

CENTURY BANK

FINANCIAL STATEMENTS

For the Years Ended December 31, 2008 and 2007



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FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Century Bank
Eugene, Oregon

We have audited the accompanying balance sheets of Century Bank as of December 31, 2008 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of Century Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Jones & Roth P.C.

Jones & Roth, P.C.
Eugene, Oregon
February 20, 2009

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FINANCIAL STATEMENTS

CENTURY BANK
BALANCE SHEETS
December 31, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 1,373,470	\$ 1,476,091
Federal funds sold	4,800,000	2,205,000
Total cash and cash equivalents	6,173,470	3,681,091
Investment securities available-for-sale	278,791	358,738
Federal Home Loan Bank stock	340,000	160,000
Loans, net	71,946,090	60,608,961
Other real estate owned	1,900,000	-
Premises and equipment, net	251,514	268,022
Interest receivable and other assets	744,287	744,096
Total assets	\$ 81,634,152	\$ 65,820,908
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Demand	\$ 20,499,756	\$ 17,646,369
Savings and money market	14,708,131	22,047,233
Time	31,853,910	11,869,850
Total deposits	67,061,797	51,563,452
Interest payable and other liabilities	301,707	215,990
Long-term borrowings	4,000,000	4,000,000
Total liabilities	71,363,504	55,779,442
Stockholders' equity		
Preferred stock, no par value; 2,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, no par value; 10,000,000 shares authorized; 1,000,000 shares issued and outstanding	10,052,208	10,033,606
Retained earnings	217,121	9,230
Accumulated other comprehensive income (loss)	1,319	(1,370)
Total stockholders' equity	10,270,648	10,041,466
Total liabilities and stockholders' equity	\$ 81,634,152	\$ 65,820,908

The accompanying notes are an integral part of these statements.

CENTURY BANK
STATEMENTS OF INCOME
For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Interest income		
Interest and fees on loans	\$ 4,582,678	\$ 4,243,051
Interest on investment securities available-for-sale	15,278	26,486
Interest on deposits with banks	18,541	142,304
Interest on federal funds sold	<u>53,343</u>	<u>338,830</u>
Total interest income	<u>4,669,840</u>	<u>4,750,671</u>
Interest expense		
Interest-bearing demand	539,521	1,252,889
Savings and time	782,982	591,637
Short-term borrowings	11,604	37,984
Long-term borrowings	<u>166,800</u>	<u>15,081</u>
Total interest expense	<u>1,500,907</u>	<u>1,897,591</u>
Net interest income	3,168,933	2,853,080
Provision for loan losses	<u>321,943</u>	<u>213,620</u>
Net interest income after provision for loan losses	<u>2,846,990</u>	<u>2,639,460</u>
Non-interest income	<u>144,079</u>	<u>110,977</u>
Non-interest expenses		
Salaries and employee benefits	1,491,585	1,290,179
Occupancy and equipment	413,245	304,060
Data processing	279,653	261,825
Professional fees	110,409	85,943
Supplies and printing	33,727	41,237
Correspondent bank charges	37,668	28,984
Communications	19,990	18,322
Advertising	14,254	11,669
Other expense	<u>212,085</u>	<u>191,554</u>
Total non-interest expenses	<u>2,612,616</u>	<u>2,233,773</u>
Income before provision for income taxes	378,453	516,664
Provision (credit) for income taxes	<u>170,562</u>	<u>(63,424)</u>
Net income	<u>\$ 207,891</u>	<u>\$ 580,088</u>
Basic earnings per common share	<u>\$ 0.21</u>	<u>\$ 0.58</u>
Diluted earnings per common share	<u>\$ 0.21</u>	<u>\$ 0.56</u>

The accompanying notes are an integral part of these statements.

