.

The Bank commenced operations in 1996 under the name Bank of Visalia and changed its name during 2005 to Valley Business Bank. The Bank operates branches in Visalia, Fresno, Woodlake and Tipton, and a loan production office in Tulare. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

2. BASIS OF PRESENTATION

The interim unaudited condensed consolidated financial statements of Valley Commerce Bancorp and subsidiary have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These interim condensed consolidated financial statements include the accounts of Valley Commerce Bancorp and its wholly owned subsidiary Valley Business Bank (the "Bank") (collectively, the "Company"). Valley Commerce Trust I, a wholly-owned subsidiary formed for the exclusive purpose of issuing trust preferred securities, is not consolidated into the Company's consolidated financial statements and, accordingly, is accounted for under the equity method. The Company's investment in the Trust is included in accrued interest receivable and other assets on the consolidated balance sheet. All significant intercompany accounts and transactions have been eliminated in consolidation. All adjustments (consisting only of normal recurring adjustments) which, in the opinion of Management, are necessary for a fair presentation of Valley Commerce Bancorp's (the "Company") consolidated financial position at March 31, 2008 and December 31, 2007, the results of its operations for the three-month periods ended March 31, 2008 and 2007, and its cash flows for the three-month periods ended March 31, 2008 and 2007 have been included therein. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted, however the Company believes that the disclosures made are adequate to make the information not misleading. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2007 Annual Report on Form 10-K. The results of operations and cash flows for the interim periods presented are not necessarily indicative of the results for a full year.

The preparation of these condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates.

Management has determined that because all of the commercial banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No single customer accounts for more than 10% of the revenues of the Company or the Bank.

3. LOANS

Outstanding loans are summarized below, in thousands:

	March 31, 2008	December 31, 2007
Commercial	\$ 48,048,053	\$ 41,823,876
Real estate – mortgage	112,346,233	106,872,707
Real estate – construction	45,219,282	44,896,223
Agricultural	5,130,983	4,987,839
Consumer	2,375,927	2,994,997
	<u>213,120,478</u>	<u>201,575,642</u>
Deferred loan fees, net	(301,584)	(303,780)
Allowance for loan losses	<u>(2,146,035)</u>	<u>(1,757,591)</u>
	<u>\$ 210,672,859</u>	<u>\$ 199,514,271</u>

4. COMMITMENTS AND CONTINGENCIES

The Company is party to claims and legal proceedings arising in the ordinary course of business. In the opinion of the Company's management, the amount of ultimate liability with respect to such proceedings will not have a material adverse effect on the financial condition or result of operations of the Company taken as a whole.

In the normal course of business, the Company has various outstanding commitments to extend credit which are not reflected in the financial statements, including loan commitments of \$53.7 million and \$53.5 million and letters of credit of \$0.3 million and \$0.2 million at March 31, 2008 and December 31, 2007, respectively.

At March 31, 2008, consumer loan commitments, which are generally unsecured, represent approximately 4% of total commitments. Agricultural loan commitments represent approximately 3% of total commitments and are generally secured by crops and/or real estate. Commercial loan commitments represent approximately 76% of total commitments and are generally secured by various assets of the borrower. Real estate loan commitments represent the remaining 17% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. In addition, the majority of the Bank's commitments have variable interest rates. Total commitments do not necessarily represent future cash requirements. Each loan commitment and the amount and type of collateral obtained, if any, are evaluated on an individual basis. Collateral held varies, but may include real property, bank deposits, debt or equity securities or business assets.

~~Stand-by letters of credit are conditional commitments written to guarantee the performance of a customer to a third party. These guarantees are primarily related to the purchases of inventory by commercial customers and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to customers and, accordingly, evaluation and collateral requirements similar to those for loan commitments are used.~~

5. STOCK-BASED COMPENSATION

On May 15, 2007, the Company's shareholders approved the Valley Commerce Bancorp 2007 Equity Incentive Plan ("Incentive Plan"). The Incentive Plan provides for awards of stock options, restricted stock awards, qualified performance-based awards and stock grants. Under the plan, 122,007 shares of common stock are reserved for issuance to employees and directors under incentive and nonstatutory agreements. The purpose of the Incentive Plan is to promote the long-term success of the Company and the creation of shareholder value. The Board of Directors believes that the availability of stock options and other forms of stock awards will be a key factor in the ability of the Company to attract and retain qualified individuals.

The prior plan, the Valley Commerce Bancorp Amended and Restated 1997 Stock Option Plan ("Prior Plan") was established in 1997 and expired on February 17, 2007.

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During the three-month periods ended March 31, 2008 and March 31, 2007, no options were granted by the Company to its officers or directors. Compensation costs related to stock options recognized in operating results under SFAS No. 123R was \$18,633 and \$7,670 in the three months ended March 31, 2007 and 2008, respectively. Compensation expense is recognized over the vesting period on a straight line accounting basis.

SFAS 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as a cash flow from financing in the statement of cash flows. The excess tax benefits for the three months ended March 31, 2008 and 2007 were \$2,113 and \$2,153, respectively.

The following table summarizes information about stock option activity for the three months ended March 31, 2008:

For the Three Months Ended March 31, 2008				
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Incentive:				
Options outstanding at January 1, 2008	71,874	\$ 11.58		
Options granted	-	-		
Options exercised	(345)	11.52		
Options cancelled	(2,589)	14.40		
Options outstanding at March 31, 2008	68,940	11.47	7.38 years	\$ 790,742
Options vested or expected to vest at March 31, 2008	31,516	7.01	5.33 years	211,053
Options exercisable at March 31, 2008	29,662	7.79	4.32 years	\$ 258,742
Nonstatutory:				
Options outstanding at January 1, 2008	103,985	\$ 9.10		
Options granted	-	-		
Options exercised	-	-		
Options cancelled	-	-		
Options outstanding at March 31, 2008	103,985	9.10	4.00 years	\$ 627,170(1)
Options vested or expected to vest at March 31, 2008	103,431	7.95	3.93 years	188,532
Options exercisable at March 31, 2008	97,685	8.49	3.93 years	\$ 627,170(1)

(1) 10,500 options with a weighted average exercise price of \$18.58 are excluded from intrinsic value from table above because the exercise price is greater than the stock price at March 31, 2008.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for options that were in-the-money at March 31, 2008. There were 345 and 1,823 options exercised during the quarters ended March 31, 2008 and 2007, respectively. The total intrinsic value, which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise, of options exercised during the quarter ended March 31, 2008 and 2007 was \$1,100 and \$24,000, respectively. During the three months ended March 31, 2008, the amount of cash received from the exercise of stock options was \$3,975. The total fair value of shares vested during the quarters ended March 31, 2008 and 2007 was \$90,495 and \$119,244, respectively.

Management estimates expected forfeitures and recognizes compensation costs only for those equity awards expected to vest. As of March 31, 2008, there was \$220,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. The cost is expected to be realized over a weighted average period of 4.75 years and will be adjusted for subsequent changes in estimated forfeitures.

6. EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if outstanding stock options were exercised. Diluted earnings per share are computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of options. Earnings per share computations have been retroactively adjusted to reflect the stock dividend paid to shareholders of record on June 6, 2007.

	For the Three Months Ended March 31,	
	2008	2007
Earnings Per Share:		
Basic earnings per share	\$ 0.18	\$ 0.25
Diluted earnings per share	\$ 0.17	\$ 0.24
Weighted Average Number of Shares Outstanding:		
Basic shares	2,375,027	2,327,107
Diluted shares	2,415,276	2,437,895

There were 10,500 options excluded from the computation of diluted earnings per share for the 2008 period as they were identified as antidilutive. There were no options excluded for the 2007 period.

7. COMPREHENSIVE INCOME

Comprehensive income includes net income and other comprehensive income. The Company's only source of other comprehensive income is derived from unrealized gains and losses on investment securities available for sale. The Company's comprehensive income was as follows:

	For the Three Months Ended March 31,	
	2008	2007
Net income	\$ 417,683	\$ 593,012
Other comprehensive income:		
Unrealized holding gains on available-for-sale investment securities, net of tax	490,498	55,009
Total comprehensive income	<u>\$ 908,181</u>	<u>\$ 648,021</u>

8. INCOME TAXES

The Company files its income taxes on a consolidated basis with its subsidiaries. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for income taxes.

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority.

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The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying condensed consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of tax expense in the condensed consolidated statements of income. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the quarter ended March 31, 2008.

10. STOCK REPURCHASE

In October 2007, the Board of Directors approved a plan to incrementally repurchase up to an aggregate of \$3,000,000 of the Company's common stock. The program commenced in November of 2007 and will continue for a period of twelve months thereafter, subject to earlier termination at the Company's discretion. The number, price and timing of the repurchase shall be at the Company's sole discretion and the plan may be re-evaluated depending on market conditions, liquidity needs or other factors. The Board, based on such re-evaluations, may suspend, terminate, modify or cancel the plan at any time without notice. During the quarter ended March 31, 2008, the Company repurchased 53,032 shares for a total cost of \$804,118 or an average price of \$15.16 per share. Since the plan adoption the Company has repurchased 80,472 shares for a total cost of \$1,185,927 at an average price of \$14.73 per share.

11. FAIR VALUE MEASUREMENT

On January 1, 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. There was no cumulative effect adjustment to beginning retained earnings recorded upon adoption and no impact on the financial statements in the first quarter of 2008.

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

Assets and liabilities measured at fair value on a recurring basis are summarized below:

(in thousands)	Fair Value Measurements at March 31, 2008, Using			
	Fair Value March 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale investment securities	\$ 49,963	—	\$ 49,963	—

The fair value of securities available for sale equals quoted market price, if available. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities. Changes in fair market value are recorded in other comprehensive income.

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Financial assets and liabilities measured at fair value on a non-recurring basis are summarized below:

(in thousands)	Fair Value Measurements at March 31, 2008, Using			
	Fair Value March 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	\$ 339,000	—	\$ 339,000	—

Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for credit losses expense on the Consolidated Statements of Income. Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had outstanding principal balances of \$402,000 at March 31, 2008, with a valuation allowance of \$63,000 at March 31, 2008. Declines in the fair value of collateral on impaired loans and the therefore the increase in specific allocations of the allowance for loan losses, were \$63,000 during the three months ended March 31, 2008.

Valley Commerce Bancorp

Financial Statements for
Fiscal Year ended December 31, 2007
(As included in the company's Annual Report on Form 10-K/A)

ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and
Board of Directors
Valley Commerce Bancorp

We have audited the accompanying consolidated balance sheet of Valley Commerce Bancorp and subsidiary (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Valley Commerce Bancorp and subsidiary as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Perry-Smith LLP

Sacramento, California
March 19, 2008

**VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET**

December 31, 2007 and 2006

	2007	2006
ASSETS		
Cash and cash equivalents	\$ 9,297,346	\$ 13,265,547
Available-for-sale investment securities, at fair value (Notes 3 and 7)	56,615,000	55,298,000
Loans, less allowance for loan losses of \$1,757,591 in 2007 and \$1,745,582 in 2006 (Notes 4, 7, 9 and 13)	199,514,271	182,331,506
Bank premises and equipment, net (Note 5)	3,037,063	1,832,177
Cash surrender value of bank-owned life insurance (Note 14)	6,184,531	5,934,563
Accrued interest receivable and other assets (Note 12)	4,432,665	5,002,900
Total assets	\$ 279,080,876	\$ 263,664,693
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 66,992,568	\$ 63,019,956
Interest bearing (Note 6)	148,393,500	144,556,213
Total deposits	215,386,068	207,576,169
Accrued interest payable and other liabilities	1,778,548	1,399,787
Short-term debt (Note 7)	21,804,000	17,600,000
Long-term debt (Note 7)	8,146,049	8,547,638
Junior subordinated deferrable interest debentures (Note 8)	3,093,000	3,093,000
Total liabilities	250,207,665	238,216,594
Commitments and contingencies (Note 9)		
Shareholders' equity (Note 10):		
Serial preferred stock - no par value; 10,000,000 shares authorized; none issued	-	-
Common stock - no par value; 30,000,000 shares authorized; issued and outstanding - 2,396,435 shares in 2007 and 2,215,765 shares in 2006	23,511,066	20,683,720
Retained earnings	5,423,324	5,040,381
Accumulated other comprehensive loss, net of taxes (Notes 3 and 15)	(61,179)	(276,002)
Total shareholders' equity	28,873,211	25,448,099
Total liabilities and shareholders' equity	\$ 279,080,876	\$ 263,664,693

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

VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 31, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Interest income:			
Interest and fees on loans	\$ 16,113,423	\$ 14,448,209	\$ 10,511,090
Interest on investment securities:			
Taxable	1,581,892	1,444,707	1,459,998
Exempt from Federal income taxes	771,368	719,117	303,267
Interest on Federal funds sold	3,658	137,749	229,197
Total interest income	<u>18,470,341</u>	<u>16,749,782</u>	<u>12,503,552</u>
Interest expense:			
Interest on deposits (Note 6)	5,802,852	4,306,344	2,028,091
Interest on short-term borrowings (Note 7)	695,062	610,911	52,523
Interest on long-term borrowings (Note 7)	362,665	380,212	393,303
Interest on junior subordinated deferrable interest debentures (Note 8)	270,690	263,310	208,787
Total interest expense	<u>7,131,269</u>	<u>5,560,777</u>	<u>2,682,704</u>
Net interest income before provision for loan losses	11,339,072	11,189,005	9,820,848
Provision for loan losses (Note 4)	-	-	368,768
Net interest income after provision for loan losses	<u>11,339,072</u>	<u>11,189,005</u>	<u>9,452,080</u>
Non-interest income:			
Service charges	590,900	546,514	513,859
Loss on sale of available-for-sale investment securities, net (Note 3)	(1,145)	(52,737)	(48,494)
Mortgage loan brokerage fees	76,636	125,085	136,183
Earnings on cash surrender value of life policies (Note 14)	258,134	153,394	103,851
Other	230,140	223,693	182,347
Total non-interest income	<u>1,154,665</u>	<u>995,949</u>	<u>887,746</u>
Non-interest expense:			
Salaries and employee benefits (Notes 4 and 14)	4,770,498	4,260,909	3,777,496
Occupancy and equipment (Notes 5 and 9)	1,073,196	890,337	756,664
Other (Note 11)	2,855,193	2,501,930	2,275,859
Total non-interest expense	<u>8,698,887</u>	<u>7,653,176</u>	<u>6,810,019</u>
Income before provision for income taxes	3,794,850	4,531,778	3,529,807
Provision for income taxes (Note 12)	1,134,000	1,576,000	1,367,000
Net income	<u>\$ 2,660,850</u>	<u>\$ 2,955,778</u>	<u>\$ 2,162,807</u>
Basic earnings per share (Note 10)	<u>\$ 1.13</u>	<u>\$ 1.28</u>	<u>\$ 0.95</u>
Diluted earnings per share (Note 10)	<u>\$ 1.09</u>	<u>\$ 1.22</u>	<u>\$ 0.90</u>

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

VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2007, 2006 and 2005

	Common Stock		Retained Earnings	Accumulated Other Compre- hensive Loss (Net of Taxes)	Total Share- holders' Equity	Total Compre- hensive Income
	Shares	Amount				
Balance, January 1, 2005	1,788,258	\$ 14,451,969	\$ 1,959,281	\$ (78,612)	\$ 16,332,638	
Comprehensive income (Note 15):						
Net income			2,162,807		2,162,807	\$ 2,162,807
Other comprehensive loss, net of tax:						
Net change in unrealized losses on available-for-sale investment securities				(466,509)	(466,509)	<u>(466,509)</u>
Total comprehensive income						<u>\$ 1,696,298</u>
Proceeds from sale of stock (Note 10):	<u>299,250</u>	<u>3,880,321</u>			<u>3,880,321</u>	
Balance, December 31, 2005	2,087,508	18,332,290	4,122,088	(545,121)	21,909,257	
Comprehensive income (Note 15):						
Net income			2,955,778		2,955,778	\$ 2,955,778
Other comprehensive loss, net of tax:						
Net change in unrealized losses on available-for-sale investment securities				269,119	269,119	<u>269,119</u>
Total comprehensive income						<u>\$ 3,224,897</u>
Stock dividend	104,123	2,032,481	(2,032,481)			
Cash paid for fractional shares			(5,004)		(5,004)	
Stock options exercised and related tax benefit	24,134	280,230			280,230	
Stock-based compensation expense		<u>38,719</u>			<u>38,719</u>	
Balance, December 31, 2006	2,215,765	20,683,720	5,040,381	(276,002)	25,448,099	
Comprehensive income (Note 15):						
Net income			2,660,850		2,660,850	\$ 2,660,850
Other comprehensive income, net of tax:						
Net change in unrealized losses on available-for-sale investment securities				214,823	214,823	<u>214,823</u>
Total comprehensive income						<u>\$ 2,875,673</u>
Stock dividend	110,603	2,158,974	(2,158,974)			
Cash paid for fractional shares			(5,392)		(5,392)	
Stock repurchase	(27,440)	(268,267)	(113,541)		(381,808)	
Stock options exercised and related tax benefit	97,507	892,229			892,229	
Stock-based compensation expense		<u>44,410</u>			<u>44,410</u>	
Balance, December 31, 2007	<u>2,396,435</u>	<u>\$ 23,511,066</u>	<u>\$ 5,423,324</u>	<u>\$ (61,179)</u>	<u>\$ 28,873,211</u>	

(Continued)

VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Continued)
For the Years Ended December 31, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Disclosure of reclassification amount, net of taxes (Note 15):			
Unrealized holding gains (losses) arising during the year	\$ 214,054	\$ 235,394	\$ (496,223)
Less: reclassification adjustment for losses included in net income	<u>(769)</u>	<u>(33,725)</u>	<u>(29,714)</u>
Net change in unrealized losses on available-for-sale investment securities	<u>\$ 214,823</u>	<u>\$ 269,119</u>	<u>\$ (466,509)</u>

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

**VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS**

For the Years Ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 2,660,850	\$ 2,955,778	\$ 2,162,807
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	-	-	368,768
(Decrease) increase in deferred loan origination fees, net	(131,895)	(199,771)	176,033
Depreciation	315,365	242,116	194,531
Amortization of intangibles	62,538	62,538	62,538
Net loss on sale of available-for-sale investment securities, net	1,145	52,737	48,494
Dividends on Federal Home Loan Bank stock	(79,100)	(54,900)	(29,300)
Accretion (amortization) of investment securities, net	(23,459)	38,099	819,551
Loss on disposition of premises and equipment	16,470	-	8,208
Provision for deferred income taxes	(77,000)	2,000	(251,000)
Tax benefits on stock-based compensation	(335,893)	(125,828)	-
Increase in cash surrender value of bank owned life insurance	(249,968)	(153,394)	(103,851)
Stock-based compensation expense	44,410	38,719	-
Decrease (increase) in accrued interest receivable and other assets	627,659	(354,558)	(512,561)
Increase in accrued interest payable and other liabilities	378,761	111,387	453,812
Net cash provided by operating activities	209,883	2,614,923	3,398,030
Cash flows from investing activities:			
Proceeds from matured and called available-for-sale investment securities	7,615,000	1,658,100	4,500,000
Proceeds from sales of available-for-sale investment securities	1,533,619	2,731,795	3,951,507
Purchases of available-for-sale investment securities	(12,530,396)	(11,082,486)	(24,836,258)
Proceeds from principal repayments from available-for-sale mortgage-backed securities	2,427,545	2,152,829	2,462,904
Net increase in loans	(17,050,870)	(32,141,121)	(35,701,170)
Redemption (purchase) of Federal Home Loan Bank stock, net	246,400	(714,100)	(405,000)
Purchase of premises and equipment	(1,544,749)	(850,977)	(392,469)
Proceeds from sale of premises and equipment	8,028	-	-
Premiums paid for life insurance policies	-	(3,000,000)	-
Net cash used in investing activities	(19,295,423)	(41,245,960)	(50,420,486)

(Continued)

VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
(Continued)
For the Years Ended December 31, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash flows from financing activities:			
Net increase (decrease) increase in noninterest bearing and interest-bearing deposits	\$ 14,956,957	\$ (655,498)	\$ 25,884,925
Net (decrease) increase in time deposits	(7,147,058)	15,650,553	10,272,285
Proceeds from the issuance of stock	-	-	3,880,321
Proceeds from exercised stock options	556,336	154,402	-
Cash paid to repurchase common stock	(381,808)	-	-
Tax benefits from stock-based compensation	335,893	125,828	-
Net increase in short-term borrowings	4,204,000	17,600,000	-
Payments on long-term advances	(401,589)	(591,982)	(182,852)
Cash paid to repurchase fractional shares	(5,392)	(5,004)	-
	<u>12,117,339</u>	<u>32,278,299</u>	<u>39,854,679</u>
Net cash provided by financing activities			
Decrease in cash and cash equivalents	(3,968,201)	(6,352,738)	(7,167,777)
Cash and cash equivalents at beginning of year	<u>13,265,547</u>	<u>19,618,285</u>	<u>26,786,062</u>
Cash and cash equivalents at end of year	<u>\$ 9,297,346</u>	<u>\$ 13,265,547</u>	<u>\$ 19,618,285</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 7,184,869	\$ 5,472,442	\$ 2,613,323
Income taxes	\$ 740,000	\$ 1,750,000	\$ 1,453,000
Non-cash investing activities:			
Net decrease (increase) in unrealized loss on available-for-sale securities	\$ 340,454	\$ 458,074	\$ (761,802)

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

**VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. THE BUSINESS OF VALLEY COMMERCE BANCORP

On February 2, 2002, Valley Commerce Bancorp (the "Company") was incorporated as a bank holding company for the purpose of acquiring Valley Business Bank (the "Bank"), formerly Bank of Visalia, in a one bank holding company reorganization. The new corporate structure provides the Company and the Bank greater flexibility to expand and diversify. The reorganization was completed on November 21, 2002, subsequent to which the Bank continued its operations as previously conducted, but as a wholly owned subsidiary of the Company.