CENTURY BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2008 and 2007

	<u>Number of Shares</u>	<u>Comprehensive Income</u>	<u>Common Stock</u>	<u>Retained Earnings and Accumulated Deficit</u>	<u>Net Unrealized Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balances, December 31, 2006	1,000,000		\$ 9,982,303	\$ (570,858)	\$ (10,453)	\$ 9,400,992
Comprehensive income:						
Net income		\$ 580,088	-	580,088	-	580,088
Other comprehensive income- unrealized holding gain on securities available-for-sale		<u>9,083</u>	-	-	9,083	9,083
Total comprehensive income		<u>\$ 589,171</u>				
Stock-based compensation expense	<u>-</u>		<u>51,303</u>	<u>-</u>	<u>-</u>	<u>51,303</u>
Balances, December 31, 2007	1,000,000		10,033,606	9,230	(1,370)	10,041,466
Comprehensive income:						
Net income		\$ 207,891	-	207,891	-	207,891
Other comprehensive income- unrealized holding gain on securities available-for-sale		<u>2,689</u>	-	-	2,689	2,689
Total comprehensive income		<u>\$ 210,580</u>				
Stock-based compensation expense	<u>-</u>		<u>18,602</u>	<u>-</u>	<u>-</u>	<u>18,602</u>
Balances, December 31, 2008	<u>1,000,000</u>		<u>\$ 10,052,208</u>	<u>\$ 217,121</u>	<u>\$ 1,319</u>	<u>\$ 10,270,648</u>

The accompanying notes are an integral part of these statements.

CENTURY BANK
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Net income	\$ 207,891	\$ 580,088
Adjustments to reconcile net income to net cash provided by operating activities:		
Loan loss provision	321,943	213,620
Stock-based compensation	18,602	51,303
Depreciation and amortization	101,250	82,790
Deferred income tax benefit	(58,100)	(279,900)
Increase in interest receivable and other assets	(1,842,090)	(71,127)
Increase in interest payable and other liabilities	<u>85,716</u>	<u>78,043</u>
Net cash provided (used) by operating activities	<u>(1,164,788)</u>	<u>654,817</u>
Cash flows from investing activities		
Purchase of Federal Home Loan Bank stock	(180,000)	(141,100)
Proceeds from maturity of securities available-for-sale	82,636	1,090,769
Loan originations, net	(11,868,821)	(22,402,394)
Loans serviced for others, net	209,749	3,145,127
Purchases of premises and equipment	<u>(84,742)</u>	<u>(86,779)</u>
Net cash used by investing activities	<u>(11,841,178)</u>	<u>(18,394,377)</u>
Cash flows from financing activities		
Net increase in deposits	15,498,345	13,434,806
Proceeds from borrowings	<u>-</u>	<u>4,000,000</u>
Net cash provided by financing activities	<u>15,498,345</u>	<u>17,434,806</u>
Net increase (decrease) in cash and cash equivalents	2,492,379	(304,754)
Cash, beginning of year	<u>3,681,091</u>	<u>3,985,845</u>
Cash, end of year	<u>\$ 6,173,470</u>	<u>\$ 3,681,091</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Income taxes	<u>\$ 245,900</u>	<u>\$ 111,500</u>
Non-cash investing activities:		
Net change in unrealized gain on available-for-sale investment securities	<u>\$ 2,689</u>	<u>\$ 9,083</u>

The accompanying notes are an integral part of these statements.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

In December 2003, Century Bank (the Bank) received regulatory approval to become a state-chartered institution authorized to provide banking services in the state of Oregon. The Bank, through a stock offering, sold and issued 1,000,000 shares of no par value common stock at \$10 per share and, effective April 5, 2004, the Bank commenced operations. The Bank is subject to the regulations of certain federal and state agencies and periodically receives examinations by those regulatory authorities.

Description of Business

The Bank conducts a general banking business in the Eugene and Springfield, Oregon area and primarily operates in one business segment. Its activities include the usual lending and deposit functions of a commercial bank: commercial, real estate, and installment loans; checking, money market, savings, and time deposit accounts; internet banking and bill payment; an automated teller machine; and safe deposit facilities.

Method of Accounting

The Bank prepares its financial statements in conformity with accounting principles generally accepted in the United States and prevailing practices within the banking industry. The Bank utilizes the accrual method of accounting which recognizes income when earned and expenses when incurred. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses, during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and interest-bearing deposits with banks with original maturities of 90 days or less. Generally, federal funds are sold for one-day periods.

The Bank maintains balances in correspondent bank accounts which, at times, may exceed federally insured limits. Management believes that its risk of loss associated with such balances is minimal due to the financial strength of the correspondent banks. The Bank has not experienced any losses in such accounts.

Supplemental Disclosures of Cash Flow Information

During the years ended December 31, 2008 and 2007, the Bank paid approximately \$1,467,000 and \$1,875,000, respectively, in interest expense and had non-cash transactions related to unrealized gains and losses on investment securities available-for-sale, and stock-based compensation expense as disclosed in the accompanying statements of changes in stockholders' equity.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Investment Securities

Investment securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity. The Bank had no held-to-maturity securities during the years ended December 31, 2008 and 2007.

Investment securities that are purchased and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses included in non-interest income. The Bank had no trading securities during the years ended December 31, 2008 and 2007.

Investment securities that are not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses excluded from operations and reported as other comprehensive income or loss. The fair value of available-for-sale securities is based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar instruments.

Management determines the appropriate classification of securities at the time of purchase.

Gains and losses on the sales of available-for-sale securities are determined using the specific-identification method. Premiums and discounts on available-for-sale securities are recognized in interest income using the interest method generally over the period to maturity.

Declines in the fair value of individual available-for-sale securities below their cost that are other-than-temporary would result in write-downs of the individual securities to their fair value. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, and (iii) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value. The related write-downs would be included in operations as realized losses. Management believes that all unrealized losses on investment securities as of December 31, 2008 and 2007 are temporary.

Federal Home Loan Bank Stock

Restricted equity securities of the Federal Home Loan Bank (FHLB) are carried at par value, which approximates fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in their stock. The Bank may request redemption at par value of any stock in excess of the amount required to be held. Stock redemptions are made at the discretion of the FHLB.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Loans

Loans are stated at the amount of unpaid principal, reduced by the reserve for loan losses and deferred loan fees.

Interest income on loans is accrued as earned on the simple interest method. The accrual of interest on loans is discontinued when a loan becomes more than 90 days delinquent and, in management's opinion, it is determined that the borrower may be unable to make payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due.

Loan origination and commitment fees, net of certain direct loan origination costs, are generally recognized as an adjustment of the yield of the related loan.

Loan Sales and Servicing

Participations in commercial, real estate, and installment loans totaling approximately \$3,471,000 and \$3,262,000 were serviced for others at December 31, 2008 and 2007, respectively. These loans were sold without recourse; therefore their balances are not included on the balance sheet.

Reserve for Loan Losses

The reserve for loan losses represents management's recognition of the assumed risks of extending credit. The reserve is established to absorb known and inherent losses in the loan portfolio as of the balance sheet date. The reserve is maintained at a level considered adequate to provide for potential loan losses based on management's assessment of various factors affecting the portfolio. The reserve is based on estimates, and ultimate losses may vary from the current estimates. Management continues to evaluate the estimates used in determining the adequacy of the reserve for loan losses as the loan portfolio seasons and additional experience is gained. As adjustments for the estimates become necessary, they are reported in operations in the period in which they become known. The reserve is increased by provisions charged to operations and reduced by loans charged-off net of recoveries.

The Bank's methodology for assessing the appropriate level of the reserve for loan losses consists of applying loss factors to outstanding loan balances segregated by differing risk categories. The loss factors are estimates derived from management's understanding of the Bank's current loan portfolio and comparative industry data.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Reserve for Loan Losses, continued

Impaired loans are either specifically allocated for in the reserve for loan losses or reflected as a partial charge-off of the loan balance. The Bank considers loans to be impaired when management believes that it is probable that all amounts due will not be collected according to the contractual terms. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the loan's underlying collateral or related guaranty. Since a significant portion of the Bank's loans are collateralized by real estate, the Bank primarily measures impairment based on the fair value of the underlying collateral or related guaranty. In certain other cases, impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Smaller balance homogeneous loans (typically installment loans) are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual installment loans for impairment disclosures. Generally, the Bank evaluates a loan for impairment when it is placed on nonaccrual status. The Bank had no impaired loans at December 31, 2008 and 2007.

Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's reserve for loan losses. Such agencies may require the Bank to recognize additions to the reserve in the future based on their judgment of the information available to them at the time of their examinations.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenues and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. The Bank had \$1,900,000 and \$0- in other real estate owned at December 31, 2008 and 2007, respectively.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is computed on the straight-line method over the shorter of the estimated useful lives of the assets or terms of the leases. Amortization of leasehold improvements is included with depreciation and amortization expense in the accompanying financial statements.