The Bank commenced operations in 1996 under the name Bank of Visalia and changed its name during 2005 to Valley Business Bank. The Bank operates branches in Visalia, Fresno, Woodlake and Tipton, and a loan production office in Tulare. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

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

Valley Commerce Trust I, a wholly-owned subsidiary formed for the exclusive purpose of issuing trust preferred securities, is not consolidated into the Company's consolidated financial statements and, accordingly, is accounted for under the equity method. The Company's investment in the Trust is included in accrued interest receivable and other assets on the consolidated balance sheet. The junior subordinated debentures issued and guaranteed by the Company and held by the Trust are reflected as debt in the consolidated balance sheet.

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

Use of Estimates

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

Segment Information

Management has determined that since all of the banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No customer accounts for more than 10 percent of revenues for the Company or the Bank.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to prior years' balances to conform to classifications used in 2007.

Stock Dividends

On May 15, 2007 and February 21, 2006 the Board of Directors declared a 5% stock dividend payable on June 20, 2007 and May 16, 2006, respectively, to shareholders of record on June 6, 2007 and April 28, 2006, respectively. All per share and stock option data in the consolidated financial statements have been retroactively restated to reflect the stock dividend.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash, due from banks and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold for one day periods. Cash held with other federally insured institutions in excess of FDIC insured limits as of December 31, 2007 was \$981,000.

Investment Securities

Investments are classified as available-for-sale. Available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

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

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the issues for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank System, the Bank is required to maintain an investment in the capital stock of the Federal Home Loan Bank. The investment is carried at cost. At December 31, 2007, 2006, and 2005, Federal Home Loan Bank stock totaled \$1,658,600, \$1,825,900, and \$1,056,900 respectively. On the consolidated balance sheet, Federal Home Loan Bank stock is included in accrued interest receivable and other assets.

Loans

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

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

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

The Company may acquire loans through a business combination or a purchase for which differences may exist between the contractual cash flows and the cash flows expected to be collected due, at least in part, to credit quality. When the Company acquires such loans, the yield that may be accreted (accretible yield) is limited to the excess of the Company's estimate of undiscounted cash flows expected to be collected over the Company's initial investment in the loan. The excess of contractual cash flows over cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally are recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected are recognized as an impairment. The Company may not "carry over" or create a valuation allowance in the initial accounting for loans acquired under these circumstances. At December 31, 2007 and 2006, there were no loans being accounted for under this policy.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Allowance for Loan Losses

The allowance for loan losses is maintained to provide for losses related to impaired loans and other losses that can be expected to occur in the normal course of business. The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan portfolio, specifically identified problem loans, potential losses inherent in the portfolio taken as a whole and economic conditions in the Company's service area.

Classified loans and loans determined to be impaired are evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans based on historical loss rates for each identified loan type adjusted to reflect current economic and market conditions.

The allowance is established through a provision for loan losses which is charged to expense. Management reviews the adequacy of the allowance for loan losses at least quarterly, to include consideration of the relative risks in the portfolio and current economic conditions. The allowance is adjusted based on that review if, in management's judgment, changes are warranted.

Allowance for Losses Related to Undisbursed Loan Commitments

The Company maintains a separate allowance for losses related to undisbursed loan commitments. Management estimates the amount of probable losses by applying a loss reserve factor to the unused portion of undisbursed lines of credit. The allowance totaled \$40,000 at December 31, 2007 and 2006, respectively and is included in accrued interest payable and other liabilities in the consolidated balance sheet.

Other Real Estate

Other real estate includes real estate acquired in full or partial settlement of loan obligations. When property is acquired, any excess of the Bank's recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property is charged against the allowance for loan losses. Subsequent gains or losses on sales or writedowns resulting from impairment are recorded in other income or expenses as incurred. The Company did not hold other real estate as of December 31, 2007 and 2006.

Bank Premises and Equipment

Bank premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of premises are estimated to be twenty to thirty years. The useful lives of furniture, fixtures and equipment are estimated to be two to ten years. Leasehold improvements are amortized over the life of the asset or the life of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

Intangible Assets

Intangible assets consist of core deposit intangibles related to branch acquisitions and are amortized using the straight-line method over ten years. The Bank periodically evaluates whether events and circumstances have occurred that may affect the estimated useful life or the remaining balance of the core deposit intangibles resulting in impairment of the intangible asset. Amortization expense totaled \$62,538 for each of the years in the three-year period ended December 31, 2007. The core deposit intangibles totaled \$7,718 and \$70,256 at December 31, 2007 and 2006, respectively.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Income Taxes

The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for income taxes.

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

Accounting for Uncertainty in Income Taxes

On January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The provisions of FIN 48 have been applied to all tax positions of the Company as of January 1, 2007. Only tax positions that met the more-likely-than-not recognition threshold on January 1, 2007 were recognized or continue to be recognized upon adoption. The Company previously recognized income tax positions based on management's estimate of whether it was reasonably possible that a liability had been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. The adoption of FIN 48 did not have a material impact on the Company's financial position, results of operations or cash flows.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated statement of income.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Earnings Per Share

Basic earnings per share (EPS), which excludes dilution, is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock. The treasury stock method has been applied to determine the dilutive effect of stock options in computing diluted EPS.

Stock-Based Compensation

At December 31, 2007, the Company had two stock-based compensation plans, the Valley Commerce Bancorp Amended and Restated 1997 Stock Option Plan and the Valley Commerce Bancorp 2007 Equity Incentive Plan, which are more fully described in Note 10. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share Based Payment* ("SFAS 123(R)"), using the modified prospective application transition method, which requires recognizing expense for options granted prior to the adoption date equal to the fair value of the unvested amounts over their remaining vesting period based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 *Accounting for Stock Based Compensation* and compensation cost for all share based payments granted subsequent to January 1, 2006 based on the grant date fair values estimated in accordance with the provisions of SFAS 123(R). The Company applied the alternative transition method in calculating its pool of excess tax benefits available to absorb future tax deficiencies as provided by FSP FAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. During the year ended December 31, 2006, 10,500 options were awarded. Prior periods have not been restated to reflect the results of operations in 2005 as if the Company had recorded compensation expense based on the fair value of the options granted as prescribed by SFAS No. 123.

Prior to January 1, 2006, the Company accounted for the stock-based compensation plan under the recognition and measurement principles of Accounting Practice Bulletin Opinion No. 25, ("APB 25") *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based compensation expense was reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant.

During the years ended December 31, 2007 and 2006, the Company recorded expenses of \$44,410 and \$38,719, respectively as a result of adopting SFAS 123(R). The Company's net income for years ended December 31, 2007 and 2006 was \$31,402 and \$31,510, respectively, lower than if management had continued to account for share-based compensation under APB 25. For the years ended December 31, 2007 and 2006 basic and diluted earnings per did not change as a result of the adoption of SFAS 123(R).

As of December 31, 2007, there was \$292,766 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under Incentive and Stock Option Plans described more fully in Note 10. That cost is expected to be recognized over a weighted average period of 2.8 years.

In accordance with SFAS 123 (R), beginning in 2006 the Company has presented excess tax benefits from the exercise of stock-based compensation awards as a financing activity in the consolidated statement of cash flows.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table illustrates the pro forma effect on consolidated net income and earnings per share in 2005 as if the Company had recorded compensation expense based on the fair value of the options granted as prescribed by SFAS No. 123:

	For the Year Ended December 31, 2005
(In Thousands)	
Net income as reported	\$ 2,162,807
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of related tax effects	<u>(29,000)</u>
Pro forma net income	<u>\$ 2,133,807</u>
Basic earnings per share - as reported	<u>\$ 0.95</u>
Basic earnings per share - pro forma	<u>\$ 0.94</u>
Diluted earnings per share - as reported	<u>\$ 0.90</u>
Diluted earnings per share - pro forma	<u>\$ 0.89</u>

The Company determines the fair value of the options previously granted on the date of grant using a Black-Scholes option pricing model that uses assumptions based on expected option life, expected stock volatility and the risk-free interest rate. The expected volatility assumptions used by the Company are based on the historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options. The Company bases its expected life assumption on its historical experience and on the terms and conditions of the stock options it grants to employees. The risk-free rate is based on the U.S. Treasury yield curve for the periods within the contractual life of the options in effect at the time of the grant. The Company also makes assumptions regarding estimated forfeitures that will impact the total compensation expenses recognized under the Plans.

The fair value of each option is estimated on the date of grant using the following assumptions.

There were 38,500 stock options granted in 2007 and 10,500 in 2006. There were no stock options granted in 2005. The fair value of each option granted in 2007 and 2006 was estimated on the date of grant using an option-pricing model with the following assumptions:

	2007	2006
Weighted average fair value of options granted	\$ 7.42	\$ 7.99
Dividend yield	N/A	N/A
Expected volatility	28.22%	11.27%
Risk-free interest rate	3.49%	5.11%
Expected option life	7.5 years	7.5 years

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Impact of New Financial Accounting Standards

Fair Value Measurements

In September 2006, the FASB issued Statement No. 157 ("SFAS 157"), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The provisions should be applied prospectively, except for certain specifically identified financial instruments. The Company adopted SFAS 157 on January 1, 2008 and management does not believe its adoption will have a material impact on the Company's financial position, results of operations or cash flows.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued Statement No. 159 ("SFAS 159"), *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. The entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. The provisions of SFAS 159 are effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company adopted SFAS 159 on January 1, 2008 and management did not elect the fair value option for any of its financial instruments.

Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements
In September 2006, the FASB ratified the consensus reached by the Task Force on Issue No. 06-4 ("EITF 06-4"), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. A question arose when an employer enters into an endorsement split-dollar life insurance arrangement related to whether the employer should recognize a liability for the future benefits or premiums to be provided to the employee. EITF 06-4 indicates that an employer should recognize a liability for future benefits and that a liability for the benefit obligation has not been settled through the purchase of an endorsement type policy. An entity should apply the provisions of EITF 06-4 either through a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-4 are effective for fiscal years beginning after December 15, 2007. The Company adopted EITF 06-04 on January 1, 2008 and management determined that a liability of approximately \$102,000 will be recorded as of January 1, 2008, with a corresponding reduction as a cumulative-effect adjustment to retained earnings.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of New Financial Accounting Standards (Continued)

Accounting for Business Combinations

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* "SFAS No. 141(R)". SFAS No. 141(R), among other things, establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company is required to adopt SFAS No. 141(R) for all business combinations for which the acquisition date is on or after January 1, 2009. Earlier adoption is prohibited. This standard will change the accounting treatment for business combinations on a prospective basis.

3. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2007 and 2006 consisted of the following:

	2007			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Debt securities:				
U.S. Treasury and Government agencies	\$ 17,544,088	\$ 80,246	\$ (70,334)	\$ 17,554,000
Mortgage-backed securities	16,853,448	191,633	(85,081)	16,960,000
Municipal securities	19,303,490	41,984	(226,474)	19,119,000
Corporate debt securities	3,005,110	651	(23,761)	2,982,000
	<u>\$ 56,706,136</u>	<u>\$ 314,514</u>	<u>\$ (405,650)</u>	<u>\$ 56,615,000</u>

Net unrealized losses on available-for-sale investment securities totaling \$91,136 were recorded, net of \$29,957 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2007. Proceeds and realized losses from the sale of available-for-sale investment securities for the year ended December 31, 2007 totaled \$1,508,855 and \$1,145, respectively.

	2006			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Debt securities:				
U.S. Government agencies	\$ 20,324,780	\$ 6,276	\$ (282,056)	\$ 20,049,000
Mortgage-backed securities	12,422,446	65,105	(250,551)	12,237,000
Municipal securities	18,949,602	141,331	(34,933)	19,056,000
Corporate debt securities	4,032,762	-	(76,762)	3,956,000
	<u>\$ 55,729,590</u>	<u>\$ 212,712</u>	<u>\$ (644,302)</u>	<u>\$ 55,298,000</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

3. **AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)**

Net unrealized losses on available-for-sale investment securities totaling \$431,590 were recorded, net of \$155,588 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2006. Proceeds and realized losses from the sale of available-for-sale investment securities for the year ended December 31, 2006 totaled \$3,907,737 and \$52,737, respectively. Proceeds and realized gains from the sale of available-for-sale investment securities for the year ended December 31, 2005 totaled \$3,951,507 and \$48,494, respectively.

Investment securities with unrealized losses at December 31, 2007 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Treasury and Government agencies	\$ 1,489,000	\$ (3,015)	\$ 8,741,000	\$ (67,306)	\$ 10,230,000	\$ (70,321)
Mortgage-backed securities	992,000	(598)	5,687,000	(84,449)	6,679,000	(85,047)
Municipal securities	12,384,000	(212,787)	1,035,000	(13,450)	13,419,000	(226,237)
Corporate debt	-	-	2,478,000	(23,761)	2,478,000	(23,761)
Securities	<u>\$ 14,865,000</u>	<u>\$ (216,400)</u>	<u>\$ 17,941,000</u>	<u>\$ 188,966</u>	<u>\$ 32,806,000</u>	<u>\$ (405,366)</u>

Investment securities with unrealized losses at December 31, 2006 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government Agencies	\$ 364,000	\$ (4,459)	\$ 18,689,000	\$ (277,597)	\$ 19,053,000	\$ (282,056)
Mortgage-backed Securities	1,357,000	(3,795)	7,529,000	(246,806)	8,886,000	(250,601)
Municipal securities	4,004,000	(14,759)	2,341,000	(20,174)	6,345,000	(34,933)
Corporate debt	-	-	3,956,000	(76,762)	3,956,000	(76,762)
Securities	<u>\$ 5,725,000</u>	<u>\$ (23,013)</u>	<u>\$ 32,515,000</u>	<u>\$ (621,339)</u>	<u>\$ 38,240,000</u>	<u>\$ (644,352)</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

U.S. Treasury and Government Agencies

At December 31, 2007, the Company held 31 U.S. Treasury and Government agency securities of which 3 were in a loss position for less than twelve months and 18 were in a loss position and had been in a loss position for twelve months or more. Management believes the unrealized losses on the Company's investments in direct obligations of the U.S. Treasury Government Agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized costs of the investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2007.

Mortgage-backed Obligations

At December 31, 2007, the Company held 45 mortgage-backed obligations of which 1 was in a loss position for less than twelve months and 27 were in a loss position and had been in a loss position for twelve months or more. Management believes the unrealized losses on the Company's investments in mortgage obligations were caused by interest rate increases. The contractual cash flows of these investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities will not be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2007.

Obligations of States and Political Subdivision

At December 31, 2007, the Company held 60 obligations of states and political subdivision securities of which 37 were in a loss position for less than twelve months and 3 were in a loss position and had been in a loss position for twelve months or more. Management believes the unrealized losses on the Company's investments in obligations of states and political subdivision securities were primarily caused by interest rate increases. Because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2007.

Corporate Debt Securities

At December 31, 2007, the Company held 6 corporate debt securities of which 5 were in a loss position and had been in a loss position for twelve months or more. Management believes the unrealized losses on the Company's investments in corporate debt securities were caused primarily by interest rate increases. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2007.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

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

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Within one year	\$ 10,489,277	\$ 10,416,000
After one year through five years	5,076,526	5,091,000
After five years through ten years	7,390,928	7,453,000
After ten years	<u>16,895,957</u>	<u>16,695,000</u>
	39,852,688	39,655,000
Investment securities not due at a single maturity date:		
Mortgage-backed securities	<u>16,853,448</u>	<u>16,960,000</u>
	<u>\$ 56,706,136</u>	<u>\$ 56,615,000</u>

At December 31, 2007 and 2006, all investment securities were pledged to secure either public deposits or borrowing arrangements.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

4. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below:

	December 31,	
	2007	2006
Commercial	\$ 41,823,876	\$ 41,103,607
Real estate - mortgage	106,872,707	92,639,046
Real estate - construction	44,896,223	44,272,460
Agricultural	4,987,839	4,693,307
Consumer and other	2,994,997	1,804,343
	201,575,642	184,512,763
Deferred loan fees, net	(303,780)	(435,675)
Allowance for loan losses	(1,757,591)	(1,745,582)
	\$ 199,514,271	\$ 182,331,506

Certain loans were pledged to secure borrowing arrangements (see Note 7).

Changes in the allowance for loan losses were as follows:

	Year Ended December 31,		
	2007	2006	2005
Balance, beginning of year	\$ 1,745,582	\$ 1,766,115	\$ 1,400,818
Provision charged to operations	-	-	368,768
Losses charged to allowance	-	(20,833)	(3,471)
Recoveries	12,009	300	-
Balance, end of year	\$ 1,757,591	\$ 1,745,582	\$ 1,766,115

At December 31, 2007 and 2006, there were no loans considered to be impaired. The average recorded investment in impaired loans for the years ended December 31, 2006 and 2005 was \$8,680 and \$26,476, respectively. Interest income recognized by the Company on a cash basis during the years ended December 31, 2007, 2006, and 2005 was not considered significant.

At December 31, 2007 and 2006, there were no nonaccrual loans. There was no interest foregone on nonaccrual loans for the years ended December 31, 2007, 2006, and 2005.

Salaries and employee benefits totaling \$687,155, \$551,154 and \$221,278 have been deferred as loan origination costs during the years ended December 31, 2007, 2006 and 2005, respectively.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,	
	2007	2006
Furniture and equipment	2,334,786	1,836,403
Construction in progress	756,617	53,889
Premises	614,477	614,477
Leasehold improvements	522,057	303,286
Land	452,320	452,320
	4,680,257	3,260,375
Less accumulated depreciation and amortization	(1,643,194)	(1,428,198)
	3,037,063	1,832,177

Depreciation and amortization included in occupancy and equipment expense totaled \$315,365, \$242,116 and \$194,531 for the years ended December 31, 2007, 2006 and 2005, respectively.

6. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2007	2006
Savings	\$ 8,355,350	\$ 8,575,919
Money market	48,844,837	40,000,066
NOW accounts	29,076,881	26,716,738
Time, \$100,000 or more	44,013,799	47,871,287
Other time	18,102,633	21,392,203
	\$ 148,393,500	\$ 144,556,213

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

6. INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2008	\$ 60,394,542
2009	1,461,654
2010	260,236
	\$ 62,116,432

Interest expense recognized on interest-bearing deposits consisted of the following:

	Year Ended December 31,		
	2007	2006	2005
Savings	\$ 68,879	\$ 95,780	\$ 67,109
Money market	1,545,160	1,175,225	376,226
NOW accounts	767,979	723,834	385,852
Time, \$100,000 or more	2,453,317	1,491,363	738,638
Other time	967,517	820,142	460,266
	\$ 5,802,852	\$ 4,306,344	\$ 2,028,091

7. BORROWING ARRANGEMENTS

Lines of Credit

The Bank had unsecured lines of credit with two correspondent banks which, in the aggregate, amounted to \$13,000,000 at December 31, 2007 and 2006. There were no borrowings outstanding under either of these borrowing arrangements as of December 31, 2007 and 2006.

Federal Home Loan Bank Advances

At December 31, 2007 and 2006 the Bank could borrow up to 49% of pledged real estate mortgage loans from the Federal Home Loan Bank of San Francisco (FHLB). As of December 31, 2007 and 2006, the Bank had pledged loans with total carrying values of \$56,102,000 and \$55,260,000, respectively. At December 31, 2007 borrowings were comprised of \$21,804,000 in short-term (one day) adjustable rate debt with an interest rate of 3.25%, and \$8,146,049 of long-term fixed rate debt with a weighted average interest rate and maturity of 4.38% and 2.2 years, respectively. At December 31, 2006, the Company had \$17,600,000 in short-term (one) day adjustable rate debt with an interest rate of 5.25% and long-term debt totaling \$8,547,638 with a weighted average interest rate and maturity of 4.33% and 3.1 years, respectively.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. **BORROWING ARRANGEMENTS** (Continued)

Federal Home Loan Bank Advances (continued)

As of December 31, 2007 and 2006, outstanding long-term advances from the Federal Home Loan Bank (FHLB) consisted of the following:

2007			2006		
Amount	Rate	Maturity Date	Amount	Rate	Maturity Date
\$ 900,000	3.08%	March 6, 2008	\$ 200,000	2.27%	March 26, 2007
1,600,000	2.67%	May 27, 2008	900,000	3.08%	March 6, 2008
250,000	3.71%	October 22, 2008	1,600,000	2.67%	May 27, 2008
900,000	3.94%	April 27, 2009	250,000	3.71%	October 22, 2008
400,000	4.51%	May 12, 2009	900,000	3.94%	April 27, 2009
953,614	7.41%	June 22, 2010	400,000	4.51%	May 12, 2009
100,000	5.09%	May 12, 2011	978,361	7.41%	June 22, 2010
792,435	4.01%	December 6, 2011	100,000	5.09%	May 12, 2011
1,250,000	4.44%	December 6, 2011	969,277	4.01%	December 6, 2011
1,000,000	6.02%	January 2, 2012	1,250,000	4.44%	December 6, 2011
			1,000,000	6.02%	January 2, 2012
<u>\$8,146,049</u>			<u>\$8,547,638</u>		

Future principal payments of outstanding FHLB advances are as follows:

Year Ending December 31,	
2008	\$ 2,961,702
2009	1,522,346
2010	1,100,351
2011	1,561,650
2012	<u>1,000,000</u>
	<u>\$ 8,146,049</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

8. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

Valley Commerce Trust I is a Delaware business trust formed by the Company with capital of \$93,000 for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. During the second quarter of 2003, Valley Commerce Trust I (the "Trust") issued 3,000 Floating Rate Capital Trust Pass-Through Securities ("Trust Preferred Securities"), with a liquidation value of \$1,000 per security, for gross proceeds of \$3,000,000. The entire proceeds of the issuance were invested by the Trust in \$3,093,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") issued by the Company, with identical maturity, repricing and payment terms as the Trust Preferred Securities. The Subordinated Debentures represent the sole assets of the Trust. The Subordinated Debentures mature on April 7, 2033, bear a current interest rate of 8.54% (based on 3-month LIBOR plus 3.30%), with repricing and payments due quarterly. The Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Board of Governors, on any January 7, April 7, July 7 or October 7 on or after April 7, 2008. The redemption price is par plus accrued interest, except in the case of redemption under a special event which is defined in the debenture. The Trust Preferred Securities are subject to mandatory redemption to the extent of any early redemption of the junior subordinated debentures and upon maturity of the junior subordinated debentures on April 7, 2033.