Available Credit

At December 31, 2008 and 2007, the Bank had \$3,000,000, respectively, in available borrowings from a correspondent bank under a federal funds line of credit. The Bank also had \$3,000,000 in available borrowings from a second correspondent bank under a federal fund line of credit at December 31, 2008 and 2007, respectively. Each line of credit is unsecured and the interest rates are variable based upon inter-bank borrowing rates.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Available Credit, continued

The Bank had \$7,837,000 and \$10,800,000 in available borrowings at December 31, 2008 and 2007, respectively, from the FHLB. The Bank had \$4,000,000 in borrowings outstanding under these agreements at December 31, 2008 and 2007, respectively, with a fixed rate of 4.17 percent. This borrowing is collateralized with a blanket lien on all assets of the Bank and all other borrowings made by the Bank are subordinated to the FHLB borrowings. Outstanding borrowings are due in full November 2009.

During 2008, the Bank became eligible to borrow funds from the Federal Reserve Bank of San Francisco (FRB) Discount Window. The amount the Bank is eligible to borrow is based on the amount of collateral outstanding and the application of margin percentages to the collateral totals. Borrowing on the line is available for up to 90 days, but can be extended for up to one year based on approval from the FRB. The variable interest rate on the borrowing line is determined by Federal Open Market Committee which was 0.50 percent at December 31, 2008. At December 31, 2008, the Bank had \$20,593,000 in available borrowings from the FRB.

Preferred Stock

The Bank's preferred stock is issuable in series with such voting rights, if any, designations, powers, preferences, and other rights and such qualifications, limitations, and restrictions as may be determined by the Bank's Board of Directors (the Board) or by action of the stockholders of the Bank. As of December 31, 2008 and 2007, there were no shares of preferred stock outstanding.

Stock-based Compensation

Prior to January 1, 2006, the Bank accounted for stock-based compensation arrangements under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock issued to Employees*, and related interpretations. Under this method, no compensation expense was recognized, as the exercise price of each stock option which the Bank granted was equal to the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, the Bank adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R requires the measurement of compensation cost for all stock-based awards to be based on the grant-date fair value and recognition of compensation cost over the service period of stock-based awards, which is generally the same as the vesting period. The fair value of stock options is determined using the Black-Scholes valuation model.

Advertising Costs

Advertising costs are generally charged to expense during the year in which they are incurred.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Income Taxes

Deferred income tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred income tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred income tax assets and liabilities are adjusted through the provision or credit for income taxes.

The Bank adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty for Income Taxes* (FIN 48), on January 1, 2007. FIN 48 establishes a recognition threshold and measurement for income tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a two-step, evaluation process for tax positions. The first step is recognition and the second is measurement. For recognition, an enterprise judgmentally determines whether it is "more-likely-than-not" that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the "more-likely-than-not" recognition threshold, it is measured and recognized in the financial statements. If a tax position does not meet the "more-likely-than-not" recognition threshold, a valuation allowance is used to reduce the benefit and that position is not recognized in the financial statements.

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. SFAS No. 157 clarifies that market participant assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, SFAS No. 157 establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS No. 157 was effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 on January 1, 2008 did not have a material effect on the Bank's financial statements. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of SFAS No. 157*, which delayed the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarifies the application of SFAS No. 157 in a market that is not active. FSP No. FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The adoption of FSP No. FAS 157-3 did not have a material impact on the Bank's financial statements.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Recently Issued Accounting Standards, continued

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 provides entities with an option to report certain financial assets and liabilities at fair value — with changes in fair value reported in earnings — and requires additional disclosures related to an entity's election to use fair value reporting. It also requires entities to display the fair value of those assets and liabilities for which the entity has elected to use fair value on the face of the balance sheet. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 did not have a material impact on the Bank's financial statements.

In June 2007, the Emerging Issues Task Force (EITF) issued EITF 06-11 which discussed how an entity should recognize the income tax benefit received on dividends that are (a) paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options and (b) charged to retained earnings under FASB No. 123R. The EITF reached a consensus that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards (as described in paragraphs 62 and 63 of FASB No. 123R). The consensus in this issue should be applied prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The application of EITF 06-11 did not have a material impact on the Bank's financial statements.

In February 2008, the FASB issued FSP 140-3 to add guidance to Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, which provided accounting and reporting standards for transfers of financial assets. Statement 140 requires that all involvements of a transferor with the transferred financial asset be considered in analyzing whether the transferor has surrendered control over the transferred financial asset, even if those involvements occur subsequent to the transfer.

Statement 140 also provides guidance on how to account for a repurchase agreement. However, Statement 140 does not directly address a repurchase financing transaction. Statement 140 presumes that the transferor and transferee account for a transfer of a financial asset symmetrically. This FSP applies to *repurchase financing*, which is a repurchase agreement that relates to a previously transferred financial asset between the same counterparties that is entered into contemporaneously with, or in contemplation of, the initial transfer. The application of FSP 140-3 did not have a material impact on the Bank's financial statements.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

Recently Issued Accounting Standards, continued

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This FSP provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method described in paragraphs 60 and 61 of SFAS No. 128, "Earnings per Share". This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period earnings per share data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this FSP. Early application is not permitted. The Bank's adoption of this FSP on January 1, 2009 is not expected to have a material impact on the Bank's financial statements.

Emergency Economic Stabilization Act of 2008

In October 2008, the U.S. Congress passed the Emergency Economic Stabilization Act. A summary of the Act's provision is as follows:

- The bill gives the U.S. Treasury Secretary up to \$700 billion to buy mortgages and other troubled assets owned by financial institutions under a new Troubled Asset Relief Program (TARP).
- The Treasury Department will immediately receive \$250 billion to begin TARP.
- An additional \$100 billion will be provided if the President certifies that the money is necessary.
- An additional \$350 billion will be provided if the President certifies that the money is necessary and if the U.S. Congress approves of funding.
- The bill also establishes a program to allow the government to insure, instead of buying, some troubled assets held by banks.
- The bill establishes an oversight board to monitor the Treasury Department's use of the funds.
- The bill allows the Treasury Department to establish rules limiting executive compensation, bonuses, "golden parachutes" and other incentives at institutions participating in TARP.
- Participating institutions will also lose certain tax benefits related to compensation.
- The bill increases the amount of deposit account insurance coverage from \$100,000 to \$250,000 for interest-bearing deposit accounts and non-interest bearing transaction accounts, the latter of which are fully insured until December 31, 2009.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

2. Investment Securities Available-For-Sale

At December 31, investment securities available-for-sale consisted of the following:

	<u>2008</u>	<u>2007</u>
Mortgage backed securities:		
Amortized cost	\$ 276,663	\$ 360,108
Gross unrealized gains	2,128	-
Gross unrealized losses	<u>-</u>	<u>1,370</u>
Fair value	<u>\$ 278,791</u>	<u>\$ 358,738</u>

The amortized cost and estimated fair value of investment securities available-for-sale at December 31, 2008, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Mortgage-backed securities	<u>\$ 276,663</u>	<u>\$ 278,791</u>

3. Loans

At December 31, loans consisted of the following :

	<u>2008</u>	<u>2007</u>
Commercial	\$ 25,682,281	\$ 16,972,969
Real estate:		
Construction	5,934,393	6,218,484
Mortgage	16,190,018	5,292,123
Commercial	15,913,526	20,142,729
Installment	<u>9,280,619</u>	<u>12,891,249</u>
	<u>73,000,837</u>	<u>61,517,554</u>
Less:		
Reserve for loan losses	846,700	698,910
Deferred loan fees	<u>208,047</u>	<u>209,683</u>
	<u>1,054,747</u>	<u>908,593</u>
Loans, net	<u>\$ 71,946,090</u>	<u>\$ 60,608,961</u>

The Bank's customers are primarily located in the Eugene and Springfield, Oregon area and a substantial portion of the Bank's loans are collateralized by real estate in this geographic area. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in the local market conditions.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

4. Reserve for Loan Losses

For the years ended December 31, transactions in the reserve for loan losses were as follows:

	<u>2008</u>	<u>2007</u>
Balance, beginning of period	\$ 698,910	\$ 485,290
Provision for loan losses	321,943	213,620
Loans charged-off	<u>(174,153)</u>	<u>-</u>
Balance, end of period	<u>\$ 846,700</u>	<u>\$ 698,910</u>

The Bank had no impaired loans or loans on nonaccrual status at December 31, 2008 and 2007, and no loans past due 90 days or more and still accruing interest at December 31, 2008 and 2007.