Holders of the Trust Preferred Securities are entitled to a cumulative cash distribution on the liquidation amount of \$1,000 per security at an initial rate per annum of 4.59%. For each successive period beginning on January 7, April 7, July 7 or October 7 of each year, the rate will be adjusted to equal the 3-month LIBOR plus 3.30% provided, however, that prior to July 7, 2008, such annual rate does not exceed 12.50%. As of December 31, 2007, the rate was 8.54%. The Trust has the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the junior subordinated debentures. The Trust Preferred Securities were sold and issued in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the Trust Preferred Securities.

The unamortized deferred costs related to the junior subordinated debentures, which are included in other assets on the consolidated balance sheet, at December 31, 2007 and 2006 were \$3,000 and \$21,000, respectively, and the amortization for each of the three years ended December 31, 2007 was \$18,000.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

9. **COMMITMENTS AND CONTINGENCIES**

Leases

The Company leases its Fresno and Visalia branch offices, its Tulare loan production office, and its administrative office under noncancelable operating leases which expire in September 2017, November 2009, January 2008, and June 2008, respectively. The Visalia branch office lease contains two options to renew the lease for five year periods. Future minimum lease payments are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2008	\$ 275,949
2009	218,142
2010	94,942
2011	94,942
2012	99,828
Thereafter	543,820
	<u>\$ 1,327,623</u>

Rental expense included in occupancy and equipment expense totaled \$309,657, \$293,504, and \$250,968 for the years ended December 31, 2007, 2006 and 2005, respectively.

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The Company had no reservable deposits.

Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheet.

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

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

9. **COMMITMENTS AND CONTINGENCIES (Continued)**

Financial Instruments With Off-Balance-Sheet Risk (Continued)

The following financial instruments represent off-balance-sheet credit risk:

	December 31,	
	2007	2006
Commitments to extend credit	\$ 53,452,752	\$ 44,128,000
Standby letters of credit	\$ 209,463	\$ 1,169,000

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

Standby letters of credit are conditional commitments written to guarantee the performance of a customer to a third party. These guarantees are primarily related to the purchases of inventory by commercial customers and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to customers and, accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The fair value of the liability related to the Company's stand-by-letters of credit, which represents the fees received for issuing the guarantee, was not considered significant at December 31, 2007 or 2006. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2007, consumer loan commitments represent approximately 4% of total commitments and are generally unsecured. Commercial loan commitments represent approximately 73% of total commitments and are generally secured by various assets of the borrower. Real estate loan commitments represent the remaining 23% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%.

Significant Concentrations of Credit Risk

The Company grants real estate mortgage, real estate construction, commercial, agricultural and consumer loans to customers throughout the cities of Visalia, Tulare, Fresno, Woodlake and Tipton, California.

Although the Company has a diversified loan portfolio, a substantial portion of its portfolio is secured by commercial and residential real estate. However, personal and business income represent the primary source of repayment for a majority of these loans.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

9. COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Company.

10. SHAREHOLDERS' EQUITY

Dividend Restrictions

The Company's ability to pay cash dividends is dependent on dividends paid to it by the Bank and limited by California corporation law. Under California law, the holders of common stock of the Company are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available, subject to certain restrictions. The California general corporation law prohibits the Company from paying dividends on its common stock unless: (i) its retained earnings, immediately prior to the dividend payment, equals or exceeds the amount of the dividend or (ii) immediately after giving effect to the dividend, the sum of the Company's assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the Company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities.

Dividends from the Bank to the Company are restricted under California law to the lesser of the Bank's retained earnings or the Bank's net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of the Department of Financial Institutions, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year, or the net income of the Bank for its current fiscal year. As of December 31, 2007, the maximum amount available for dividend distribution under this restriction was approximately \$8,866,000. In addition, the Company's ability to pay dividends is subject to certain covenants contained in the indentures relating to the Trust Preferred Securities issued by the business trust (see Note 8).

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. **SHAREHOLDERS' EQUITY (Continued)**

Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows:

<u>For the Year Ended</u>	<u>Net Income</u>	<u>Weighted Average Number of Shares Outstanding</u>	<u>Per Share Amount</u>
<u>December 31, 2007</u>			
Basic earnings per share	2,660,850	2,358,353	\$ <u>1.13</u>
Effect of dilutive stock options	<u> </u>	<u>90,536</u>	
Diluted earnings per share	<u>2,660,850</u>	<u>2,449,889</u>	\$ <u>1.09</u>
<u>December 31, 2006</u>			
Basic earnings per share	2,955,778	2,312,140	<u>1.28</u>
Effect of dilutive stock options	<u> </u>	<u>116,940</u>	
Diluted earnings per share	<u>2,955,778</u>	<u>2,429,080</u>	<u>1.22</u>
<u>December 31, 2005</u>			
Basic earnings per share	2,162,807	2,274,093	<u>0.95</u>
Effect of dilutive stock options	<u> </u>	<u>133,510</u>	
Diluted earnings per share	<u>2,162,807</u>	<u>2,407,603</u>	<u>0.90</u>

Shares of common stock issuable under stock options for which the exercise prices are greater than the average market prices are not included in the computation of diluted earnings per share due to their antidilutive effect. There were 10,500 options excluded from the computation of diluted earnings per share for the year ended December 31, 2007. There were no options excluded from the computation of diluted earnings per share for the years ended December 31, 2006 and 2005.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. SHAREHOLDERS' EQUITY (Continued)

Stock-Based Compensation

The Company has two active share base compensation plans. On May 15, 2007, the Company's shareholders approved the Valley Commerce Bancorp 2007 Equity Incentive Plan ("Incentive Plan"). The Incentive Plan provides for awards of stock options, restricted stock awards, qualified performance based awards and stock grants. Under the Incentive Plan, 122,007 shares of common stock are reserved for issuance to employees and directors under incentive and nonstatutory agreements. During the year ended December 31, 2007 a total of 38,500 options were granted under the Incentive Plan. On February 17, 2007 the Valley Commerce Bancorp Amended and Restated 1997 Stock Option Plan ("Prior Plan") expired. Under the Prior Plan, 137,359 shares of common stock are reserved for issuance. Subsequent to the 10,500 options granted during the year ended December 31, 2006, there were no additional options granted under the Prior Plan and no further grants may be made under this plan. The purpose of the plans is to promote the long-term success of the Company and the creation of shareholder value. The Board of Directors believes that the availability of stock options and other forms of stock awards will be a key factor in the ability of the Company to attract and retain qualified individuals.

The plans require that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised. Payment in full for the option price must be made in cash or with Company common stock previously acquired by the optionee and held by the optionee for a period of at least six months. The plans do not provide for the settlement of awards in cash and new shares are issued upon option exercise. The options expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. Upon grant, options vest ratably over a one to five year period. The prior plan, the Valley Commerce Bancorp Amended and Restated 1997 stock option plan ("Prior Plan") was established in 1997 and expired on February 17, 2007. A total of 38,500 options were granted under the Incentive Plan and 137,359 options were granted under the Prior Plan.

A summary of the activity within the Plans follows:

	<u>For the Year Ended December 31, 2007</u>			
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Val</u>
Incentive:				
Options outstanding at January 1, 2006	37,515	\$ 8.20		
Options granted	-	-		
Options exercised	(1,619)	7.76		
Options cancelled	-	-		
Options outstanding at December 31, 2006	<u>35,896</u>	<u>8.20</u>		
Options granted	38,500	14.50		
Options exercised	(1,914)	6.79		
Options cancelled	<u>(608)</u>	<u>11.52</u>		
Options outstanding at December 31, 2007	71,874	11.58	7.55 years	\$ 427,984
Options vested or expected to vest at December 31, 2007	70,707	11.60	6.00 years	\$ 820,084(1)
Options exercisable at December 31, 2007	29,662	7.79	5.33 years	\$ 289,011(1)
Nonstatutory:				
Options outstanding at January 1, 2006	213,937	\$ 7.47		

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Options granted	10,500	18.58			
Options exercised	(23,726)	6.03			
Options cancelled	(1,042)	7.07			
Options outstanding at December 31, 2006	199,669	7.47			
Options granted	-	-			
Options exercised	(95,684)	5.68			
Options cancelled	-	-			
Options outstanding at December 31, 2007	103,985	9.10	5.48 years	\$	887,080
Options vested or expected to vest at December 31, 2007	103,227	8.04	6.83 years	\$	517,143
Options exercisable at December 31, 2007	93,517	8.36	5.48 years	\$	862,022

(1) 10,500 options at an average price are excluded from intrinsic value because they are not in the money.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for options that were in-the-money at December 31, 2007. There were 97,507 and 24,345 options exercised during the years ended December 31, 2007 and 2006, respectively. There were 25,345 options exercised during the year ended December 31, 2006. The total intrinsic value of options exercised during the years ended December 31, 2007, 2006, and 2005 was \$1,152,962, \$331,737, and \$0, respectively. The total fair value of shares vested during the years ended December 31, 2007, 2006, and 2005 was \$219,283, \$295,328, and \$265,229, respectively. Cash received from option exercise for the years ended December 31, 2007 and 2006 was \$556,335 and \$154,402, respectively. The total tax benefit of the non-qualified options exercised in 2007 and 2006 was \$335,894 and \$125,828, respectively.

There were 38,500 incentive stock options granted in 2007 and 10,500 non-statutory options granted in 2006. The Company bases the fair value of the options granted on the date of grant using a Black-Scholes option pricing model that uses assumptions based on expected option life and the level of estimated forfeitures, expected stock volatility, risk free interest rate, and dividend yield. The Company uses historical data to estimate expected option life. Stock volatility is based on the historical volatility of the Company's stock. The risk-free rate is based on the U. S. Treasury yield curve for the periods within the contractual life of the options in effect at the time of grant.

Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Company and the Bank met all their capital adequacy requirements as of December 31, 2007 and 2006.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. **SHAREHOLDERS' EQUITY** (Continued)

Regulatory Capital (Continued)

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

	December 31,			
	2007		2006	
	Amount	Ratio	Amount	Ratio
<u>Leverage Ratio</u>				
Valley Commerce Bancorp and Subsidiary	\$ 31,927,000	11.5%	\$ 28,654,000	11.1%
Minimum regulatory requirement	\$ 11,101,000	4.0%	\$ 10,346,000	4.0%
Valley Business Bank	\$ 31,538,000	11.4%	\$ 28,336,000	11.0%
Minimum requirement for "Well-Capitalized" institution	\$ 13,871,000	5.0%	\$ 12,926,000	5.0%
Minimum regulatory requirement	\$ 11,097,000	4.0%	\$ 10,341,000	4.0%
<u>Tier 1 Risk-Based Capital Ratio</u>				
Valley Commerce Bancorp and Subsidiary	\$ 31,927,000	13.8%	\$ 28,654,000	13.5%
Minimum regulatory requirement	\$ 9,233,000	4.0%	\$ 8,500,000	4.0%
Valley Business Bank	\$ 31,538,000	13.7%	\$ 28,336,000	13.4%
Minimum requirement for "Well-Capitalized" institution	\$ 13,844,000	6.0%	\$ 12,738,000	6.0%
Minimum regulatory requirement	\$ 9,230,000	4.0%	\$ 8,492,000	4.0%
<u>Total Risk-Based Capital Ratio</u>				
Valley Commerce Bancorp and Subsidiary	\$ 33,684,000	14.6%	\$ 30,399,000	14.3%
Minimum regulatory requirement	\$ 18,465,000	8.0%	\$ 17,000,000	8.0%
Valley Business Bank	\$ 33,296,000	14.4%	\$ 30,081,000	14.2%
Minimum requirement for "Well-Capitalized" institution	\$ 23,074,000	10.0%	\$ 21,230,000	10.0%
Minimum regulatory requirement	\$ 18,459,000	8.0%	\$ 16,984,000	8.0%

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. SHAREHOLDERS' EQUITY (Continued)

Stock Repurchase

On November 13, 2007 the Company announced that its Board of Directors authorized a common stock repurchase plan. The plan calls for the repurchase up to an aggregate of \$3,000,000 of the Company's common stock. The repurchases will be made from time to time by the Company in the open market or privately negotiated transactions as conditions allow and all shares repurchased under this plan will be returned to authorized but unissued shares. The number, price and timing of the repurchases shall be at the Company's sole discretion and the plan may be re-evaluated depending on market conditions, liquidity needs or other factors. The Board, based on such re-evaluations, may suspend, terminate, modify or cancel the plan at any time without notice. During 2007 the Company repurchased 27,440 shares at an average price of \$13.91 for a total cost of \$381,808.

11. OTHER EXPENSES

Other expenses consisted of the following:

	Year Ended December 31,		
	2007	2006	2005
Data processing	\$ 494,863	\$ 459,981	\$ 422,158
Operations	479,803	454,229	414,485
Professional and legal	507,920	330,101	310,928
Promotional	304,774	268,374	258,360
Telephone and postal	213,401	205,804	171,117
Assessment and insurance	197,225	114,270	124,506
Supplies	187,834	180,384	236,859
Amortization expense	62,538	62,538	62,538
Other expenses	406,835	426,249	274,908
	<u>\$ 2,855,193</u>	<u>\$ 2,501,930</u>	<u>\$ 2,275,859</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

12. INCOME TAXES

The provision for income taxes for the years ended December 31, 2007 and 2006 consisted of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2007</u>			
Current	\$ 809,000	\$ 402,000	\$ 1,211,000
Deferred	<u>(40,000)</u>	<u>(37,000)</u>	<u>(77,000)</u>
Provision for income taxes	<u>\$ 769,000</u>	<u>\$ 365,000</u>	<u>\$ 1,134,000</u>
<u>2006</u>			
Current	\$ 1,107,000	\$ 467,000	\$ 1,574,000
Deferred	<u>(6,000)</u>	<u>8,000</u>	<u>2,000</u>
Provision for income taxes	<u>\$ 1,101,000</u>	<u>\$ 475,000</u>	<u>\$ 1,576,000</u>
<u>2005</u>			
Current	\$ 1,188,000	\$ 403,000	\$ 1,591,000
Deferred	<u>(195,000)</u>	<u>(56,000)</u>	<u>(251,000)</u>
Provision for income taxes	<u>\$ 993,000</u>	<u>\$ 347,000</u>	<u>\$ 1,340,000</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

12. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Allowance for loan losses	\$ 740,000	\$ 740,000
Unrealized loss on available-for-sale investment securities	30,000	156,000
Deferred compensation	499,000	356,000
Intangible assets	92,000	82,000
Future benefit of state income tax deduction	<u>20,000</u>	<u>73,000</u>
Total deferred tax assets	<u>1,381,000</u>	<u>1,407,000</u>
Deferred tax liabilities:		
Bank premises and equipment	(34,000)	(74,000)
Loan costs	(261,000)	(197,000)
Other	<u>(35,000)</u>	<u>(36,000)</u>
Total deferred tax liabilities	<u>(330,000)</u>	<u>(307,000)</u>
Net deferred tax assets	<u>\$ 1,051,000</u>	<u>\$ 1,100,000</u>

Management believes that it is more likely than not that it will realize the above deferred tax assets in future periods; therefore, no valuation allowance has been provided against its deferred tax assets.

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rate to operating income before income taxes. The items comprising these differences consisted of the following:

	<u>Year Ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>
Federal income tax expense, at statutory rate	34.0%	34.0%	34.0%
State franchise tax, net of Federal tax effect	7.2%	7.2%	7.2%
Interest on obligations of states and political subdivisions	(6.0)%	(4.8)%	(2.7)%
Net increase in cash surrender value of bank-owned life insurance	(2.2)%	(1.2)%	(1.0)%
Other	<u>(3.1)%</u>	<u>(0.4)%</u>	<u>1.2%</u>
Total income tax expense	<u>29.9%</u>	<u>34.8%</u>	<u>38.7%</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

12. INCOME TAXES (Continued)

The Company and its subsidiary file income tax returns in the U.S. federal and California jurisdictions. There are currently no pending U.S. federal, state, and local income tax or non-U.S. income tax examinations by tax authorities.

With few exceptions, the Company is no longer subject to tax examinations by U.S. Federal taxing authorities for years ended before December 31, 2004, and by state and local taxing authorities for years ended before December 31, 2003.

The unrecognized tax benefits and the interest and penalties accrued by the Company as of December 31, 2007 were not significant.

13. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including executive officers and directors. These transactions include borrowings from the Company with substantially the same terms, including rates and collateral, as loans to unrelated parties. The following is a summary of the aggregate activity involving related party borrowers during 2007:

Balance, January 1, 2007	\$ 4,359,782
Disbursements	7,952,031
Amounts repaid	<u>(3,855,377)</u>
Balance, December 31, 2007	<u>\$ 8,456,436</u>
Undisbursed commitments to related parties, December 31, 2007	<u>\$ 4,065,350</u>

14. EMPLOYEE BENEFIT PLANS

Employee Retirement Plan

The Company adopted the Valley Business Bank 401(k) Profit Sharing Plan, effective January 1, 1997. All employees that work 30 or more hours per week with more than 3 months of service are eligible to participate in the plan. Eligible employees may elect to make tax deferred contributions of their salary up to the maximum amount allowed by law. The Company matched 70% of the employees' contributions, applicable to contributions of up to 6% of the employees' annual salary beginning in April 2006. Prior to that the Company had matched 50% of the employees' contributions, applicable to contributions of up to 6% of the employees annual salary. Company contributions vest at a rate of 20% annually. Bank contributions for the years ended December 31, 2007, 2006, and 2005 totaled \$112,583, \$89,493, and \$47,211 respectively.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

14. EMPLOYEE BENEFIT PLANS (continued)

Salary Continuation and Retirement Plans

Salary continuation plans are in place for three executives. Under these plans, the executives will receive monthly payments after retirement until death. These benefits are substantially equivalent to those available under split-dollar life insurance policies purchased by the Bank on the lives of the executives. In addition, the estimated present value of these future benefits is accrued over the period from the effective dates of the plans until the participants' expected retirement dates. The expense recognized under these plans for the years ended December 31, 2007, 2006, and 2005 totaled \$229,774, \$184,807, and \$195,232, respectively. Income earned on these policies, net of expenses, totaled \$111,813, \$108,034, and \$103,851 for the years ended December 31, 2007, 2006 and 2005, respectively.

In connection with these agreements, the Bank purchased single premium life insurance policies with cash surrender values totaling \$6,184,531 and \$5,934,563 at December 31, 2007 and 2006, respectively. Income earned on these policies, net of expenses, totaled \$249,968, \$153,394 and \$103,851 for the years ended December 31, 2007, 2006 and 2005, respectively. Income earned on these policies is not subject to Federal and State income tax.

15. COMPREHENSIVE INCOME

Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income. The unrealized gains and losses on the Company's available-for-sale investment securities are included in other comprehensive income (loss). Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the consolidated statement of changes in shareholders' equity.

At December 31, 2007, 2006 and 2005, the Company held securities classified as available-for-sale which had unrealized losses as follows:

	Before Tax	Tax Benefit (Expense)	After Tax
<u>For the Year Ended December 31, 2007</u>			
Other comprehensive loss:			
Unrealized holding losses	\$ 339,309	\$ (125,255)	\$ 214,054
Reclassification adjustment for losses included in net income	<u>(1,145)</u>	<u>376</u>	<u>(769)</u>
Total other comprehensive loss	<u>\$ 340,454</u>	<u>\$ (125,631)</u>	<u>\$ 214,823</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

15. **COMPREHENSIVE INCOME** (continued)

	Before Tax	Tax Benefit (Expense)	After Tax
<u>For the Year Ended December 31, 2006</u>			
Other comprehensive loss:			
Unrealized holding losses	\$ 405,337	\$ (169,943)	\$ 235,394
Reclassification adjustment for losses included in net income	<u>(52,737)</u>	<u>19,012</u>	<u>(33,725)</u>
Total other comprehensive loss	<u>\$ 458,074</u>	<u>\$ (188,955)</u>	<u>\$ 269,119</u>
<u>For the Year Ended December 31, 2005</u>			
Other comprehensive loss:			
Unrealized holding losses	\$ (810,296)	\$ 314,073	\$ (496,223)
Reclassification adjustment for gains included in net income	<u>(48,494)</u>	<u>18,780</u>	<u>(29,714)</u>
Total other comprehensive loss	<u>\$ (761,802)</u>	<u>\$ 295,293</u>	<u>\$ (466,509)</u>

16. **DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following methods and assumptions were used by management to estimate the fair value of its financial instruments at December 31, 2007 and 2006:

Cash and cash equivalents : For cash and cash equivalents, the carrying amount is estimated to be fair value.

Investment securities : For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

16. **DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS** (continued)

Loans: For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. The carrying amount of accrued interest receivable approximates its fair value.

Cash surrender value of Bank-owned life insurance: The fair values of life insurance policies are based on current cash surrender values at each reporting date provided by the insurers.

Federal Home Loan Bank stock: For Federal Home Loan Bank stock, cost approximates fair value.

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates offered at each reporting date by the Bank for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Long-term debt: The fair values of fixed-rate borrowings are estimated by discounting their future cash flows using rates at each reporting date for similar instruments. The fair values of variable rate borrowings are based on carrying value.

Junior subordinated deferrable interest debentures: The fair value of junior subordinated deferrable interest debentures was determined based on the current market value for the like kind instruments of a similar maturity and structure.

Commitments to extend credit: Commitments to extend credit are primarily for variable rate loans and standby letters of credit. For these commitments, there is no difference between the committed amounts and their fair values. Commitments to fund fixed rate loans and standby letters of credit are at rates which approximate fair value at each reporting date. The fair value of the commitments at each reporting date were not significant and not included in the accompanying table.