5. Premises and Equipment

At December 31, premises and equipment were as follows:

	<u>2008</u>	<u>2007</u>
Furniture and equipment	\$ 562,549	\$ 477,808
Leasehold improvements	<u>17,908</u>	<u>17,908</u>
	580,457	495,716
Accumulated depreciation	<u>(328,943)</u>	<u>(227,694)</u>
Premises and equipment, net	<u>\$ 251,514</u>	<u>\$ 268,022</u>

Depreciation and amortization included in occupancy and equipment expense totaled \$101,250 and \$82,790 for the years ended December 31, 2008 and 2007, respectively.

6. Customer Deposits

Time deposits in excess of \$100,000 aggregated approximately \$16,272,000 and \$9,960,000 at December 31, 2008 and 2007, respectively.

At December 31, the scheduled annual maturities of all time deposits were approximately as follows:

<u>For the Years Ending December 31,</u>		
2009		\$ 30,820,000
2010		500,000
2011		104,000
2012		-
2013		-
Thereafter		<u>-</u>
Total		<u>\$ 31,424,000</u>

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

7. Commitments, Guarantees, and Contingencies

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of amounts recognized in the accompanying balance sheets. The contractual amounts of these instruments reflect the extent of the Bank's involvement in these particular classes of financial instruments. As of December 31, 2008 and 2007, the Bank had no commitments to extend credit at below-market interest rates and held no derivative financial instruments.

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

A summary of the Bank's off-balance sheet financial instruments at December 31, is approximately as follows:

	<u>2008</u>	<u>2007</u>
Commitments to extend credit	\$ 17,426,000	\$ 25,575,000
Standby letters of credit	<u>659,000</u>	<u>625,000</u>
Total off-balance sheet financial instruments	<u>\$ 18,085,000</u>	<u>\$ 26,200,000</u>

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 the payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held, if any, for other commitments varies but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held, if required, varies as specified above.

The Bank maintains a reserve for off-balance sheet financial instruments representing management's recognition of the assumed risks of extending credit. This reserve is calculated using a methodology similar to that used in estimating the Bank's reserve for loan losses. The reserve for off-balance sheet financial instruments totaled approximately \$18,000 and \$26,000 as of December 31, 2008 and 2007, respectively, and is included with interest payable and other liabilities in the accompanying balance sheets.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

7. Commitments, Guarantees, and Contingencies, continued

Operating Leases

During 2006, the Bank entered into a non-cancelable operating lease agreement for office space. The lease agreement includes a renewal option and periodic escalation clauses. Rental payments associated with the new lease began upon commencement of operations at the new premises, which occurred in April 2006.

In February 2008, the Bank extended the agreement to include the second story of the building they currently occupy.

At December 31, 2008, the aggregate minimum rental commitments under this operating lease were approximately as follows:

<u>For the Years Ending December 31,</u>	
2009	\$ 283,000
2010	287,000
2011	302,000
2012	311,000
2013	315,000
Thereafter	<u>747,000</u>
Total minimum lease payments	<u>\$ 2,245,000</u>

Total rent-related expense was approximately \$269,000 and \$182,000 for the years ended December 31, 2008 and 2007, respectively.

Contracts with Executive Officers

The Bank has entered into contracts with certain executive officers which provide for payments contingent upon a change in control of the Bank.

Contract for Data Services

The Bank has a contract with its data services provider for \$567,000 over a period of 39 months from April 2009 to July 2012. The schedule of contract payments is as follows:

<u>For the Years Ending December 31,</u>	
2009	\$ 131,000
2010	174,000
2011	174,000
2012	<u>88,000</u>
Total minimum contract payments	<u>\$ 567,000</u>

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

7. Commitments, Guarantees, and Contingencies, continued

Litigation

In the ordinary course of business, litigation arises from normal banking activities. In the opinion of management, there is no litigation, claims, or assessments that would have a material adverse effect on the Bank's financial statements as of and for the years ended December 31, 2008 and 2007.

Loan Pipeline

At the end of 2008, the Bank had six loans being considered for funding that management believes are more likely than not to ultimately be funded. The total amount to be funded is \$3,863,000. Of this amount, \$2,768,000 is for fixed rate loans and \$1,095,000 is for variable rate loans.