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 9,297,346	\$ 9,297,346	\$ 13,265,547	\$ 13,265,547
Available-for-sale investment securities	56,615,000	56,615,000	55,298,000	55,298,000
Loans, net	199,514,271	192,838,151	182,331,506	184,830,865
Cash surrender value of life insurance policies	6,184,531	6,184,531	5,934,563	5,934,563
Accrued interest receivable	2,774,065	2,774,065	1,437,161	1,437,161
PHLB stock	1,658,600	1,658,600	1,825,900	1,825,900
Financial liabilities:				
Deposits	215,386,068	214,836,974	207,576,169	207,667,710
Short-term debt	21,804,000	21,804,000	17,600,000	17,600,000
Long-term debt	8,146,049	7,977,153	8,547,638	8,215,627

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Junior subordinated deferrable interest debentures	3,093,000	3,093,000	3,093,000	3,093,000
Accrued interest payable	231,342	209,463	231,342	284,942

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

17. **PARENT ONLY FINANCIAL STATEMENTS**

CONDENSED BALANCE SHEET
December 31, 2007 and 2006

	2007	2006
ASSETS		
Cash and due from banks	\$ 378,772	\$ 113,078
Investment in bank subsidiary	31,484,801	28,129,997
Other assets	214,957	402,302
	\$ 32,078,530	\$ 28,645,377
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	\$ 112,319	\$ 104,278
Junior subordinated debentures due to subsidiary grantor trust	3,093,000	3,093,000
Total liabilities	3,205,319	3,197,278
Shareholders' equity:		
Common stock	23,511,066	20,683,720
Retained earnings	5,423,324	5,040,381
Accumulated other comprehensive loss, net of taxes	(61,179)	(276,002)
Total shareholders' equity	28,873,211	25,448,099
	\$ 32,078,530	\$ 28,645,377

17. PARENT ONLY FINANCIAL STATEMENTS (Continued)

STATEMENT OF INCOME

For the Years Ended December 31, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Income:			
Earnings from investment in Valley Commerce Trust I	\$ 8,139	\$ 7,917	\$ 6,279
Expenses:			
Interest on junior subordinated deferrable interest debentures	270,690	263,310	208,787
Other expenses	<u>531,689</u>	<u>390,647</u>	<u>292,941</u>
Total expenses	<u>802,379</u>	<u>653,957</u>	<u>501,728</u>
Loss before equity in undistributed income of subsidiary	(794,240)	(646,040)	(495,449)
Equity in undistributed income of subsidiary	<u>3,128,090</u>	<u>3,335,818</u>	<u>2,454,256</u>
Income before income taxes	2,333,850	2,689,778	1,958,807
Income tax benefit	<u>327,000</u>	<u>266,000</u>	<u>204,000</u>
Net income	<u>\$ 2,660,850</u>	<u>\$ 2,955,778</u>	<u>\$ 2,162,807</u>

17. PARENT ONLY FINANCIAL STATEMENTS (Continued)

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:			
Net income	\$ 2,660,850	\$ 2,955,778	\$ 2,162,807
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed net income of subsidiary	(3,128,090)	(3,335,818)	(2,454,256)
Stock-based compensation expense	32,519	18,847	-
Tax benefits on stock-based compensation	(335,893)	(125,828)	-
Decrease in other assets	523,238	77,182	10,536
Increase (decrease) in other liabilities	8,041	(4,007)	(67,128)
Net cash used in operating activities	<u>(239,335)</u>	<u>(413,846)</u>	<u>(348,041)</u>
Cash flows from investing activities:			
Investment I bank subsidiary	-	-	(7,500,000)
Cash flows from financing activities:			
Cash paid for fractional shares	(5,392)	(5,004)	-
Proceeds from the exercise of stock options	556,336	154,402	-
Tax benefits from stock-based compensation	335,893	125,828	-
Cash paid to repurchase common stock	(381,808)	-	-
Net proceeds from sale of common stock	-	-	3,880,321
Net cash provided by financing activities	<u>505,029</u>	<u>275,226</u>	<u>3,880,321</u>
Increase (decrease) in cash and cash equivalents	265,694	(138,620)	(3,967,720)
Cash and cash equivalents at beginning of year	<u>113,078</u>	<u>251,698</u>	<u>4,219,418</u>
Cash and cash equivalents at end of year	<u>\$ 378,772</u>	<u>\$ 113,078</u>	<u>\$ 251,698</u>

ITEM 15. EXHIBITS

Exhibits required to be filed are listed on the "Exhibit Index" attached hereto, which is incorporated herein by reference.

Valley Commerce Bancorp

Financial Statements for
Fiscal Year ended December 31, 2006
(As included in the company's Annual Report on Form 10-K)

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ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The independent auditors' report and financial statements listed below are included herein:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and
Board of Directors
Valley Commerce Bancorp

We have audited the accompanying consolidated balance sheet of Valley Commerce Bancorp and subsidiary (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Valley Commerce Bancorp and subsidiary as of December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ Perry-Smith LLP

Sacramento, California
March 23, 2007

**VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET**

December 31, 2006 and 2005

	2006	2005
ASSETS		
Cash and due from banks	\$ 13,265,547	\$ 17,733,285
Federal funds sold	-	1,885,000
Total cash and cash equivalents	13,265,547	19,618,285
Available-for-sale investment securities, at fair value (Notes 3 and 7)	55,298,000	50,391,000
Loans, less allowance for loan losses of \$1,745,582 in 2006 and \$ 1,766,115 in 2005 (Notes 4, 7, 9 and 13)	182,331,506	149,990,614
Bank premises and equipment, net (Note 5)	1,832,177	1,223,316
Cash surrender value of bank-owned life insurance (Note 14)	5,934,563	2,781,169
Accrued interest receivable and other assets (Note 12)	5,002,900	4,007,007
Total Assets	\$ 263,664,693	\$ 228,011,391
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 63,019,956	\$ 75,419,073
Interest bearing (Note 6)	75,292,723	63,549,104
Time (Note 6)	69,263,490	53,612,937
Total deposits	207,576,169	192,581,114
Accrued interest payable and other liabilities	1,399,787	1,288,400
Short-term debt (Note 7)	17,600,000	-
Long-term debt (Note 7)	8,547,638	9,139,620
Junior subordinated deferrable interest debentures (Note 8)	3,093,000	3,093,000
Total liabilities	238,216,594	206,102,134
Commitments and contingencies (Note 9)		
Shareholders' equity (Note 10):		
Serial preferred stock - no par value; 10,000,000 shares authorized; none issued	-	-
Common stock - no par value; 30,000,000 shares authorized; issued and outstanding - 2,215,765 shares in 2006 and 2,087,508 shares in 2005	20,683,720	18,332,290
Retained earnings	5,040,381	4,122,088
Accumulated other comprehensive loss, net of taxes (Notes 3 and 15)	(276,002)	(545,121)
Total shareholders' equity	25,448,099	21,909,257
Total liabilities and shareholders' equity	\$ 263,664,693	\$ 228,011,391

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

VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 31, 2006, 2005 and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Interest income:			
Interest and fees on loans	\$ 14,448,209	\$ 10,511,090	\$ 7,692,903
Interest on investment securities:			
Taxable	1,444,707	1,459,998	772,604
Exempt from Federal income taxes	719,117	303,267	133,233
Interest on Federal funds sold	137,749	229,197	136,276
Interest on deposits in banks	-	-	1,783
Total interest income	<u>16,749,782</u>	<u>12,503,552</u>	<u>8,736,799</u>
Interest expense:			
Interest on deposits (Note 6)	4,306,344	2,028,091	1,195,237
Interest on short-term borrowings (Note 7)	610,911	52,523	-
Interest on long-term borrowings (Note 7)	380,212	393,303	276,966
Interest on junior subordinated deferrable interest debentures (Note 8)	263,310	208,787	149,974
Total interest expense	<u>5,560,777</u>	<u>2,682,704</u>	<u>1,622,177</u>
Net interest income before provision for loan losses	11,189,005	9,820,848	7,114,622
Provision for loan losses (Note 4)	-	368,768	138,000
Net interest income after provision for loan losses	<u>11,189,005</u>	<u>9,452,080</u>	<u>6,976,622</u>
Non-interest income:			
Service charges	546,514	513,859	516,976
(Loss) gain on sale of available-for-sale investment securities, net (Note 3)	(52,737)	(48,494)	7,390
Mortgage loan brokerage fees	125,085	136,183	176,242
Gain on sale of other real estate	-	-	373,391
Earnings on cash surrender value of life insurance policies (Note 14)	153,394	103,851	98,625
Other	223,693	182,347	168,834
Total non-interest income	<u>995,949</u>	<u>887,746</u>	<u>1,341,458</u>
Non-interest expense:			
Salaries and employee benefits (Notes 4 and 14)	4,260,909	3,777,496	3,129,629
Occupancy and equipment (Notes 5 and 9)	890,337	756,664	656,152
Other (Note 11)	2,501,930	2,275,859	1,876,052
Total non-interest expense	<u>7,653,176</u>	<u>6,810,019</u>	<u>5,661,833</u>
Income before provision for income taxes	4,531,778	3,529,807	2,656,247
Provision for income taxes (Note 12)	1,576,000	1,367,000	1,027,000
Net income	<u>\$ 2,955,778</u>	<u>\$ 2,162,807</u>	<u>\$ 1,629,247</u>
Basic earnings per share (Note 10)	<u>\$ 1.34</u>	<u>\$ 1.00</u>	<u>\$ 1.08</u>
Diluted earnings per share (Note 10)	<u>\$ 1.28</u>	<u>\$ 0.94</u>	<u>\$ 1.01</u>

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

VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2006, 2005 and 2004

	Common Stock		Retained Earnings	Accumulated Other Compre- hensive Loss (Net of Taxes)	Total Share- holders' Equity	Total Compre- hensive Income
	Shares	Amount				
Balance, January 1, 2004	1,369,369	\$ 9,837,372	\$ 1,201,124	\$ (18,622)	\$ 11,019,874	
Comprehensive income (Note 15):						
Net income			1,629,247		1,629,247	\$ 1,629,247
Other comprehensive loss, net of tax:						
Net change in unrealized losses on available-for-sale investment securities				(59,990)	(59,990)	(59,990)
Total comprehensive income						<u>\$ 1,569,257</u>
Stock dividend	68,139	865,364	(865,364)			
Cash paid for fractional shares			(5,726)		(5,726)	
Proceeds from sale of stock (Note 10):	<u>350,750</u>	<u>3,749,233</u>			<u>3,749,233</u>	
Balance, December 31, 2004	1,788,258	14,451,969	1,959,281	(78,612)	16,332,638	
Comprehensive income (Note 15):						
Net income			2,162,807		2,162,807	\$ 2,162,807
Other comprehensive loss, net of tax:						
Net change in unrealized losses on available-for-sale investment securities				(466,509)	(466,509)	(466,509)
Total comprehensive income						<u>\$ 1,696,298</u>
Proceeds from sale of stock (Note 10)	<u>299,250</u>	<u>3,880,321</u>			<u>3,880,321</u>	
Balance, December 31, 2005	2,087,508	18,332,290	4,122,088	(545,121)	21,909,257	
Comprehensive income (Note 15):						
Net income			2,955,778		2,955,778	\$ 2,955,778
Other comprehensive income, net of tax:						
Net change in unrealized losses on available-for-sale investment securities				269,119	269,119	269,119
Total comprehensive income						<u>\$ 3,224,897</u>
Stock dividend	104,123	2,032,481	(2,032,481)			
Cash paid for fractional shares			(5,004)		(5,004)	
Stock options exercised and related tax benefit	24,134	280,230			280,230	
Stock-based compensation expense		<u>38,719</u>			<u>38,719</u>	
Balance, December 31, 2006	<u>2,215,765</u>	<u>\$ 20,683,720</u>	<u>\$ 5,040,381</u>	<u>\$ (276,002)</u>	<u>\$ 25,448,099</u>	

(Continued)

VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Continued)
 For the Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
Disclosure of reclassification amount, net of taxes (Note 15):			
Unrealized holding gains (losses) arising during the year	\$ 235,394	\$ (496,223)	\$ (55,446)
Less: reclassification adjustment for (losses) gains included in net income	(33,725)	(29,714)	4,544
Net change in unrealized losses on available-for-sale investment securities	\$ 269,119	\$ (466,509)	\$ (59,990)

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

VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2006, 2005 and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:			
Net income	\$ 2,955,778	\$ 2,162,807	\$ 1,629,247
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	-	368,768	138,000
(Decrease) increase in deferred loan origination fees, net	(199,771)	176,033	127,690
Depreciation	242,116	194,531	160,570
Amortization of intangibles	62,538	62,538	62,538
Net loss (gain) on sale of available-for-sale investment securities, net	52,737	48,494	(7,390)
Dividends on Federal Home Loan Bank stock	(54,900)	(29,300)	(17,600)
Amortization and accretion of investment securities, net	38,099	819,551	302,465
Gain on sale of other real estate	-	-	(373,391)
Loss on disposition of premises and equipment	-	8,208	1,485
Provision for deferred income taxes	2,000	(251,000)	(42,000)
Tax benefits on stock-based compensation	(125,828)	-	-
Increase in cash surrender value of bank owned life insurance	(153,394)	(103,851)	(98,625)
Stock-based compensation expense	38,719	-	-
Increase in accrued interest receivable and other assets	(354,558)	(512,561)	(190,874)
Increase in accrued interest payable and other liabilities	111,387	453,812	196,274
	<u>2,614,923</u>	<u>3,398,030</u>	<u>1,888,389</u>
Net cash provided by operating activities			
Cash flows from investing activities:			
Proceeds from matured and called available-for-sale investment securities	1,658,100	4,500,000	7,800,000
Proceeds from sales of available-for-sale investment securities	2,731,795	3,951,507	1,297,000
Purchases of available-for-sale investment securities	(11,082,486)	(24,836,258)	(27,940,875)
Proceeds from principal repayments from available-for-sale mortgage-backed securities	2,152,829	2,462,904	2,239,983
Decrease in interest-bearing deposits with banks	-	-	198,000
Net increase in loans	(32,141,121)	(35,701,170)	(14,558,735)
Purchase of Federal Home Loan Bank stock	(714,100)	(405,000)	(342,700)
Purchase of premises and equipment	(850,977)	(392,469)	(189,031)
Proceed from sale of other real estate	-	-	1,818,922
Purchase of other real estate	-	-	(809,286)
Premiums paid for life insurance policies	(3,000,000)	-	(1,000,000)
	<u>(41,245,960)</u>	<u>(50,420,486)</u>	<u>(31,486,722)</u>
Net cash used in investing activities			

(Continued)

VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)
For the Years Ended December 31, 2006, 2005 and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows from financing activities:			
Net (decrease) increase in noninterest bearing and interest-bearing deposits	\$ (655,498)	\$ 25,884,925	\$ 26,741,821
Net increase in time deposits	15,650,553	10,272,285	10,014,112
Proceeds from the issuance of stock	-	3,880,321	3,749,233
Proceeds from exercised stock options	154,402	-	-
Tax benefits from stock-based compensation	125,828	-	-
Net increase in short-term borrowings	17,600,000	-	-
Proceeds from long-term advances	-	-	4,150,000
Payments on long-term advances	(591,982)	(182,852)	(19,630)
Cash paid to repurchase fractional shares	(5,004)	-	(5,726)
	<u>32,278,299</u>	<u>39,854,679</u>	<u>44,629,810</u>
Net cash provided by financing activities			
Decrease (increase) in cash and cash equivalents	(6,352,738)	(7,167,777)	15,031,477
Cash and cash equivalents at beginning of year	<u>19,618,285</u>	<u>26,786,062</u>	<u>11,754,585</u>
Cash and cash equivalents at end of year	<u>\$ 13,265,547</u>	<u>\$ 19,618,285</u>	<u>\$ 26,786,062</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 5,472,442	\$ 2,613,323	\$ 1,601,626
Income taxes	\$ 1,750,000	\$ 1,453,000	\$ 1,095,000
Non-cash investing activities:			
Net decrease (increase) in unrealized loss on available-for-sale securities	\$ 458,074	\$ (761,802)	\$ (97,817)

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

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE BUSINESS OF VALLEY COMMERCE BANCORP

On February 2, 2002, Valley Commerce Bancorp (the "Company") was incorporated as a bank holding company for the purpose of acquiring Valley Business Bank (the "Bank"), formerly Bank of Visalia, in a one bank holding company reorganization. The new corporate structure provides the Company and the Bank greater flexibility to expand and diversify. The reorganization was completed on November 21, 2002, subsequent to which the Bank continued its operations as previously conducted, but as a wholly owned subsidiary of the Company.

The Bank commenced operations in 1996 under the name Bank of Visalia and changed its name during 2005 to Valley Business Bank. The Bank operates branches in Visalia, Fresno, Woodlake and Tipton, and a loan production office in Tulare. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

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

Valley Commerce Trust I, a wholly-owned subsidiary formed for the exclusive purpose of issuing trust preferred securities, is not consolidated into the Company's consolidated financial statements and, accordingly, is accounted for under the equity method. The Company's investment in the Trust is included in accrued interest receivable and other assets on the consolidated balance sheet. The junior subordinated debentures issued and guaranteed by the Company and held by the Trust are reflected as debt in the consolidated balance sheet.

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

Segment Information

Management has determined that since all of the banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No customer accounts for more than 10 percent of revenues for the Company or the Bank.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to prior years' balances to conform to classifications used in 2006.

Stock Dividends

On February 21, 2006 the Board of Directors declared a 5% stock dividend payable on May 16, 2006, to shareholders of record on April 28, 2006. All per share and stock option data in the consolidated financial statements have been retroactively restated to reflect the stock dividend. There were no stock dividends in 2005.

Use of Estimates

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

Investment Securities

Investments are classified as available-for-sale. Available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

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

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the issues for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank System, the Bank is required to maintain an investment in the capital stock of the Federal Home Loan Bank. The investment is carried at cost. At December 31, 2006, 2005, and 2004, Federal Home Loan Bank stock totaled \$1,825,900, \$1,056,900, and \$622,600 respectively. On the consolidated balance sheet, Federal Home Loan Bank stock is included in accrued interest receivable and other assets.

Loans

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

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

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

The Company may acquire loans through a business combination or a purchase for which differences may exist between the contractual cash flows and the cash flows expected to be collected due, at least in part, to credit quality. When the Company acquires such loans, the yield that may be accreted (accretible yield) is limited to the excess of the Company's estimate of undiscounted cash flows expected to be collected over the Company's initial investment in the loan. The excess of contractual cash flows over cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally are recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected are recognized as an impairment. The Company may not "carry over" or create a valuation allowance in the initial accounting for loans acquired under these circumstances. At December 31, 2006 and 2005, there were no loans being accounted for under this policy.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

The allowance for loan losses is maintained to provide for losses related to impaired loans and other losses that can be expected to occur in the normal course of business. The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan portfolio, specifically identified problem loans, potential losses inherent in the portfolio taken as a whole and economic conditions in the Company's service area.

Classified loans and loans determined to be impaired are evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans based on historical loss rates for each identified loan type adjusted to reflect current economic and market conditions.

The allowance is established through a provision for loan losses which is charged to expense. Management reviews the adequacy of the allowance for loan losses at least quarterly, to include consideration of the relative risks in the portfolio and current economic conditions. The allowance is adjusted based on that review if, in management's judgment, changes are warranted.

Allowance for Losses Related to Undisbursed Loan Commitments

The Company maintains a separate allowance for losses related to undisbursed loan commitments. Management estimates the amount of probable losses by applying a loss reserve factor to the unused portion of undisbursed lines of credit. The allowance totaled \$40,000 at December 31, 2006 and 2005, respectively and is included in accrued interest payable and other liabilities in the consolidated balance sheet.

Other Real Estate

Other real estate includes real estate acquired in full or partial settlement of loan obligations. When property is acquired, any excess of the Bank's recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property is charged against the allowance for loan losses. Subsequent gains or losses on sales or writedowns resulting from impairment are recorded in other income or expenses as incurred. The Company did not hold other real estate as of December 31, 2006 and 2005

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Bank Premises and Equipment

Bank premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of premises are estimated to be twenty to thirty years. The useful lives of furniture, fixtures and equipment are estimated to be two to ten years. Leasehold improvements are amortized over the life of the asset or the life of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

Intangible Assets

Intangible assets consist of core deposit intangibles related to branch acquisitions and are amortized using the straight-line method over ten years. The Bank periodically evaluates whether events and circumstances have occurred that may affect the estimated useful life or the remaining balance of the core deposit intangible resulting in impairment of the intangible asset. Amortization expense totaled \$62,538 for each of the years in the three-year period ended December 31, 2006. The core deposit intangibles totaled \$70,256, \$132,794 and \$195,332 at December 31, 2006, 2005 and 2004, respectively.

Income Taxes

The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for income taxes.

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

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and due from banks and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold for one day periods. Cash held with other federally insured institutions in excess of FDIC insured limits as of December 31, 2006 was \$2,612,000.

Earnings Per Share

Basic earnings per share (EPS), which excludes dilution, is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock. The treasury stock method has been applied to determine the dilutive effect of stock options in computing diluted EPS.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

At December 31, 2006, the Company had one stock-based compensation plan, the Valley Commerce Bancorp Amended and Restated 1997 Stock Option Plan, which is more fully described in Note 10. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share Based Payment* ("SFAS 123(R)"), using the modified prospective application transition method, which requires recognizing expense for options granted prior to the adoption date equal to the fair value of the unvested amounts over their remaining vesting period based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 *Accounting for Stock Based Compensation* and compensation cost for all share based payments granted subsequent to January 1, 2006 based on the grant date fair values estimated in accordance with the provisions of SFAS 123(R). The Company applied the alternative transition method in calculating its pool of excess tax benefits available to absorb future tax deficiencies as provided by FSP FAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. Results for prior periods have not been restated. During the year ended December 31, 2006, 10,000 options were awarded. There were no options granted in 2005. Prior periods have not been restated to reflect the results of operations in 2005 as if the Company had recorded compensation expense based on the fair value of the options granted as prescribed by SFAS No. 123.

Prior to January 1, 2006, the Company accounted for the stock-based compensation plan under the recognition and measurement principles of Accounting Practice Bulletin Opinion No. 25, ("APB25") *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based compensation expense was reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant.

As a result of adopting SFAS 123(R), the Company's income before provision for income taxes and net income for year ended December 31, 2006 was \$38,719 and \$31,510 respectively, lower than if management had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for year ended December 31, 2006 did not change as a result of the adoption of SFAS 123(R) compared to \$1.34 and \$1.28, respectively, as reported.