8. Income Taxes

For the years ended December 31, the provision for income taxes consisted of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
2008:			
Current	\$ 188,416	\$ 40,246	\$ 228,662
Deferred	<u>(48,655)</u>	<u>(9,445)</u>	<u>(58,100)</u>
Provision for income taxes	<u>\$ 139,761</u>	<u>\$ 30,801</u>	<u>\$ 170,562</u>
	<u>Federal</u>	<u>State</u>	<u>Total</u>
2007:			
Current	\$ 203,310	\$ 13,166	\$ 216,476
Deferred	<u>(234,400)</u>	<u>(45,500)</u>	<u>(279,900)</u>
Provision (credit) for income taxes	<u>\$ (31,090)</u>	<u>\$ (32,334)</u>	<u>\$ (63,424)</u>

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

8. Income Taxes, continued

At December 31, the components of the net deferred income tax assets were approximately as follows:

	2008	2007
Deferred income tax assets:		
Unamortized pre-opening start-up costs	\$ 4,000	\$ 20,000
Reserve for loan losses	351,000	284,000
Deferred loan fees	84,000	85,900
Stock compensation expense	31,000	24,000
Total deferred income tax assets	470,000	413,900
Deferred income tax liabilities:		
Accrual-to-cash adjustments	71,000	121,000
Excess tax over book depreciation	61,000	13,000
Total deferred income tax liabilities	132,000	134,000
	338,000	279,900
Valuation allowance	-	-
Net deferred income tax assets	\$ 338,000	\$ 279,900

The Bank has determined that it is not required to establish a valuation allowance for the deferred tax assets as management believes it is more likely than not that the deferred tax assets of \$338,000 and \$279,900 at December 31, 2008 and 2007, respectively, will be realized principally through the future reversals of existing taxable temporary differences. Management further believes that future taxable income will be sufficient to realize the benefits of temporary deductible differences that cannot be realized through the reversal of future temporary taxable differences.

The provision for income taxes differs from amounts computed by applying the statutory federal income tax rate to operating income before income taxes, primarily due to state taxes and the effect of the Bank filing their tax return on the cash basis.

9. Basic and Diluted Earnings Per Common Share

The Bank's basic earnings per common share are computed by dividing net income by the weighted-average number of common shares outstanding during the year. The Bank's diluted earnings per common share for the years ended December 31, 2008 and 2007, is computed by dividing net income by the weighted-average number of common shares outstanding plus dilutive common shares related to stock options and warrants. The Bank's diluted share base for the year ended December 31, 2008, excludes 33,404 shares related to stock options and warrants due to being antidilutive. The Bank's diluted share base for the year ended December 31, 2007, excludes 25,464 shares related to stock options and warrants due to being antidilutive.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

9. Basic and Diluted Earnings Per Common Share, continued

The numerators and denominators used in computing basic and diluted earnings per common share for the years ended December 31, can be reconciled as follows:

	2008		
	Net Income (Numerator)	Shares (Denominator)	Earnings Per Common Share
Basic earnings per common share:			
Income available to common stockholders	\$ 207,891	1,000,000	\$ <u>0.21</u>
Effect of assumed conversion of stock options and warrants	-	13,657	
Diluted earnings per common share	\$ 207,891	1,013,657	\$ 0.21
	2007		
	Net Income (Numerator)	Shares (Denominator)	Earnings Per Common Share
Basic earnings per common share:			
Income available to common stockholders	\$ 580,088	1,000,000	\$ <u>0.58</u>
Effect of assumed conversion of stock options and warrants	-	29,586	
Diluted earnings per common share	\$ 580,088	1,029,586	\$ 0.56

10. Transactions with Related Parties

Certain officers and directors (and the companies with which they are associated) are customers of, and have had banking transactions with, the Bank in the ordinary course of the Bank's business. In addition, the Bank expects to continue to have such banking transactions in the future. All loans, and commitments to loan, to such parties are generally made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. In the opinion of management, these transactions do not involve more than the normal risk of collectability or present any other unfavorable features.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

10. Transactions with Related Parties, continued

For the years ended December 31, an analysis of activity of loans to officers and directors of the Bank was as follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 587,029	\$ 178,157
Additions	1,863,000	441,952
Repayments	<u>(538,610)</u>	<u>(33,080)</u>
Balance at end of year	<u>\$ 1,911,419</u>	<u>\$ 587,029</u>

11. Benefit Plan

The Bank maintains a 401(k) plan (the Plan) that covers all employees. Employees may make voluntary tax-deferred contributions to the Plan, and the Bank's contributions related to the Plan are at the discretion of the Board, not to exceed the amount deductible for federal income tax purposes.