In accordance with SFAS 123 (R), beginning in 2006 the Company has presented excess tax benefits from the exercise of stock-based compensation awards as a financing activity in the consolidated statement of cash flows.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following table illustrates the pro forma effect on consolidated net income and earnings per share as if the Company had recorded compensation expense based on the fair value of the options granted as prescribed by SFAS No. 123:

	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004
(In Thousands)		
Net income as reported	\$ 2,162,807	\$ 1,629,247
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of related tax effects	(29,000)	(31,000)
Pro forma net income	\$ 2,133,807	\$ 1,598,247
Basic earnings per share - as reported	\$ 1.00	\$ 1.08
Basic earnings per share - pro forma	\$ 0.99	\$ 1.06
Diluted earnings per share - as reported	\$ 0.94	\$ 1.01
Diluted earnings per share - pro forma	\$ 0.93	\$ 0.99

The Company determines the fair value of the options previously granted on the date of grant using a Black-Scholes option pricing model that uses assumptions based on expected option life, expected stock volatility and the risk-free interest rate. The expected volatility assumptions used by the Company are based on the historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options. The Company bases its expected life assumption on its historical experience and on the terms and conditions of the stock options it grants to employees. The risk-free rate is based on the U.S. Treasury yield curve for the periods within the contractual life of the options in effect at the time of the grant. The Company also makes assumptions regarding estimated forfeitures that will impact the total compensation expenses recognized under the Plans.

The fair value of each option is estimated on the date of grant using the following assumptions.

There were 10,000 stock options granted in 2006 and approximately 35,875 in 2004. There were no stock options granted in 2005. The fair value of each option granted in 2006 and 2004 was estimated on the date of grant using an option-pricing model with the following assumptions:

	2006	2004
Weighted average fair valued of options granted	\$ 7.99	\$ 4.10
Dividend yield	N/A	N/A
Expected volatility	11.27%	41.16%
Risk-free interest rate	5.11%	4.00%
Expected option life	7.5 years	7.5 years

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Developments

Accounting for Servicing of Financial Assets

In March 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140." SFAS No. 156 requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practicable and permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. Under SFAS 156, an entity can elect subsequent fair value measurement of its servicing assets and servicing liabilities by class. An entity should apply the requirements for recognition and initial measurement of servicing assets and servicing liabilities prospectively to all transactions after the effective date. SFAS 156 permits an entity to reclassify certain available-for-sale securities to trading securities provided that they are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities subsequently measured at fair value. The provisions of SFAS 156 are effective for an entity as of the beginning of its first fiscal year that begins after September 15, 2006. Management does not expect the adoption of SFAS 156 to have a material impact on the Company's financial position or results of operations.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, Accounting for Contingencies.

The provisions of FIN 48 will be effective for the Company on January 1, 2007 and are to be applied to all tax positions upon initial application of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of retained earnings for the fiscal year of adoption. Management does not expect the adoption of FIN 48 to have a material impact on the Company's financial position or results of operations.

Consideration of the Effects of Prior Year Misstatements

In September, 2006, the Securities and Exchange Commission published Staff Accounting Bulletin No. 108 (SAB 108) *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. The interpretations in SAB 108 were issued to address diversity in practice in quantifying financial statement misstatements and the potential under current practice to build up improper amounts on the balance sheet. This guidance will apply to the first fiscal year ending after November 15, 2006 and early application in interim periods is encouraged. The adoption of SAB 108 did not have a material impact on the Company's financial position, results of operations or cash flows and no cumulative adjustment was required.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements

In September 2006, the FASB ratified the consensuses reached by the Task Force on Issue No. 06-4 (EITF 06-4) *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. A question arose when an employer enters into an endorsement split-dollar life insurance arrangement related to whether the employer should recognize a liability for the future benefits or premiums to be provided to the employee. EITF 06-4 indicates that an employer should recognize a liability for future benefits and that a liability for the benefit obligation has not been settled through the purchase of an endorsement type policy. An entity should apply the provisions of EITF 06-4 either through a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-4 are effective for fiscal years beginning after December 15, 2007. Management has not yet completed its evaluation of the impact that EITF 06-4 will have.

Accounting for Purchases of Life Insurance

In September 2006, the FASB ratified the consensuses reached by the Emerging Issues Task Force ("EITF") on Issue No. 06-5, "Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance." FTB 85-4 indicates that the amount of the asset included in the balance sheet for life insurance contracts within its scope should be "the amount that could be realized under the insurance contract as of the date of the statement of financial position." Questions arose in applying the guidance in FTB 85-4 to whether "the amount that could be realized" should consider 1) any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value and 2) the contractual ability to surrender all of the individual-life policies (or certificates in a group policy) at the same time. EITF 06-5 determined that "the amount that could be realized" should 1) consider any additional amounts included in the contractual terms of the policy and 2) assume the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). Any amount that is ultimately realized by the policy holder upon the assumed surrender of the final policy (or final certificate in a group policy) shall be included in the "amount that could be realized." An entity should apply the provisions of EITF 06-5 through either a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-5 are effective for fiscal years beginning after December 15, 2006. Management has not yet completed its evaluation of the impact that EITF No. 06-5 will have.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

In September 2006, the FASB issued Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The provisions should be applied prospectively, except for certain specifically identified financial instruments. Management does not expect the adoption of SFAS 157 to have a material impact to the Company's financial position or result of operations.

3. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2006 and 2005 consisted of the following:

	2006			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Debt securities:				
U.S. Government agencies	\$ 20,324,780	\$ 6,276	\$ (282,056)	\$ 20,049,000
Mortgage-backed securities	12,422,446	65,105	(250,551)	12,237,000
Municipal securities	18,949,602	141,331	(34,933)	19,056,000
Corporate debt securities	4,032,762	-	(76,762)	3,956,000
	<u>\$ 55,729,590</u>	<u>\$ 212,712</u>	<u>\$ (644,302)</u>	<u>\$ 55,298,000</u>

Net unrealized losses on available-for-sale investment securities totaling \$431,590 were recorded, net of \$155,588 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2006. Proceeds and realized losses from the sale of available-for-sale investment securities for the year ended December 31, 2006 totaled \$3,907,737 and \$52,737, respectively.

	2005			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Debt securities:				
U.S. Government agencies	\$ 21,388,349	\$ 6,233	\$ (416,582)	\$ 20,978,000
Mortgage-backed securities	9,682,917	-	(292,917)	9,390,000
Municipal securities	15,640,077	52,475	(118,552)	15,574,000
Corporate debt securities	4,569,321	-	(120,321)	4,449,000
	<u>\$ 51,280,664</u>	<u>\$ 58,708</u>	<u>\$ (948,372)</u>	<u>\$ 50,391,000</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

Net unrealized losses on available-for-sale investment securities totaling \$889,664 were recorded, net of \$344,543 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2005. Proceeds and realized losses from the sale of available-for-sale investment securities for the year ended December 31, 2005 totaled \$3,951,507 and \$48,494, respectively. Proceeds and realized gains from the sale of available-for-sale investment securities for the year ended December 31, 2004 totaled \$1,297,000 and \$7,390, respectively.

Investment securities with unrealized losses at December 31, 2006 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government Agencies	\$ 364,000	\$ (4,459)	\$ 18,689,000	\$ (277,597)	\$ 19,233,000	\$ (282,056)
Mortgage-backed securities	1,357,000	(3,745)	7,529,000	(246,806)	8,886,000	(250,551)
Municipal securities	4,004,000	(14,759)	2,341,000	(20,174)	6,345,000	(34,933)
Corporate debt securities	-	-	3,956,000	(76,762)	3,956,000	(76,762)
	<u>\$ 5,725,000</u>	<u>\$ (22,963)</u>	<u>\$ 32,515,000</u>	<u>\$ (621,339)</u>	<u>\$ 38,420,000</u>	<u>\$ (644,302)</u>

Investment securities with unrealized losses at December 31, 2005 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government Agencies	\$ 7,875,000	\$ (112,215)	\$ 11,675,000	\$ (304,367)	\$ 19,550,000	\$ (416,582)
Mortgage-backed securities	5,993,000	(158,132)	3,397,000	(134,785)	9,390,000	(292,917)
Municipal securities	10,267,000	(94,607)	1,079,000	(23,945)	11,346,000	(118,552)
Corporate debt Securities	2,016,000	(50,667)	2,433,000	(69,654)	4,449,000	(120,321)
	<u>\$ 26,151,000</u>	<u>\$ (415,621)</u>	<u>\$ 18,584,000</u>	<u>\$ (532,751)</u>	<u>\$ 44,735,000</u>	<u>\$ (948,372)</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

U.S. Government Agencies

At December 31, 2006, the Company held 39 U.S. Government agency securities of which 1 was in a loss position for less than twelve months and 37 were in a loss position and had been in a loss position for twelve months or more. Management believes the unrealized losses on the Company's investments in direct obligations of the U.S. Government Agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized costs of the investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2006.

Mortgage-backed Obligations

At December 31, 2006, the Company held 37 mortgage-backed obligations of which 2 were in a loss position for less than twelve months and 30 were in a loss position and had been in a loss position for twelve months or more. Management believes the unrealized losses on the Company's investments in mortgage obligations were caused by interest rate increases. The contractual cash flows of these investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities will not be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2006.

Obligations of States and Political Subdivision

At December 31, 2006, the Company held 65 obligations of states and political subdivision securities of which 14 were in a loss position for less than twelve months and 7 were in a loss position and had been in a loss position for twelve months or more. Management believes the unrealized losses on the Company's investments in obligations of states and political subdivision securities were caused by interest rate increases. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2006.

Corporate Debt Securities

At December 31, 2006, the Company held 8 corporate debt securities all of which were in a loss position and had been in a loss position for twelve months or more. Management believes the unrealized losses on the Company's investments in corporate debt securities were caused by interest rate increases. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2006.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

3. **AVAILABLE-FOR-SALE INVESTMENT SECURITIES** (Continued)

The amortized cost and estimated fair value of investment securities at December 31, 2006 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Within one year	\$ 6,009,801	\$ 5,954,000
After one year through five years	16,932,685	16,673,000
After five years through ten years	4,584,430	4,547,000
After ten years	<u>15,780,228</u>	<u>15,887,000</u>
	43,307,144	43,061,000
Investment securities not due at a single maturity date:		
Mortgage-backed securities	<u>12,422,446</u>	<u>12,237,000</u>
	<u>\$ 55,729,590</u>	<u>\$ 55,298,000</u>

At December 31, 2006 and 2005, all investment securities were pledged to secure either public deposits or borrowing arrangements.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

4. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below:

	December 31,	
	2006	2005
Commercial	\$ 41,103,607	\$ 40,270,435
Real estate - mortgage	92,639,046	72,753,447
Real estate - construction	44,272,460	32,560,215
Agricultural	4,693,307	4,432,029
Consumer and other	1,804,343	2,376,049
	184,512,763	152,392,175
Deferred loan fees, net	(435,675)	(635,446)
Allowance for loan losses	(1,745,582)	(1,766,115)
	\$ 182,331,506	\$ 149,990,614

Certain loans were pledged to secure borrowing arrangements (see Note 7).

Changes in the allowance for loan losses were as follows:

	Year Ended December 31,		
	2006	2005	2004
Balance, beginning of year	\$ 1,766,115	\$ 1,400,818	\$ 1,392,735
Provision charged to operations	-	368,768	138,000
Losses charged to allowance	(20,833)	(3,471)	(148,405)
Recoveries	300	-	18,488
Balance, end of year	\$ 1,745,582	\$ 1,766,115	\$ 1,400,818

At December 31, 2006, there were no loans considered to be impaired. At December 31, 2005, there was a \$21,000 loan considered to be impaired with no related allowance for loan losses identified. The average recorded investment in impaired loans for the years ended December 31, 2006, 2005 and 2004 was \$8,680, \$26,476 and \$978,200, respectively. Interest income recognized by the Company on a cash basis during the years ended December 31, 2006, and 2005 was not considered significant. The Company recognized \$423,000 in interest income on a cash basis for impaired loans during the year ended December 31, 2004.

At December 31, 2006 and 2005, nonaccrual loans totaled \$0 and \$21,000, respectively. Interest foregone on nonaccrual loans was not significant for the years ended December 31, 2006, 2005, and 2004.

Salaries and employee benefits totaling \$551,154, \$221,278 and \$207,899 have been deferred as loan origination costs during the years ended December 31, 2006, 2005 and 2004, respectively.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,	
	2006	2005
Furniture and equipment	\$ 1,851,496	\$ 1,569,322
Premises	653,273	548,702
Leasehold improvements	303,286	243,820
Land	452,320	51,894
	3,260,375	2,413,738
Less accumulated depreciation and amortization	(1,428,198)	(1,190,422)
	\$ 1,832,177	\$ 1,223,316

Depreciation and amortization included in occupancy and equipment expense totaled \$242,116, \$194,531 and \$160,570 for the years ended December 31, 2006, 2005 and 2004, respectively.

6. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2006	2005
Savings	\$ 8,575,919	\$ 10,610,990
Money market	40,000,066	28,498,692
NOW accounts	26,716,738	24,439,422
Time, \$100,000 or more	47,871,287	33,764,013
Other time	21,392,203	19,848,924
	\$ 144,556,213	\$ 117,162,041

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

6. **INTEREST-BEARING DEPOSITS (Continued)**

Aggregate annual maturities of time deposits are as follows:

<u>Year Ending December 31,</u>		
2007	\$	62,900,076
2008		5,189,371
2009		928,901
2010		245,142
2011		-
	\$	<u>69,263,490</u>

Interest expense recognized on interest-bearing deposits consisted of the following:

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Savings	\$ 95,780	\$ 67,109	\$ 35,050
Money market	1,175,225	376,226	228,710
NOW accounts	723,834	385,852	153,313
Time, \$100,000 or more	1,491,363	738,638	427,116
Other time	820,142	460,266	351,048
	<u>\$ 4,306,344</u>	<u>\$ 2,028,091</u>	<u>\$ 1,195,237</u>

7. **BORROWING ARRANGEMENTS**

Lines of Credit

The Bank had unsecured lines of credit with two correspondent banks which, in the aggregate, amounted to \$13,000,000 and \$4,000,000 at December 31, 2006 and 2005, respectively. There were no borrowings outstanding under either of these borrowing arrangements as of December 31, 2006 and 2005.

Federal Home Loan Bank Advances

At December 31, 2006 and 2005 the Bank could borrow up to 49% of pledged real estate mortgage loans from the Federal Home Loan Bank of San Francisco (FHLB). As of December 31, 2006 and 2005, the Bank had pledged loans with total carrying values of \$55,260,000 and \$25,697,000, respectively. At December 31, 2006 borrowings were comprised of \$17,600,000 in short-term (one day) adjustable rate debt with a weighted average interest rate of 5.25%, and \$8,500,000 of long-term fixed rate debt with a weighted average interest rate and maturity of 4.33% and 3.1 years, respectively. At December 31, 2005, the Company had no short-term debt and long-term debt totaling \$9,100,000 with a weighted average interest rate and maturity of 4.14% and 4.0 years, respectively.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. BORROWING ARRANGEMENTS (Continued)

Federal Home Loan Bank Advances (continued)

As of December 31, 2006 and 2005, outstanding long-term advances from the Federal Home Loan Bank (FHLB) consisted of the following:

2006			2005		
Amount	Rate	Maturity Date	Amount	Rate	Maturity Date
\$ -	-	-	\$ 200,000	2.20%	March 6, 2006
-	-	-	200,000	2.82%	October 23, 2006
200,000	2.27%	March 26, 2007	200,000	2.27%	March 26, 2007
900,000	3.08%	March 6, 2008	900,000	3.08%	March 6, 2008
1,600,000	2.67%	May 27, 2008	1,600,000	2.67%	May 27, 2008
250,000	3.71%	October 22, 2008	250,000	3.71%	October 22, 2008
900,000	3.94%	April 27, 2009	900,000	3.94%	April 27, 2009
400,000	4.51%	May 12, 2009	400,000	4.51%	May 12, 2009
978,361	7.41%	June 22, 2010	1,001,268	7.41%	June 22, 2010
100,000	5.09%	May 12, 2011	100,000	5.09%	May 12, 2011
969,277	4.01%	December 6, 2011	1,138,352	4.01%	December 6, 2011
1,250,000	4.44%	December 6, 2011	1,250,000	4.44%	December 6, 2011
1,000,000	6.02%	January 2, 2012	1,000,000	6.02%	January 2, 2012
\$ <u>8,547,638</u>			\$ <u>9,139,620</u>		

Future principal payments of outstanding FHLB advances are as follows:

Year Ending December 31,	
2007	\$ 401,589
2008	2,961,702
2009	1,522,346
2010	1,100,351
2011	311,648
Thereafter	<u>2,250,002</u>
	<u>\$ 8,547,638</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

8. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

Valley Commerce Trust I is a Delaware business trust formed by the Company with capital of \$93,000 for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. During the second quarter of 2003, Valley Commerce Trust I (the "Trust") issued 3,000 Floating Rate Capital Trust Pass-Through Securities ("Trust Preferred Securities"), with a liquidation value of \$1,000 per security, for gross proceeds of \$3,000,000. The entire proceeds of the issuance were invested by the Trust in \$3,093,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") issued by the Company, with identical maturity, repricing and payment terms as the Trust Preferred Securities. The Subordinated Debentures represent the sole assets of the Trust. The Subordinated Debentures mature on April 7, 2033, bear a current interest rate of 8.67% (based on 3-month LIBOR plus 3.30%), with repricing and payments due quarterly. The Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Board of Governors, on any January 7, April 7, July 7 or October 7 on or after April 7, 2008. The redemption price is par plus accrued interest, except in the case of redemption under a special event which is defined in the debenture. The Trust Preferred Securities are subject to mandatory redemption to the extent of any early redemption of the junior subordinated debentures and upon maturity of the junior subordinated debentures on April 7, 2033.

Holder of the Trust Preferred Securities are entitled to a cumulative cash distribution on the liquidation amount of \$1,000 per security at an initial rate per annum of 4.59%. For each successive period beginning on January 7, April 7, July 7 or October 7 of each year, the rate will be adjusted to equal the 3-month LIBOR plus 3.30% provided, however, that prior to July 7, 2008, such annual rate does not exceed 12.50%. As of December 31, 2006, the rate was 8.67%. The Trust has the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the junior subordinated debentures. The Trust Preferred Securities were sold and issued in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the Trust Preferred Securities.

The unamortized deferred costs related to the junior subordinated debentures, which are included in other assets on the consolidated balance sheet, at December 31, 2006, 2005, and 2004 were \$21,000, \$39,000, and \$57,000 respectively, and the amortization for each of the three years ended December 31, 2006 was \$18,000.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

9. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases its Fresno and Visalia branch offices, its Tulare loan production office, and its administrative office under noncancelable operating leases which expire in October 2007, November 2009, January 2007, and June 2008, respectively. The Visalia branch office lease contains two options to renew the lease for five year periods. Future minimum lease payments are as follows:

Year Ending December 31,		
2007	\$	314,916
2008		253,488
2009		195,680
2010		72,480
2011		72,480
Thereafter		518,640
	<u>\$</u>	<u>1,427,684</u>

Rental expense included in occupancy and equipment expense totaled \$293,504, \$250,968, and \$223,953 for the years ended December 31, 2006, 2005 and 2004, respectively.

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The average amount of such reserve balances required at December 31, 2006 was \$2,351,000.

Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheet.

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

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

9. COMMITMENTS AND CONTINGENCIES (Continued)

Financial Instruments With Off-Balance-Sheet Risk (Continued)

The following financial instruments represent off-balance-sheet credit risk:

	December 31,	
	2006	2005
Commitments to extend credit	\$ 44,128,000	\$ 46,708,000
Standby letters of credit	\$ 1,169,000	\$ 1,646,000

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

Standby letters of credit are conditional commitments written to guarantee the performance of a customer to a third party. These guarantees are primarily related to the purchases of inventory by commercial customers and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to customers and, accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The fair value of the liability related to the Company's stand-by-letters of credit, which represents the fees received for issuing the guarantee, was not considered significant at December 31, 2006 or 2005. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2006, consumer loan commitments represent approximately 6% of total commitments and are generally unsecured. Commercial loan commitments represent approximately 46% of total commitments and are generally secured by various assets of the borrower. Real estate loan commitments represent the remaining 48% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%.

Significant Concentrations of Credit Risk

The Company grants real estate mortgage, real estate construction, commercial, agricultural and consumer loans to customers throughout the cities of Visalia, Tulare, Fresno, Woodlake and Tipton, California.

Although the Company has a diversified loan portfolio, a substantial portion of its portfolio is secured by commercial and residential real estate. However, personal and business income represent the primary source of repayment for a majority of these loans.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

9. COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Company.

10. SHAREHOLDERS' EQUITY

Dividend Restrictions

The Company's ability to pay cash dividends is dependent on dividends paid to it by the Bank and limited by California corporation law. Under California law, the holders of common stock of the Company are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available, subject to certain restrictions. The California general corporation law prohibits the Company from paying dividends on its common stock unless: (i) its retained earnings, immediately prior to the dividend payment, equals or exceeds the amount of the dividend or (ii) immediately after giving effect to the dividend, the sum of the Company's assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the Company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities.

Dividends from the Bank to the Company are restricted under California law to the lesser of the Bank's retained earnings or the Bank's net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of the Department of Financial Institutions, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year, or the net income of the Bank for its current fiscal year. As of December 31, 2006, the maximum amount available for dividend distribution under this restriction was approximately \$5,530,000. In addition, the Company's ability to pay dividends is subject to certain covenants contained in the indentures relating to the Trust Preferred Securities issued by the business trust (see Note 8).

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. **SHAREHOLDERS' EQUITY (Continued)****Earnings Per Share**

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows:

<u>For the Year Ended</u>	<u>Net Income</u>	<u>Weighted Average Number of Shares Outstanding</u>	<u>Per Share Amount</u>
<u>December 31, 2006</u>			
Basic earnings per share	\$ 2,955,778	2,202,038	\$ <u>1.34</u>
Effect of dilutive stock options		<u>111,371</u>	
Diluted earnings per share	<u>\$ 2,955,778</u>	<u>2,313,409</u>	<u>\$ 1.28</u>
<u>December 31, 2005</u>			
Basic earnings per share	\$ 2,162,807	2,165,803	\$ <u>1.00</u>
Effect of dilutive stock options		<u>127,152</u>	
Diluted earnings per share	<u>\$ 2,162,807</u>	<u>2,292,955</u>	<u>\$ 0.94</u>
<u>December 31, 2004</u>			
Basic earnings per share	\$ 1,629,247	1,512,402	\$ <u>1.08</u>
Effect of dilutive stock options		<u>102,555</u>	
Diluted earnings per share	<u>\$ 1,629,247</u>	<u>1,614,957</u>	<u>\$ 1.01</u>

Shares of common stock issuable under stock options for which the exercise prices are greater than the average market prices are not included in the computation of diluted earnings per share due to their antidilutive effect. There were no options excluded from the computation of diluted earnings per share for the years ended December 31, 2006, 2005 and 2004.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. SHAREHOLDERS' EQUITY (Continued)Stock-Based Compensation

The Valley Commerce Bancorp Amended and Restated Stock Option Plan ("Plan") was established in 1997. Under the plan, 339,967 shares of common stock are reserved for issuance to employees and directors under incentive and nonstatutory agreements as of December 31, 2006. The plans require that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised. Payment in full for the option price must be made in cash or with Company common stock previously acquired by the optionee and held by the optionee for a period of at least six months. The plans do not provide for the settlement of awards in cash and new shares are issued upon option exercise. The options expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. Upon grant, options vest ratably over a one to five year period. A summary of the activity within the Plan follows:

	For the Year Ended December 31, 2006			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Incentive:				
Options outstanding at January 1, 2005	36,475	\$ 8.59		
Options granted	-	-		
Options exercised	-	-		
Options cancelled	(747)	12.09		
Options outstanding at December 31, 2005	35,728	8.59		
Options granted	-	-		
Options exercised	(1,542)	7.39		
Options cancelled	-	-		
Options outstanding at December 31, 2006	34,186	8.59	6.30 years	\$ 395,834
Options vested or expected to vest at December 31, 2006	30,707	8.60	6.30 years	\$ 264,029
Options exercisable at December 31, 2006	27,672	7.90	6.30 years	\$ 339,555
Nonstatutory:				
Options outstanding at January 1, 2005	203,751	\$ 7.84		
Options granted	-	-		
Options exercised	-	-		
Options cancelled	-	-		
Options outstanding at December 31, 2005	203,751	7.84		
Options granted	10,000	19.50		
Options exercised	(22,596)	6.33		
Options cancelled	(992)	7.42		
Options outstanding at December 31, 2006	190,163	7.84	5.17 years	\$ 2,345,526
Options vested or expected to vest at December 31, 2006	190,163	7.84	5.17 years	\$ 2,345,526
Options exercisable at December 31, 2006	170,920	7.04	5.17 years	\$ 2,244,365

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for options that were in-the-money at December 31, 2006. There were 24,138 options exercised during the year ended December 31, 2006. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005, and 2004 was \$331,737, \$0 and \$0, respectively. The total fair value of shares vested during the years ended December 31, 2006, 2005, and 2004 was \$330,886, \$290,549 and \$410,742, respectively. The total tax benefit of the non-qualified options exercised in 2006 was \$125,828.

There were 10,000 non-statutory options granted in 2006 and no options granted in 2005. The Company bases the fair value of the options granted on the date of grant using a Black-Scholes option pricing model that uses assumptions based on expected option life and the level of estimated forfeitures, expected stock volatility, risk free interest rate, and dividend yield. The Company uses historical data to estimate expected option life. Stock volatility is based on the historical volatility of the Company's stock. The risk-free rate is based on the U. S. Treasury yield curve for the periods within the contractual life of the options in effect at the time of grant.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Company and the Bank met all their capital adequacy requirements as of December 31, 2006 and 2005.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. **SHAREHOLDERS' EQUITY** (Continued)Regulatory Capital (Continued)

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

	December 31,			
	2006		2005	
	Amount	Ratio	Amount	Ratio
<u>Leverage Ratio</u>				
Valley Commerce Bancorp and Subsidiary	\$ 28,654,000	11.1%	\$ 25,322,000	11.5%
Minimum regulatory requirement	\$ 11,462,000	4.0%	\$ 10,129,000	4.0%
Valley Business Bank	\$ 28,336,000	11.0%	\$ 24,927,000	11.3%
Minimum requirement for "Well-Capitalized" institution	\$ 14,168,000	5.0%	\$ 12,464,000	5.0%
Minimum regulatory requirement	\$ 11,334,000	4.0%	\$ 9,971,000	4.0%
<u>Tier I Risk-Based Capital Ratio</u>				
Valley Commerce Bancorp and Subsidiary	\$ 28,654,000	13.5%	\$ 25,322,000	14.8%
Minimum regulatory requirement	\$ 8,500,000	4.0%	\$ 6,836,000	4.0%
Valley Business Bank	\$ 28,336,000	13.4%	\$ 24,927,000	14.6%
Minimum requirement for "Well-Capitalized" institution	\$ 12,738,000	6.0%	\$ 10,242,000	6.0%
Minimum regulatory requirement	\$ 8,492,000	4.0%	\$ 6,828,000	4.0%
<u>Total Risk-Based Capital Ratio</u>				
Valley Commerce Bancorp and Subsidiary	\$ 30,399,000	14.3%	\$ 27,088,000	15.9%
Minimum regulatory requirement	\$ 17,000,000	8.0%	\$ 13,672,000	8.0%
Valley Business Bank	\$ 30,081,000	14.2%	\$ 26,693,000	15.6%
Minimum requirement for "Well-Capitalized" institution	\$ 21,230,000	10.0%	\$ 17,070,000	10.0%
Minimum regulatory requirement	\$ 16,984,000	8.0%	\$ 13,656,000	8.0%

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. **SHAREHOLDERS' EQUITY (Continued)**

Sale of Stock

On December 23, 2004, the Company completed the registration process for 650,000 shares of common stock. On that date, the Company sold 350,750 shares of common stock at \$13 per share. Net proceeds of \$3,749,233 (after underwriting discounts, commissions and other costs) were received by the Company. In January 2005, the 299,250 remaining newly registered shares were sold directly by the Company for net proceeds of \$3,880,321.

11. **OTHER EXPENSES**

Other expenses consisted of the following:

	Year Ended December 31,		
	2006	2005	2004
Data processing	\$ 459,981	\$ 422,158	\$ 408,483
Operations	454,229	414,485	366,460
Professional and legal	330,101	310,928	223,594
Promotional	268,374	258,360	192,977
Telephone and postal	205,804	171,117	130,834
Supplies	180,384	236,859	137,220
Assessment and insurance	114,270	124,506	130,854
Amortization expense	62,538	62,538	62,538
Other expenses	426,249	274,908	223,092
	<u>\$ 2,501,930</u>	<u>\$ 2,275,859</u>	<u>\$ 1,876,052</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

12. INCOME TAXES

The provision for income taxes for the years ended December 31, 2006 and 2005 consisted of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
2006			
Current	\$ 1,107,000	\$ 467,000	\$ 1,574,000
Deferred	<u>(6,000)</u>	<u>8,000</u>	<u>2,000</u>
Provision for income taxes	<u>\$ 1,101,000</u>	<u>\$ 475,000</u>	<u>\$ 1,576,000</u>
2005			
Current	\$ 1,188,000	\$ 403,000	\$ 1,618,000
Deferred	<u>(195,000)</u>	<u>(56,000)</u>	<u>(251,000)</u>
Provision for income taxes	<u>\$ 993,000</u>	<u>\$ 374,000</u>	<u>\$ 1,367,000</u>
2004			
Current	\$ 767,000	\$ 302,000	\$ 1,069,000
Deferred	<u>(31,000)</u>	<u>(11,000)</u>	<u>(42,000)</u>
Provision for income taxes	<u>\$ 736,000</u>	<u>\$ 291,000</u>	<u>\$ 1,027,000</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

12. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following:

	December 31,	
	2006	2005
Deferred tax assets:		
Allowance for loan losses	\$ 740,000	\$ 751,000
Unrealized loss on available-for-sale investment securities	156,000	345,000
Deferred compensation	356,000	259,000
Intangible assets	82,000	83,000
Future benefit of state income tax deduction	73,000	66,000
Total deferred tax assets	1,407,000	1,504,000
Deferred tax liabilities:		
Bank premises and equipment	(74,000)	(94,000)
Loan costs	(197,000)	(94,000)
Other	(36,000)	(25,000)
Total deferred tax liabilities	(307,000)	(213,000)
Net deferred tax assets	\$ 1,100,000	\$ 1,291,000

The Company believes that it is more likely than not that it will realize the above deferred tax assets in future periods; therefore, no valuation allowance has been provided against its deferred tax assets.

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rate to operating income before income taxes. The items comprising these differences consisted of the following:

	Year Ended December 31,		
	2006	2005	2004
	Rate	Rate	Rate
Federal income tax expense, at statutory rate	34.0%	34.0%	34.0%
State franchise tax, net of Federal tax effect	7.2%	7.2%	7.2%
Interest on obligations of states and political subdivisions	(4.8)%	(2.7)%	(1.6)%
Other	(1.6)%	0.2%	(0.9)%
Total income tax expense	34.8%	38.7%	38.7%

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

13. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including executive officers and directors. These transactions include borrowings from the Company with substantially the same terms, including rates and collateral, as loans to unrelated parties. The following is a summary of the aggregate activity involving related party borrowers during 2006:

Balance, January 1, 2006	\$ 4,045,120
Disbursements	6,235,153
Amounts repaid	<u>(5,920,491)</u>
Balance, December 31, 2006	<u>\$ 4,359,782</u>
Undisbursed commitments to related parties, December 31, 2006	<u>\$ 1,991,702</u>

14. EMPLOYEE BENEFIT PLANSEmployee Retirement Plan

The Company adopted the Valley Business Bank 401(k) Profit Sharing Plan, effective January 1, 1997. All employees that work 30 or more hours per week with more than 3 months of service are eligible to participate in the plan. Eligible employees may elect to make tax deferred contributions of their salary up to the maximum amount allowed by law. The Company matched 70% of the employees' contributions, applicable to contributions of up to 6% of the employees' annual salary beginning in April 2006. Prior to that the Company had matched 50% of the employees' contributions, applicable to contributions of up to 6% of the employees annual salary. Company contributions vest at a rate of 20% annually. Bank contributions for the years ended December 31, 2006, 2005, and 2004 totaled \$89,000, \$47,000, and \$35,000 respectively.

Salary Continuation and Retirement Plans

Salary continuation plans are in place for three executives. Under these plans, the executives will receive monthly payments after retirement until death. These benefits are substantially equivalent to those available under split-dollar life insurance policies purchased by the Bank on the lives of the executives. In addition, the estimated present value of these future benefits is accrued over the period from the effective dates of the plans until the participants' expected retirement dates. The expense recognized under these plans for the years ended December 31, 2006, 2005, and 2004 totaled \$184,807, \$195,232 and \$150,657, respectively. Income earned on these policies, net of expenses, totaled \$108,034, \$103,851, and \$98,625 for the years ended December 31, 2006, 2005 and 2004, respectively.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

14. EMPLOYEE BENEFIT PLANS (continued)

In connection with these agreements, the Bank purchased single premium life insurance policies with cash surrender values totaling \$5,943,563 and \$2,781,169 at December 31, 2006 and 2005, respectively. Income earned on these policies, net of expenses, totaled \$153,394, \$103,851 and \$98,625 for the years ended December 31, 2006, 2005 and 2004, respectively. Income earned on these policies is not subject to Federal and State income tax.

15. COMPREHENSIVE INCOME

Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income. The unrealized gains and losses on the Company's available-for-sale investment securities are included in other comprehensive income (loss). Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the consolidated statement of changes in shareholders' equity.

At December 31, 2006, 2005 and 2004, the Company held securities classified as available-for-sale which had unrealized losses as follows:

	Before Tax	Tax Benefit (Expense)	After Tax
	<u> </u>	<u> </u>	<u> </u>
<u>For the Year Ended December 31, 2006</u>			
Other comprehensive loss:			
Unrealized holding losses	\$ 405,337	\$ (169,943)	\$ 235,394
Reclassification adjustment for losses included in net income	<u>(52,737)</u>	<u>19,012</u>	<u>(33,725)</u>
Total other comprehensive loss	<u>\$ 458,074</u>	<u>\$ (188,955)</u>	<u>\$ 269,119</u>
<u>For the Year Ended December 31, 2005</u>			
Other comprehensive loss:			
Unrealized holding losses	\$ (810,296)	\$ 314,073	\$ (496,223)
Reclassification adjustment for losses included in net income	<u>(48,494)</u>	<u>18,780</u>	<u>(29,714)</u>
Total other comprehensive loss	<u>\$ (761,802)</u>	<u>\$ 295,293</u>	<u>\$ (466,509)</u>

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

15. COMPREHENSIVE INCOME (continued)

	Before Tax	Tax Benefit (Expense)	After Tax
<u>For the Year Ended December 31, 2004</u>			
Other comprehensive loss:			
Unrealized holding losses	\$ (90,427)	\$ 34,981	\$ (55,446)
Reclassification adjustment for gains included in net income	7,390	(2,846)	4,544
Total other comprehensive loss	\$ (97,817)	\$ 37,827	\$ (59,990)

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following methods and assumptions were used by management to estimate the fair value of its financial instruments at December 31, 2006 and 2005:

Cash and cash equivalents: For cash and cash equivalents, the carrying amount is estimated to be fair value.

Investment securities: For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers.

Loans: For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. The carrying amount of accrued interest receivable approximates its fair value.

Cash surrender value of Bank-owned life insurance: The fair values of life insurance policies are based on current cash surrender values at each reporting date provided by the insurers.

Federal Home Loan Bank stock: For Federal Home Loan Bank stock, cost approximates fair value.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates offered at each reporting date by the Bank for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Long-term debt: The fair values of fixed-rate borrowings are estimated by discounting their future cash flows using rates at each reporting date for similar instruments. The fair values of variable rate borrowings are based on carrying value.

Junior subordinated deferrable interest debentures: The fair value of junior subordinated deferrable interest debentures was determined based on the current market value for the like kind instruments of a similar maturity and structure.

Commitments to extend credit: Commitments to extend credit are primarily for variable rate loans and standby letters of credit. For these commitments, there is no difference between the committed amounts and their fair values. Commitments to fund fixed rate loans and standby letters of credit are at rates which approximate fair value at each reporting date. The fair value of the commitments at each reporting date were not significant and not included in the accompanying table.

	December 31, 2006		December 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 13,265,547	\$ 13,265,547	\$ 17,733,285	\$ 17,733,285
Federal funds sold	-	-	1,885,000	1,885,000
Available-for-sale investment securities	55,298,000	55,298,000	50,391,000	50,391,000
Loans, net	182,331,506	184,830,865	149,990,614	150,113,000
Cash surrender value of life insurance policies	5,934,563	5,934,563	2,781,169	2,781,169
Accrued interest receivable	1,437,161	1,437,161	1,233,324	1,233,324
FHLB stock	1,825,900	1,825,900	1,056,900	1,056,900
Financial liabilities:				
Deposits	207,576,169	207,667,170	192,581,114	191,771,000
Short-term debt	17,600,000	17,600,000	-	-
Long-term debt	8,547,638	8,215,627	9,139,620	8,969,000
Junior subordinated deferrable interest debentures	3,093,000	3,093,000	3,093,000	3,093,000
Accrued interest payable	284,942	284,942	196,607	196,607

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

17. PARENT ONLY FINANCIAL STATEMENTS

CONDENSED BALANCE SHEET
December 31, 2006 and 2005

	2006	2005
ASSETS		
Cash and due from banks	\$ 113,078	\$ 251,698
Investment in bank subsidiary	28,129,997	24,505,188
Other assets	402,302	353,656
	\$ 28,645,377	\$ 25,110,542
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	\$ 104,278	\$ 108,285
Junior subordinated debentures due to subsidiary grantor trust	3,093,000	3,093,000
Total liabilities	3,197,278	3,201,285
Shareholders' equity:		
Common stock	20,683,720	18,332,290
Retained earnings	5,040,381	4,122,088
Accumulated other comprehensive loss, net of taxes	(276,002)	(545,121)
Total shareholders' equity	25,448,099	21,909,257
	\$ 28,645,377	\$ 25,110,542

17. PARENT ONLY FINANCIAL STATEMENTS (Continued)

STATEMENT OF INCOME

For the Years Ended December 31, 2006, 2005 and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Income:			
Dividends declared by bank subsidiary			\$ 460,000
Earnings from investment in Valley Commerce Trust I	\$ 7,917	\$ 6,279	4,509
Total income	<u>7,917</u>	<u>6,279</u>	<u>464,509</u>
Expenses:			
Interest on junior subordinated deferrable interest debentures	263,310	208,787	149,974
Other expenses	<u>390,647</u>	<u>292,941</u>	<u>160,451</u>
Total expenses	<u>653,957</u>	<u>501,728</u>	<u>310,425</u>
(Loss) income before equity in undistributed income of subsidiary	(646,040)	(495,449)	154,084
Equity in undistributed income of subsidiary	<u>3,335,818</u>	<u>2,454,256</u>	<u>1,327,163</u>
Income before income taxes	2,689,778	1,958,807	1,481,247
Income tax benefit	<u>266,000</u>	<u>204,000</u>	<u>148,000</u>
Net income	<u>\$ 2,955,778</u>	<u>\$ 2,162,807</u>	<u>\$ 1,629,247</u>

17. PARENT ONLY FINANCIAL STATEMENTS (Continued)

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
Cash flows from operating activities:			
Net income	\$ 2,955,778	\$ 2,162,807	\$ 1,629,247
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed net income of subsidiary	(3,335,818)	(2,454,256)	(1,327,163)
Stock-based compensation expense	18,847	-	-
Tax benefits on stock-based compensation	(125,828)	-	-
Decrease in other assets	77,182	10,536	(130,203)
Decrease in other liabilities	(4,007)	(67,128)	142,533
Net cash (used in) provided by operating activities	<u>(413,846)</u>	<u>(348,041)</u>	<u>314,414</u>
Cash flows from investing activities:			
Investment in bank subsidiary	-	(7,500,000)	-
Cash flows from financing activities:			
Cash paid for fractional shares	(5,004)	-	(5,726)
Proceeds from the exercise of stock options	154,402	-	-
Tax benefits from stock-based compensation	125,828	-	-
Net proceeds from sale of common stock	-	3,880,321	3,749,233
Net cash provided by financing activities	<u>275,226</u>	<u>3,880,321</u>	<u>3,743,507</u>
(Decrease) increase in cash and cash equivalents	<u>(138,620)</u>	<u>(3,967,720)</u>	<u>4,057,921</u>
Cash and cash equivalents at beginning of year	<u>251,698</u>	<u>4,219,418</u>	<u>161,497</u>
Cash and cash equivalents at end of year	<u>\$ 113,078</u>	<u>\$ 251,698</u>	<u>\$ 4,219,418</u>

Valley Commerce Bancorp

Financial Statements for
Fiscal Year ended December 31, 2005
(As included in the company's Annual Report on Form 10-K)

ITEM 7 - FINANCIAL STATEMENTS

The independent auditors' report and financial statements listed below are included herein:

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III. Consolidated Statement of Income	41
IV. Consolidated Statement of Changes in Shareholders' Equity	42
V. Consolidated Statement of Cash Flows	43
VI. Notes to Consolidated Financial Statements	45

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and
Board of Directors
Valley Commerce Bancorp

We have audited the accompanying consolidated balance sheet of Valley Commerce Bancorp and subsidiary (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Valley Commerce Bancorp and subsidiary as of December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Perry-Smith LLP

*Sacramento, California
March 21, 2006*

**VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET**

December 31, 2005 and 2004

	2005	2004
ASSETS		
Cash and due from banks	\$ 17,733,285	\$ 9,036,062
Federal funds sold	1,885,000	17,750,000
	19,618,285	26,786,062
Cash and cash equivalents	19,618,285	26,786,062
Available-for-sale investment securities (Notes 3 and 7)	50,391,000	38,099,000
Loans, less allowance for loan losses of \$1,766,115 in 2005 and \$1,400,818 in 2004 (Notes 4, 7, 9 and 13)	149,990,614	114,834,245
Bank premises and equipment, net (Note 5)	1,223,316	1,033,586
Cash surrender value of bank-owned life insurance (Note 14)	2,781,169	2,677,318
Accrued interest receivable and other assets (Note 12)	4,007,007	2,576,391
	\$ 228,011,391	\$ 186,006,602
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 75,419,073	\$ 58,394,071
Interest bearing (Note 6)	63,549,104	54,689,181
Time (Note 6)	53,612,937	43,340,652
	192,581,114	156,423,904
Total deposits	192,581,114	156,423,904
Accrued interest payable and other liabilities	1,288,400	834,588
Federal Home Loan Bank advances (Note 7)	9,139,620	9,322,472
Junior subordinated deferrable interest debentures (Note 8)	3,093,000	3,093,000
	206,102,134	169,673,964
Total liabilities	206,102,134	169,673,964
	-----	-----
Commitments and contingencies (Note 9)		
Shareholders' equity (Note 10):		
Serial preferred stock - no par value; 10,000,000 shares authorized; none issued	--	--
Common stock - no par value; 30,000,000 shares authorized; issued and outstanding - 2,087,508 shares in 2005 and 1,788,258 shares in 2004	18,332,290	14,451,969
Retained earnings	4,122,088	1,959,281
Accumulated other comprehensive loss, net of taxes (Notes 3 and 15)	(545,121)	(78,612)
	21,909,257	16,332,638
Total shareholders' equity	21,909,257	16,332,638
	\$ 228,011,391	\$ 186,006,602
	=====	=====

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

VALLEY COMMERCE BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 31, 2005 and 2004

	2005	2004
	-----	-----
Interest income:		
Interest and fees on loans	\$ 10,511,090	\$ 7,629,903
Interest on investment securities:		
Taxable	1,459,998	772,604
Exempt from Federal income taxes	303,267	133,233
Interest on Federal funds sold	229,197	136,276
Interest on deposits in banks		1,783
	-----	-----
Total interest income	12,503,552	8,736,799
	-----	-----
Interest expense:		
Interest on deposits (Note 6)	2,028,091	1,195,237
Interest on short-term borrowings (Note 7)	52,523	
Interest on long-term borrowings (Note 7)	393,303	276,966
Interest on junior subordinated deferrable interest debentures (Note 8)	208,787	149,974
	-----	-----
Total interest expense	2,682,704	1,622,177
	-----	-----
Net interest income	9,820,848	7,114,622
Provision for loan losses (Note 4)	368,768	138,000
	-----	-----
Net interest income after provision for loan losses	9,452,080	6,976,622
	-----	-----
Non-interest income:		
Service charges	513,859	516,976
(Loss) gain on sale of available-for-sale investment securities, net (Note 3)	(48,494)	7,390
Gain on other real estate		373,391
Mortgage loan brokerage fees	136,183	176,242
Earnings on cash surrender value of life insurance policies (Note 14)	103,851	98,625
Other	182,347	168,834
	-----	-----
Total non-interest income	887,746	1,341,458
	-----	-----
Non-interest expense:		
Salaries and employee benefits (Notes 4 and 14)	3,777,496	3,129,629
Occupancy and equipment (Notes 5 and 9)	756,664	656,152
Other (Note 11)	2,275,859	1,876,052
	-----	-----
Total non-interest expense	6,810,019	5,661,833
	-----	-----
Income before provision for income taxes	3,529,807	2,656,247
Provision for income taxes (Note 12)	1,367,000	1,027,000
	-----	-----
Net income	\$ 2,162,807	\$ 1,629,247
	=====	=====
Basic earnings per share (Note 10)	\$ 1.05	\$ 1.13
	=====	=====
Diluted earnings per share (Note 10)	\$ 0.99	\$ 1.06
	=====	=====

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

VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2005 and 2004

	Common Stock		Retained Earnings	Accumulated Other Compre- hensive Loss (Net of Taxes)	Total Share- holders' Equity	Total Compre- hensive Income
	Shares	Amount				
Balance, January 1, 2004	1,369,369	\$ 9,837,372	\$ 1,201,124	\$ (18,622)	\$ 11,019,874	
Comprehensive income (Note 15):						
Net income			1,629,247		1,629,247	\$ 1,629,247
Other comprehensive loss, net of tax: of tax:						
Net change in unrealized losses on available-for-sale invest- ment securities				(59,990)	(59,990)	(59,990)
Total comprehensive income						\$ 1,569,257
Stock dividend	68,139	865,364	(865,364)			
Cash paid for fractional shares			(5,726)		(5,726)	
Proceeds from sale of stock (Note 10)	350,750	3,749,233			3,749,233	
Balance, December 31, 2004	1,788,258	14,451,969	1,959,281	(78,612)	16,332,638	
Comprehensive income (Note 15):						
Net income			2,162,807		2,162,807	\$ 2,162,807
Other comprehensive loss, net of tax:						
Net change in unrealized losses on available-for-sale invest- ment securities				(466,509)	(466,509)	(466,509)
Total comprehensive income						\$ 1,696,298
Proceeds from sale of stock (Note 10)	299,250	3,880,321			3,880,321	
Balance, December 31, 2005	2,087,508	\$ 18,332,290	\$ 4,122,088	\$ (545,121)	\$ 21,909,257	

	2005	2004
Disclosure of reclassification amount, net of taxes (Note 15):		
Unrealized holding losses arising during the year	\$ (496,223)	\$ (55,446)
Less: reclassification adjustment for (losses) gains included in net income	(29,714)	4,544
Net change in unrealized losses on available-for-sale investment securities	\$ (466,509)	\$ (59,990)

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

**VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS**

For the Years Ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Net income	\$ 2,162,807	\$ 1,629,247
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	368,768	138,000
Increase in deferred loan origination fees, net	176,033	127,690
Depreciation	194,531	160,570
Amortization of intangible deposit premium	62,538	62,538
Net loss (gain) on sale of available-for-sale investment securities	48,494	(7,390)
Dividends on Federal Home Loan Bank stock	(29,300)	(17,600)
Amortization and accretion of securities, net	819,551	302,465
Gain on sale of other real estate		(373,391)
Loss on disposition of premises and equipment	8,208	1,485
Provision for deferred income taxes	(251,000)	(42,000)
Increase in cash surrender value of life insurance policies	(103,851)	(98,625)
Increase in accrued interest receivable and other assets	(512,561)	(190,874)
Increase in accrued interest payable and other liabilities	453,812	196,274
	3,398,030	1,888,389
Net cash provided by operating activities		
Cash flows from investing activities:		
Proceeds from matured and called available-for-sale investment securities	4,500,000	7,800,000
Proceeds from sale of available-for-sale investment securities	3,951,507	1,297,000
Purchases of available-for-sale investment securities	(24,836,258)	(27,940,875)
Proceeds from principal repayments from available-for-sale government-guaranteed mortgage-backed securities	2,462,904	2,239,983
Decrease in interest-bearing deposits with banks		198,000
Net increase in loans	(35,701,170)	(14,558,735)
Purchase of Federal Home Loan Bank stock	(405,000)	(342,700)
Purchases of premises and equipment	(392,469)	(189,031)
Proceeds from sale of other real estate		1,818,922
Purchase of other real estate		(809,286)
Premium paid for life insurance policy		(1,000,000)
	(50,420,486)	(31,486,722)
Net cash used in investing activities		

(Continued)

VALLEY COMMERCE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
(Continued)

For the Years Ended December 31, 2005 and 2004

	2005	2004
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	\$ 25,884,925	\$ 26,741,821
Net increase in time deposits	10,272,285	10,014,112
Proceeds from issuance of stock	3,880,321	3,749,233
Proceeds from Federal Home Loan Bank term advances		4,150,000
Payments on Federal Home Loan Bank term advances	(182,852)	(19,630)
Cash paid to repurchase fractional shares		(5,726)
	39,854,679	44,629,810
Net cash provided by financing activities	39,854,679	44,629,810
(Decrease) increase in cash and cash equivalents	(7,167,777)	15,031,477
Cash and cash equivalents at beginning of year	26,786,062	11,754,585
	\$ 19,618,285	\$ 26,786,062
Cash and cash equivalents at end of year	\$ 19,618,285	\$ 26,786,062
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	\$ 2,613,323	\$ 1,601,626
Income taxes	\$ 1,453,000	\$ 1,095,000
Non-cash investing activities:		
Net change in unrealized loss on available-for-sale investment securities	\$ (761,802)	\$ (97,817)

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

VALLEY COMMERCE BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE BUSINESS OF VALLEY COMMERCE BANCORP

On February 2, 2002, Valley Commerce Bancorp (the "Company") was incorporated as a bank holding company for the purpose of acquiring Valley Business Bank (the "Bank"), formerly Bank of Visalia, in a one bank holding company reorganization. The new corporate structure provides the Company and the Bank greater flexibility to expand and diversify. The reorganization was completed on November 21, 2002, subsequent to which the Bank continued its operations as previously conducted, but as a wholly owned subsidiary of the Company.

The Bank commenced operations in 1996 under the name Bank of Visalia and changed its name during 2005 to Valley Business Bank. The Bank operates branches in Visalia, Fresno, Woodlake and Tipton, and a loan production office in Tulare. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

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

Valley Commerce Trust I, a wholly-owned subsidiary formed for the exclusive purpose of issuing trust preferred securities, is not consolidated into the Company's consolidated financial statements and, accordingly, is accounted for under the equity method. The Company's investment in the Trust is included in accrued interest receivable and other assets on the consolidated balance sheet. The junior subordinated debentures issued and guaranteed by the Company and held by the Trust are reflected as debt in the consolidated balance sheet.

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

Segment Information

Management has determined that since all of the banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No customer accounts for more than 10 percent of revenues for the Company or the Bank.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to prior years' balances to conform to classifications used in 2005.

Investment Securities

Investments are classified as available-for-sale. Available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

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

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the issues for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank System, the Bank is required to maintain an investment in the capital stock of the Federal Home Loan Bank. The investment is carried at cost. At December 31, 2005 and 2004, Federal Home Loan Bank stock totaled \$1,056,900 and \$622,600, respectively. On the consolidated balance sheet, Federal Home Loan Bank stock is included in accrued interest receivable and other assets.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

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

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

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

The Company may acquire loans through a business combination or a purchase for which differences may exist between the contractual cash flows and the cash flows expected to be collected due, at least in part, to credit quality. When the Company acquires such loans, the yield that may be accreted (accretable yield) is limited to the excess of the Company's estimate of undiscounted cash flows expected to be collected over the Company's initial investment in the loan. The excess of contractual cash flows over cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally are recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected are recognized as an impairment. The Company may not "carry over" or create a valuation allowance in the initial accounting for loans acquired under these circumstances. At December 31, 2005, there were no loans being accounted for under this policy.

Allowance for Loan Losses

The allowance for loan losses is maintained to provide for losses related to impaired loans and other losses that can be expected to occur in the normal course of business. The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan portfolio, specifically identified problem loans, potential losses inherent in the portfolio taken as a whole and economic conditions in the Company's service area.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

Classified loans and loans determined to be impaired are evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans based on management's assessment of the following for each identified loan type: (1) inherent credit risk, (2) historical losses and, (3) where the Bank has not experienced losses, the loss experience of peer banks. Management also computes specific and expected loss reserves for undisbursed loan commitments (see below). These estimates are particularly susceptible to changes in the economic environment and market conditions.

Management reviews the adequacy of the allowance for loan losses at least quarterly, to include consideration of the relative risks in the portfolio and current economic conditions. The allowance is adjusted based on that review if, in management's judgment, changes are warranted.

The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. The allowance for loan losses at December 31, 2005 and 2004, respectively, reflects management's estimate of possible losses in the portfolio.

Allowance for Losses Related to Undisbursed Loan Commitments

The Company maintains a separate allowance for losses related to undisbursed loan commitments. Management estimates the amount of probable losses by applying a loss reserve factor to the unused portion of undisbursed lines of credit. The allowance totaled \$40,000 at December 31, 2005 and 2004, respectively and is included in accrued interest payable and other liabilities in the consolidated balance sheet.

Other Real Estate

Other real estate includes real estate acquired in full or partial settlement of loan obligations. When property is acquired, any excess of the Bank's recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property is charged against the allowance for loan losses. A valuation allowance for losses on other real estate is maintained to provide for temporary declines in value. The allowance is established through a provision for losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or writedowns resulting from impairment are recorded in other income or expenses as incurred. The Company did not hold any real estate acquired by foreclosure of December 31, 2005 or 2004.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank Premises and Equipment

Bank premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of premises are estimated to be twenty to thirty years. The useful lives of furniture, fixtures and equipment are estimated to be two to ten years. Leasehold improvements are amortized over the life of the asset or the life of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

Intangible Assets

Intangible assets consist of core deposit intangibles related to branch acquisitions and are amortized using the straight-line method over ten years. The Bank periodically evaluates whether events and circumstances have occurred that may affect the estimated useful life or the remaining balance of the core deposit intangible resulting in impairment of the intangible asset. Amortization expense totaled \$62,538 for each of the years in the two-year period ended December 31, 2005. The core deposit intangibles totaled \$132,794 and \$195,332 at December 31, 2005 and 2004, respectively.

Income Taxes

The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for income taxes.

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

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and due from banks and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold for one day periods. Cash held with other federally insured institutions in excess of FDIC insured limits as of December 31, 2005 was \$5,445,368.

Earnings Per Share

Basic earnings per share (EPS), which excludes dilution, is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock. The treasury stock method has been applied to determine the dilutive effect of stock options in computing diluted EPS.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Stock-Based Compensation

At December 31, 2005, the Company had one stock-based compensation plan, the Valley Commerce Bancorp Amended and Restated 1997 Stock Option Plan, which is described more fully in Note 10. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based compensation cost is reflected in net income, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Pro forma adjustments to the Company's consolidated net earnings and earnings per share are disclosed during the years in which the options become vested. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based compensation.

	2005	2004
	-----	-----
Net income, as reported	\$ 2,162,807	\$ 1,629,247
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of related tax effects	(29,000)	(31,000)
	-----	-----
Pro forma net income	\$ 2,133,807	\$ 1,598,247
	=====	=====
Basic earnings per share - as reported	\$ 1.05	\$ 1.13
Basic earnings per share - pro forma	\$ 1.03	\$ 1.11
Diluted earnings per share - as reported	\$ 0.99	\$ 1.06
Diluted earnings per share - pro forma	\$ 0.98	\$ 1.04
Weighted average fair value of options granted during the year		\$ 4.10

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation (Continued)

There were no stock options granted in 2005. The fair value of each option granted in 2004 was estimated on the date of grant using an option-pricing model with the following assumptions:

	2004
Dividend yield	N/A
Expected volatility	41.16
Risk-free interest rate	4.0%
Expected option life	7.5 years

Impact of New Financial Accounting Standards

Other-Than-Temporary Impairment of Securities

In March 2004, the Financial Accounting Standards Board (FASB) and Emerging Issues Task Force (EITF) reached consensus on several issues being addressed in EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The consensus provides guidance for evaluating whether an investment is other-than-temporarily impaired and was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. The disclosure provisions of EITF Issue No. 03-1 continue to be effective for the Company's consolidated financial statements for the year ended December 31, 2005.

On November 3, 2005, the FASB issued FASB Staff Position (FSP) Nos. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. This FSP nullifies certain requirements of EITF Issue No. 03-1, and supersedes EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value. The guidance in this FSP amends FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. The FSP is effective for reporting periods beginning after December 15, 2005. Management does not anticipate any material impact to the Company's financial condition or results of operations as a result of the adoption of this guidance.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of New Financial Accounting Standards (Continued)

Share-Based Payments

In December 2004, the FASB issued Statement No. 123 (revised 2004) (FAS 123 (R)), Share-Based Payments. FAS 123 (R) requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments such as stock options granted to employees. The Company may elect to adopt FAS 123 (R) using a modified prospective method or modified retrospective method. Under the modified retrospective method, the Company would restate previously issued financial statements, basing the compensation expense on that previously reported in their pro forma disclosures required by FAS 123. The modified prospective method would require the Company to record compensation expense for the unvested portion of previously granted awards that remain outstanding at the date of adoption as these awards continue to vest. FAS 123 (R) is effective for the first fiscal year beginning after June 15, 2005. Management has elected to apply the modified prospective method and has completed its evaluation of the effect FAS 123 (R) will have and believes the effect of its implementation will be consistent with the pro forma disclosures noted above.

Accounting Changes and Error Corrections

On June 7, 2005, the FASB issued Statement No. 154 (FAS 154), Accounting Changes and Error Corrections - a replacement of Accounting Principles Board (APB) Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. Under the provisions of FAS 154, voluntary changes in accounting principles are applied retrospectively to prior periods' financial statements unless it would be impractical to do so. FAS 154 supersedes APB Opinion No. 20, which required that most voluntary changes in accounting principles be recognized by including in the current period's net income the cumulative effect of the change. FAS 154 also makes a distinction between "retrospective application" of a change in accounting principle and the "restatement" of financial statements to reflect the correction of an error. The provisions of FAS 154 are effective for accounting changes made in fiscal years beginning after December 15, 2005. Management does not expect the adoption of this standard to have a material impact on the Company's financial position or results of operations.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

3. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2005 and 2004 consisted of the following:

	2005			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Debt securities:				
U.S. Government agencies	\$ 21,388,349	\$ 6,233	\$ (416,582)	\$ 20,978,000
Mortgage-backed securities	9,682,917		(292,917)	9,390,000
Municipal securities	15,640,077	52,475	(118,552)	15,574,000
Corporate debt securities	4,569,321		(120,321)	4,449,000
	\$ 51,280,664	\$ 58,708	\$ (948,372)	\$ 50,391,000
	=====	=====	=====	=====

Net unrealized losses on available-for-sale investment securities totaling \$889,664 were recorded, net of \$344,543 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2005. Proceeds and realized losses from the sale of available-for-sale investment securities for the year ended December 31, 2005 totaled \$3,951,507 and \$48,494, respectively.

	2004			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Debt securities:				
U.S. Government agencies	\$ 20,987,517	\$ 5,073	\$ (117,590)	\$ 20,875,000
Mortgage-backed securities	8,790,645	12,529	(49,174)	8,754,000
Municipal securities	4,381,922	65,817	(30,739)	4,417,000
Corporate debt securities	4,066,778	3,968	(17,746)	4,053,000
	\$ 38,226,862	\$ 87,387	\$ (215,249)	\$ 38,099,000
	=====	=====	=====	=====

Net unrealized losses on available-for-sale investment securities totaling \$127,862 were recorded, net of \$49,250 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2004. Proceeds and realized gains from the sale of available-for-sale investment securities for the year ended December 31, 2004 totaled \$1,297,000 and \$7,390, respectively.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

Investment securities with unrealized losses at December 31, 2005 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies	\$ 7,875,000	\$ (112,215)	\$ 11,675,000	\$ (304,367)	\$ 19,550,000	\$ (416,582)
Mortgage-backed securities	5,993,000	(158,132)	3,397,000	(134,785)	9,390,000	(292,917)
Municipal securities	10,267,000	(94,607)	1,079,000	(23,945)	11,346,000	(118,552)
Corporate debt securities	2,016,000	(50,667)	2,433,000	(69,654)	4,449,000	(120,321)
	\$ 26,151,000	\$ (415,621)	\$ 18,584,000	\$ (532,751)	\$ 44,735,000	\$ (948,372)

At December 31, 2005, the Company held 136 investment securities of which 71 were in a loss position for less than twelve months and 46 were in a loss position and had been in a loss position for twelve months or more. Management periodically evaluates each investment security for other than temporary impairment, relying primarily on industry analyst reports, observation of market conditions and interest rate fluctuations. Management believes it will be able to collect all amounts due according to the contractual terms of the underlying investment securities and that the noted decline in fair value is considered temporary and due only to interest rate fluctuations.

The amortized cost and estimated fair value of investment securities at December 31, 2005 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Within one year	\$ 504,365	\$ 497,000
After one year through five years	23,017,830	22,532,000
After five years through ten years	4,263,910	4,228,000
After ten years	13,811,642	13,744,000
	41,597,747	41,001,000
Investment securities not due at a single maturity date:		
Mortgage-backed securities	9,682,917	9,390,000
	\$51,280,664	\$50,391,000

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

At December 31, 2005, all investment securities were pledged to secure public deposits and borrowing arrangements. At December 31, 2004, investment securities with amortized costs totaling \$9,938,778 and estimated fair values totaling \$9,930,000 were pledged to secure public deposits and borrowing arrangements (see Note 7).

4. LOANS

Outstanding loans are summarized below:

	December 31,	
	2005	2004
Commercial	\$ 40,270,435	\$ 33,081,871
Real estate - mortgage	72,753,447	61,995,264
Real estate - construction	32,560,215	14,693,759
Agricultural	4,432,029	4,535,279
Consumer and other	2,376,049	2,388,303
	-----	-----
	152,392,175	116,694,476
Deferred loan fees, net	(635,446)	(459,413)
Allowance for loan losses	(1,766,115)	(1,400,818)
	-----	-----
	\$ 149,990,614	\$ 114,834,245
	=====	=====

Certain loans were pledged to secure borrowing arrangements (see Note 7).

Changes in the allowance for loan losses were as follows:

	Year Ended December 31,	
	2005	2004
Balance, beginning of year	\$ 1,400,818	\$ 1,392,735
Provision charged to operations	368,768	138,000
Losses charged to allowance	(3,471)	(148,405)
Recoveries	-----	18,488
	-----	-----
Balance, end of year	\$ 1,766,115	\$ 1,400,818
	=====	=====

The recorded investment in loans that were considered to be impaired totaled \$21,000 and \$81,000 at December 31, 2005 and 2004, respectively. There was no related allowance for loan losses for impaired loans at December 31, 2005 or 2004. The average recorded investment in impaired loans for the years ended December 31, 2005 and 2004 was \$26,476 and \$978,200, respectively. The Company recognized \$4,931 and \$423,200 in interest income on a cash basis for impaired loans during the years ended December 31, 2005 and 2004, respectively.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

4. LOANS (Continued)

At December 31, 2005 and 2004, nonaccrual loans totaled \$21,000 and \$81,000, respectively. Interest foregone on nonaccrual loans totaled \$80 and \$2,700 for the years ended December 31, 2005 and 2004, respectively.

Salaries and employee benefits totaling \$221,278 and \$207,899 have been deferred as loan origination costs during the years ended December 31, 2005 and 2004, respectively.

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,	
	2005	2004
Furniture and equipment	\$ 1,569,322	\$ 1,317,064
Premises	548,702	544,243
Leasehold improvements	243,820	206,838
Land	51,894	51,894
	-----	-----
	2,413,738	2,120,039
Less accumulated depreciation and amortization	(1,190,422)	(1,086,453)
	-----	-----
	\$ 1,223,316	\$ 1,033,586
	=====	=====

Depreciation and amortization included in occupancy and equipment expense totaled \$194,531 and \$160,570 for the years ended December 31, 2005 and 2004, respectively.

6. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2005	2004
Savings	\$ 10,610,990	\$ 8,762,134
Money market	28,498,692	25,112,038
NOW accounts	24,439,422	20,815,009
Time, \$100,000 or more	33,764,013	23,354,908
Other time	19,848,924	19,985,744
	-----	-----
	\$117,162,041	\$ 98,029,833
	=====	=====

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

6. INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31, -----	
2006	\$ 48,610,445
2007	651,351
2008	3,252,008
2009	1,068,560
2010	30,573

	\$ 53,612,937

Interest expense recognized on interest-bearing deposits consisted of the following:

	Year Ended December 31, -----	
	2005	2004
	-----	-----
Savings	\$ 67,109	\$ 35,050
Money market	376,226	228,710
NOW accounts	385,852	153,313
Time, \$100,000 or more	738,638	427,116
Other time	460,266	351,048
	-----	-----
	\$2,028,091	\$1,195,237
	=====	=====

7. BORROWING ARRANGEMENTS

The Bank has a \$3,000,000 federal funds line of credit agreement with one of its correspondent banks. The Bank also maintains a \$1,000,000 letter of credit with another correspondent bank. There were no borrowings outstanding under any of these borrowing arrangements as of December 31, 2005 and 2004.

In addition, the Bank could borrow from the Federal Home Loan Bank on either a short-term or long-term basis up to approximately \$32,000,000 and \$10,000,000 as of December 31, 2005 and 2004, respectively. Various mortgage loans totaling approximately \$25,700,000 and \$14,500,000 and investment securities totaling approximately \$30,400,000 and \$0 as of December 31, 2005 and 2004, respectively, secured these borrowing arrangements.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. BORROWING ARRANGEMENTS (Continued)

There were no outstanding short-term advances at December 31, 2005 and 2004. As of December 31, 2005 and 2004, outstanding long-term advances from the Federal Home Loan Bank (FHLB) consisted of the following:

2005			2004		
Amount	Rate	Maturity Date	Amount	Rate	Maturity Date
\$ 200,000	2.20%	March 6, 2006	\$ 200,000	2.20%	March 6, 2006
200,000	2.82%	October 23, 2006	200,000	2.82%	October 23, 2006
200,000	2.27%	March 26, 2007	200,000	2.27%	March 26, 2007
900,000	3.08%	March 6, 2008	900,000	3.08%	March 6, 2008
1,600,000	2.67%	May 27, 2008	1,600,000	2.67%	May 27, 2008
250,000	3.71%	October 22, 2008	250,000	3.71%	October 22, 2008
900,000	3.94%	April 27, 2009	900,000	3.94%	April 27, 2009
400,000	4.51%	May 12, 2009	400,000	4.51%	May 12, 2009
1,001,268	7.41%	June 22, 2010	1,022,472	7.41%	June 22, 2010
100,000	5.09%	May 12, 2011	100,000	5.09%	May 12, 2011
1,138,352	4.01%	December 6, 2011	1,300,000	4.01%	December 6, 2011
1,250,000	4.44%	December 6, 2011	1,250,000	4.44%	December 6, 2011
1,000,000	6.02%	January 2, 2012	1,000,000	6.02%	January 2, 2012
9,139,620			9,322,472		
Less current maturities:					
400,000					
\$ 8,739,620			\$ 9,322,472		

Future maturities of outstanding FHLB advances are as follows:

Year Ending December 31,	
2006	\$ 400,000
2007	200,000
2008	2,750,000
2009	1,300,000
2010	1,001,268
Thereafter	3,488,352
	\$ 9,139,620

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

8. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

Valley Commerce Trust I is a Delaware business trust formed by the Company with capital of \$93,000 for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. During the second quarter of 2003, Valley Commerce Trust I (the "Trust") issued 3,000 Floating Rate Capital Trust Pass-Through Securities ("Trust Preferred Securities"), with a liquidation value of \$1,000 per security, for gross proceeds of \$3,000,000. The entire proceeds of the issuance were invested by the Trust in \$3,093,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") issued by the Company, with identical maturity, repricing and payment terms as the Trust Preferred Securities. The Subordinated Debentures represent the sole assets of the Trust. The Subordinated Debentures mature on April 7, 2033, bear a current interest rate of 7.45% (based on 3-month LIBOR plus 3.30%), with repricing and payments due quarterly. The Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Board of Governors, on any January 7, April 7, July 7 or October 7 on or after April 7, 2008. The redemption price is par plus accrued interest, except in the case of redemption under a special event which is defined in the debenture. The Trust Preferred Securities are subject to mandatory redemption to the extent of any early redemption of the junior subordinated debentures and upon maturity of the junior subordinated debentures on April 7, 2033.

Holders of the Trust Preferred Securities are entitled to a cumulative cash distribution on the liquidation amount of \$1,000 per security at an initial rate per annum of 4.59%. For each successive period beginning on January 7, April 7, July 7 or October 7 of each year, the rate will be adjusted to equal the 3-month LIBOR plus 3.30% provided, however, that prior to July 7, 2008, such annual rate does not exceed 12.50%. As of December 31, 2005, the rate was 7.45%. The Trust has the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the junior subordinated debentures. The Trust Preferred Securities were sold and issued in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the Trust Preferred Securities.

The unamortized deferred costs related to the junior subordinated debentures, which are included in other assets on the consolidated balance sheet, at December 31, 2005 and 2004 were \$39,000 and \$57,000, respectively, and the amortization for each of the years ended December 31, 2005 and 2004 was \$18,000.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

9. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases its Fresno, and Visalia branch offices, its Tulare loan office, and its administrative office under noncancelable operating leases which expire in October 2007, November 2009, January 2007, and June 2008, respectively. The Visalia branch office lease contains two options to renew the lease for five year periods. Future minimum lease payments are as follows:

Year Ending December 31, -----	
2006	\$ 304,634
2007	278,186
2008	179,448
2009	123,200

	\$ 885,468
	=====

Rental expense included in occupancy and equipment expense totaled \$250,968 and \$223,953 for the years ended December 31, 2005 and 2004, respectively.

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The average amount of such reserve balances required at December 31, 2005 was \$3,521,000.

Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheet.

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

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

9. COMMITMENTS AND CONTINGENCIES (Continued)

Financial Instruments With Off-Balance-Sheet Risk (Continued)

The following financial instruments represent off-balance-sheet credit risk:

	December 31,	
	2005	2004
Commitments to extend credit	\$46,708,000	\$28,643,000
Standby letters of credit	\$ 1,646,000	\$ 948,000

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2005 and 2004. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2005, consumer loan commitments represent approximately 7% of total commitments and are generally unsecured. Commercial loan commitments represent approximately 45% of total commitments and are generally secured by various assets of the borrower. Real estate loan commitments represent the remaining 48% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. In addition, the majority of the Company's commitments have variable interest rates.

Significant Concentrations of Credit Risk

The Company grants real estate mortgage, real estate construction, commercial, agricultural and consumer loans to customers throughout the cities of Visalia, Tulare, Fresno, Woodlake and Tipton, California.

Although the Company has a diversified loan portfolio, a substantial portion of its portfolio is secured by commercial and residential real estate. However, personal and business income represent the primary source of repayment for a majority of these loans.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

9. COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Company.

10. SHAREHOLDERS' EQUITY

Dividend Restrictions

The Company's ability to pay cash dividends is dependent on dividends paid to it by the Bank and limited by California corporation law. Under California law, the holders of common stock of the Company are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available, subject to certain restrictions. The California general corporation law prohibits the Company from paying dividends on its common stock unless: (i) its retained earnings, immediately prior to the dividend payment, equals or exceeds the amount of the dividend or (ii) immediately after giving effect to the dividend, the sum of the Company's assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the Company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities.

Dividends from the Bank to the Company are restricted under California law to the lesser of the Bank's retained earnings or the Bank's net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of the Department of Financial Institutions, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year, or the net income of the Bank for its current fiscal year. As of December 31, 2005, the maximum amount available for dividend distribution under this restriction was approximately \$4,677,182. In addition, the Company's ability to pay dividends is subject to certain covenants contained in the indentures relating to the Trust Preferred Securities issued by the business trust (see Note 8).

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. SHAREHOLDERS' EQUITY (Continued)

Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows:

For the Year Ended	Net Income	Weighted Average Number of Shares Outstanding	Per Share Amount

December 31, 2005			
Basic earnings per share	\$ 2,162,807	2,062,912	\$ 1.05
			=====
Effect of dilutive stock options		120,809	

Diluted earnings per share	\$ 2,162,807	2,183,721	\$ 0.99
			=====
December 31, 2004			
Basic earnings per share	\$ 1,629,247	1,440,383	\$ 1.13
			=====
Effect of dilutive stock options		97,671	

Diluted earnings per share	\$ 1,629,247	1,538,054	\$ 1.06
			=====

Shares of common stock issuable under stock options for which the exercise prices are greater than the average market prices are not included in the computation of diluted earnings per share due to their antidilutive effect. There were no options excluded from the computation of diluted earnings per share for the years ended December 31, 2005 and 2004.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. SHAREHOLDERS' EQUITY (Continued)

Stock Options

The Valley Commerce Bancorp Amended and Restated Stock Option Plan ("Plan") was established in 1997. Under the plan, 346,784 shares of common stock are reserved for issuance to employees and directors under incentive and nonstatutory agreements as of December 31, 2005. The plans require that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised. Payment in full for the option price must be made in cash or with Company common stock previously acquired by the optionee and held by the optionee for a period of at least six months. The options expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. Upon grant, options vest ratably over a one to five year period. A summary of the activity within the plans follows:

	2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<u>Incentive</u>				
Options outstanding, beginning of year	37,905	\$ 9.35	24,975	\$ 7.61
Options granted			12,930	\$ 12.70
Options forfeited	(3,861)	\$ 12.70		
Options outstanding, end of year	34,044	\$ 8.97	37,905	\$ 9.35
Options exercisable, end of year	22,784	\$ 8.40	16,744	\$ 8.37
<u>Nonstatutory</u>				
Options outstanding, beginning of year	194,050	\$ 7.47	172,775	\$ 6.83
Options granted			21,275	\$ 12.70
Options outstanding, end of year	194,050	\$ 7.47	194,050	\$ 7.47
Options exercisable, end of year	174,998	\$ 6.96	167,050	\$ 6.74

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. SHAREHOLDERS' EQUITY (Continued)

Stock Options (Continued)

A summary of options outstanding at December 31, 2005 follows:

Range of Exercise Prices	Number of Options Outstanding December 31, 2005	Weighted Average Remaining Contractual Life	Options Exercisable December 31, 2005
Incentive			
\$ 7.49	20,842	5.8 years	16,676
\$ 8.25	4,134	6.9 years	2,480
\$ 12.70	9,068	8.1 years	3,628
	-----		-----
	34,044		22,784
	-----		-----
NonsStatutory			
\$ 6.22	100,510	1.9 years	100,510
\$ 6.53	19,145	4.1 years	19,145
\$ 6.79	19,145	3.3 years	19,145
\$ 6.86	18,233	5.0 years	18,233
\$ 11.11	15,750	7.9 years	9,450
\$ 12.70	21,267	8.1 years	8,515
	-----		-----
	194,050		174,998
	-----		-----

Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Company and the Bank met all their capital adequacy requirements as of December 31, 2005 and 2004.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (Continued)

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

	December 31,			
	2005		2004	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Valley Commerce Bancorp and Subsidiary	\$25,322,000	11.5%	\$19,216,000	10.8%
Minimum regulatory requirement	\$10,129,000	4.0%	\$ 7,132,000	4.0%
Valley Business Bank	\$24,927,000	11.3%	\$14,910,000	8.4%
Minimum requirement for "Well-Capitalized" institution	\$12,464,000	5.0%	\$ 8,884,000	5.0%
Minimum regulatory requirement	\$ 9,971,000	4.0%	\$ 7,107,000	4.0%
Tier 1 Risk-Based Capital Ratio				
Valley Commerce Bancorp and Subsidiary	\$25,322,000	14.8%	\$19,216,000	14.7%
Minimum regulatory requirement	\$ 6,836,000	4.0%	\$ 5,228,000	4.0%
Valley Business Bank	\$24,927,000	14.6%	\$14,910,000	11.4%
Minimum requirement for "Well-Capitalized" institution	\$10,242,000	6.0%	\$ 7,825,000	6.0%
Minimum regulatory requirement	\$ 6,828,000	4.0%	\$ 5,217,000	4.0%
Total Risk-Based Capital Ratio				
Valley Commerce Bancorp and Subsidiary	\$27,088,000	15.9%	\$20,617,000	15.8%
Minimum regulatory requirement	\$13,672,000	8.0%	\$10,455,000	8.0%
Valley Business Bank	\$26,693,000	15.6%	\$16,311,000	12.5%
Minimum requirement for "Well-Capitalized" institution	\$17,070,000	10.0%	\$13,042,000	10.0%
Minimum regulatory requirement	\$13,656,000	8.0%	\$10,434,000	8.0%

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. SHAREHOLDERS' EQUITY (Continued)

Sale of Stock

On December 23, 2004, the Company completed the registration process for 650,000 shares of common stock. On that date, the Company sold 350,750 shares of common stock at \$13 per share. Net proceeds of \$3,749,233 (after underwriting discounts, commissions and other costs) were received by the Company. In January 2005, the 299,250 remaining newly registered shares were sold directly by the Company for net proceeds of \$3,880,321.

11. OTHER EXPENSES

Other expenses consisted of the following:

	Year Ended December 31,	
	2005	2004
Data processing	\$ 422,158	\$ 408,483
Operations	414,485	366,460
Professional and legal	310,928	223,594
Promotional	258,360	192,977
Telephone and postal	171,117	130,834
Supplies	236,859	137,220
Assessment and insurance	124,506	130,854
Amortization expense	62,538	62,538
Other expenses	274,908	223,092
	-----	-----
	\$ 2,275,859	\$ 1,876,052
	=====	=====

12. INCOME TAXES

The provision for income taxes for the years ended December 31, 2005 and 2004 consisted of the following:

	Federal	State	Total
	-----	-----	-----
2005			

Current	\$ 1,188,000	\$ 430,000	\$ 1,618,000
Deferred	(195,000)	(56,000)	(251,000)
	-----	-----	-----
Provision for income taxes	\$ 993,000	\$ 374,000	\$ 1,367,000
	=====	=====	=====
2004			

Current	\$ 767,000	\$ 302,000	\$ 1,069,000
Deferred	(31,000)	(11,000)	(42,000)
	-----	-----	-----
Provision for income taxes	\$ 736,000	\$ 291,000	\$ 1,027,000
	=====	=====	=====

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

12. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following:

	December 31,	
	2005	2004
Deferred tax assets:		
Allowance for loan losses	\$ 751,000	\$ 588,000
Unrealized loss on available-for-sale investment securities	345,000	49,000
Deferred compensation	259,000	156,000
Intangible assets	83,000	84,000
Future benefit of state income tax deduction	66,000	49,000
	-----	-----
Total deferred tax assets	1,504,000	926,000
	-----	-----
Deferred tax liabilities:		
Bank premises and equipment	(94,000)	(86,000)
Loan costs	(94,000)	(82,000)
Other	(25,000)	(14,000)
	-----	-----
Total deferred tax liabilities	(213,000)	(182,000)
	-----	-----
Net deferred tax assets	\$ 1,291,000	\$ 744,000
	=====	=====

The Company believes that it is more likely than not that it will realize the above deferred tax assets in future periods; therefore, no valuation allowance has been provided against its deferred tax assets.

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rate to operating income before income taxes. The items comprising these differences consisted of the following:

	Year Ended December 31,			
	2005		2004	
	Amount	Rate %	Amount	Rate %
Federal income tax expense, at statutory rate	\$ 1,200,100	34.0	\$ 903,100	34.0
State franchise tax, net of Federal tax effect	252,500	7.2	190,000	7.2
Interest on obligations of states and political subdivisions	(93,800)	(2.7)	(43,200)	(1.6)
Other	8,200	0.2	(22,900)	(0.9)
	-----	-----	-----	-----
Total income tax expense	\$ 1,367,000	38.7	\$ 1,027,000	38.7
	=====	=====	=====	=====

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

13. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including executive officers and directors. These transactions include borrowings from the Company with substantially the same terms, including rates and collateral, as loans to unrelated parties. The following is a summary of the aggregate activity involving related party borrowers during 2005:

Balance, January 1, 2005	\$ 3,560,136
Disbursements	3,286,962
Amounts repaid	(2,801,978)

Balance, December 31, 2005	\$ 4,045,120
	=====
Undisbursed commitments to related parties, December 31, 2005	\$ 1,557,687

14. EMPLOYEE BENEFIT PLANS

Employee Retirement Plan

The Company adopted the Valley Business Bank 401(k) Profit Sharing Plan, effective January 1, 1997. All employees that work 30 or more hours per week with more than 3 months of service are eligible to participate in the plan. Eligible employees may elect to make tax deferred contributions of their salary up to the maximum amount allowed by law. The Company matches 50% of employee contributions, up to 3% of the employees' annual salary. Company contributions vest at a rate of 20% annually. Bank contributions for the years ended December 31, 2005 and 2004 totaled \$47,000 and \$35,000, respectively.

Salary Continuation and Retirement Plans

Salary continuation plans are in place for three key executives. Under these plans, the executives will receive monthly payments after retirement until death. These benefits are substantially equivalent to those available under split-dollar life insurance policies purchased by the Bank on the lives of the executives. In addition, the estimated present value of these future benefits is accrued over the period from the effective dates of the plans until the participants' expected retirement dates. The expense recognized under these plans for the years ended December 31, 2005 and 2004 totaled \$195,232 and \$150,657, respectively. Income earned on these policies, net of expenses, totaled \$103,851 and \$98,625 for the years ended December 31, 2005 and 2004, respectively.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

15. COMPREHENSIVE INCOME

Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income. The unrealized gains and losses on the Company's available-for-sale investment securities are included in other comprehensive income (loss). Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the consolidated statement of changes in shareholders' equity.

At December 31, 2005 and 2004, the Company held securities classified as available-for-sale which had unrealized losses as follows:

	Before Tax -----	Tax Benefit (Expense) -----	After Tax -----
For the Year Ended December 31, 2005			

Other comprehensive loss:			
Unrealized holding losses	\$ (810,296)	\$ 314,073	\$ (496,223)
Reclassification adjustment for losses included in net income	(48,494)	18,780	(29,714)
	-----	-----	-----
Total other comprehensive loss	\$ (761,802)	\$ 295,293	\$ (466,509)
	=====	=====	=====
 For the Year Ended December 31, 2004			

Other comprehensive loss:			
Unrealized holding losses	\$ (90,427)	\$ 34,981	\$ (55,446)
Reclassification adjustment for gains included in net income	7,390	(2,846)	4,544
	-----	-----	-----
Total other comprehensive loss	\$ (97,817)	\$ 37,827	\$ (59,990)
	=====	=====	=====

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following methods and assumptions were used by management to estimate the fair value of its financial instruments at December 31, 2005 and 2004:

Cash and cash equivalents: For cash and cash equivalents, the carrying amount is estimated to be fair value.

Investment securities: For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers.

Loans: For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. The carrying amount of accrued interest receivable approximates its fair value.

Cash surrender value of Bank-owned life insurance: The fair values of life insurance policies are based on current cash surrender values at each reporting date provided by the insurers.

Federal Home Loan Bank stock: For Federal Home Loan Bank stock, cost approximates fair value.

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates offered at each reporting date by the Bank for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Long-term debt: The fair values of fixed-rate borrowings are estimated by discounting their future cash flows using rates at each reporting date for similar instruments. The fair values of variable rate borrowings are based on carrying value.

Junior subordinated deferrable interest debentures: The fair value of junior subordinated deferrable interest debentures was determined based on the current market value for the like kind instruments of a similar maturity and structure.

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Commitments to extend credit: Commitments to extend credit are primarily for variable rate loans and standby letters of credit. For these commitments, there is no difference between the committed amounts and their fair values. Commitments to fund fixed rate loans and standby letters of credit are at rates which approximate fair value at each reporting date. The fair value of the commitments at each reporting date were not significant and not included in the accompanying table.

	December 31, 2005		December 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 17,733,285	\$ 17,733,285	\$ 9,036,062	\$ 9,036,062
Federal funds sold	1,885,000	1,885,000	17,750,000	17,750,000
Available-for-sale investment securities	50,391,000	50,391,000	38,099,000	38,099,000
Loans, net	149,990,614	150,113,000	114,834,245	115,846,000
Cash surrender value of life insurance policies	2,781,169	2,781,169	2,677,318	2,677,318
Accrued interest receivable	1,233,324	1,233,324	718,558	718,558
FHLB stock	1,056,900	1,056,900	622,600	622,600
Financial liabilities:				
Deposits	192,581,114	191,771,000	156,423,904	156,592,278
Long-term debt	9,139,620	8,969,000	9,322,472	9,369,671
Junior subordinated deferrable interest debentures	3,093,000	3,093,000	3,093,000	3,093,000
Accrued interest payable	196,607	196,607	127,226	127,226

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEET
December 31, 2005 and 2004

	2005	2004
	-----	-----
ASSETS		
Cash and due from banks	\$ 251,698	\$ 4,219,418
Investment in bank subsidiary	24,505,188	15,017,441
Other assets	353,656	364,192
	-----	-----
	\$ 25,110,542	\$ 19,601,051
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	\$ 108,285	\$ 175,413
Junior subordinated debentures due to subsidiary grantor trust	3,093,000	3,093,000
	-----	-----
Total liabilities	3,201,285	3,268,413
	-----	-----
Shareholders' equity:		
Common stock	18,332,290	14,451,969
Retained earnings	4,122,088	1,959,281
Accumulated other comprehensive loss, net of taxes	(545,121)	(78,612)
	-----	-----
Total shareholders' equity	21,909,257	16,332,638
	-----	-----
	\$ 25,110,542	\$ 19,601,051
	=====	=====

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENT OF INCOME

For the Years Ended December 31, 2005 and 2004

	2005	2004
Income:		
Dividends declared by bank subsidiary		\$ 460,000
Earnings from investment in Valley Commerce Trust I	\$ 6,279	4,509
	6,279	464,509
Total income		
Expenses:		
Interest on junior subordinated deferrable interest debentures	208,787	149,974
Other expenses	292,941	160,451
	501,728	310,425
Total expenses		
(Loss) income before equity in undistributed income of subsidiary	(495,449)	154,084
Equity in undistributed income of subsidiary	2,454,256	1,327,163
Income before income taxes	1,958,807	1,481,247
Income tax benefit	204,000	148,000
	\$ 2,162,807	\$ 1,629,247
Net income	\$ 2,162,807	\$ 1,629,247

VALLEY COMMERCE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2005 and 2004

	2005	2004
	-----	-----
Cash flows from operating activities:		
Net income	\$ 2,162,807	\$ 1,629,247
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed net income of subsidiary	(2,454,256)	(1,327,163)
(Decrease) increase in other assets	10,536	(130,203)
(Decrease) increase in other liabilities	(67,128)	142,533
	-----	-----
Net cash (used in) provided by operating activities	(348,041)	314,414
	-----	-----
Cash flows from investing activities:		
Investment in bank subsidiary	(7,500,000)	
	-----	-----
Cash flows from financing activities:		
Cash paid for fractional shares		(5,726)
Net proceeds from sale of common stock	3,880,321	3,749,233
	-----	-----
Net cash provided by financing activities	3,880,321	3,743,507
	-----	-----
(Decrease) increase in cash and cash equivalents	(3,967,720)	4,057,921
Cash and cash equivalents at beginning of year	4,219,418	161,497
	-----	-----
Cash and cash equivalents at end of year	\$ 251,698	\$ 4,219,418
	=====	=====