Employees vest in the Bank's contributions to the Plan over a period of three years. The amounts charged to operations under the Plan for the Bank's contributions for the years ended December 31, 2008 and 2007, were \$21,925 and \$20,543, respectively.

12. Stock Incentive Plan

Under the Bank's stock incentive plan, the Bank may award Incentive Stock Options (ISOs), Non-qualified Stock Options (NSOs), and Restricted Stock. The stock incentive plan was established to reward employees, directors, and others who contribute to the success and profitability of the Bank and to give such individuals a proprietary interest in the Bank, thereby enhancing their personal interest in the Bank's continued success. The stock incentive plan also assists the Bank in attracting and retaining key employees and qualified corporate directors.

The stock incentive plan prescribes various terms and conditions for the award of ISOs and NSOs, the sale of Restricted Stock, and the total number of shares authorized for this purpose. For ISOs and NSOs, the option strike price must be no less than 100 percent of the fair market value of the Bank's stock price at the date of grant. At December 31, 2008 and 2007, 66,346 and 68,346 shares, respectively, reserved under the stock incentive plan were available for future grant. Generally, options become exercisable based on years of service and vesting schedules. All options expire after a period of ten years from the date of grant.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

12. Stock Incentive Plan, continued

The Bank used the Black-Scholes option-pricing model with the following weighted-average assumptions to value the options:

	<u>2008</u>	<u>2007</u>
Dividend yield	0%	0%
Volatility	15.62%	14.97%
Risk-free interest rate	3.21%	4.55%
Expected option lives	7.5 years	7.5 years

The dividend yield is based on historical dividend information. The expected volatility is based on historical volatility of the Bank's common stock price. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the date of grant for periods corresponding with the expected lives of the options granted. The expected option lives represent the period of time that options are expected to be outstanding giving consideration to vesting schedules and estimated exercise and forfeiture patterns.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of stock options that have no vesting restrictions and are fully transferable. Additionally, the model requires the input of highly subjective assumptions. Because the Bank's stock options have characteristics significantly different from those of publicly-traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in the opinion of the Bank's management the Black-Scholes option-pricing model does not necessarily provide a reliable single measure of the fair value of the Bank's stock options.

In connection with the formation of the Bank, certain key organizers of the Bank received warrants to purchase 2,400 shares of the Bank's common stock at a price of \$10.00 per share. All warrants are exercisable at the option of the holder for a period of ten years. None of the warrants had been exercised as of December 31, 2008 and 2007. Activity related to the options and warrants for the years ended December 31, were as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Options and Warrants Outstanding</u>	<u>Weighted - Average Exercise Price</u>	<u>Options and Warrants Outstanding</u>	<u>Weighted - Average Exercise Price</u>
Balance at beginning of year	134,054	\$ 11.76	112,110	\$ 10.48
Granted	<u>2,000</u>	<u>13.25</u>	<u>21,944</u>	<u>17.58</u>
Balance at end of year	<u><u>136,054</u></u>	<u><u>\$ 11.79</u></u>	<u><u>134,054</u></u>	<u><u>\$ 11.76</u></u>

At December 31, 2008, information regarding the number, weighted-average exercise price, and weighted-average remaining contractual life of options and warrants by amount of exercise price was as follows:

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

12. Stock Incentive Plan, continued

<u>Options and Warrants Outstanding</u>				<u>Exercisable Options and Warrants</u>	
<u>Exercise Price</u>	<u>Number of Options and Warrants</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Life (years)</u>	<u>Number of Options and Warrants</u>	<u>Weighted-Average Exercise Price</u>
Options:					
\$ 10.00	100,250	\$ 10.00	5.72	100,250	\$ 10.00
12.00	3,500	12.00	6.20	2,800	12.00
16.90	1,000	16.90	7.29	600	16.90
17.95	2,000	17.95	6.99	1,600	17.95
18.00	2,690	18.00	7.75	2,960	18.00
20.25	804	20.25	8.00	804	20.25
19.50	1,500	19.50	8.16	600	19.50
19.30	10,500	19.30	8.21	4,200	19.30
19.30	647	19.30	8.25	647	19.30
19.30	1,500	19.30	8.29	600	19.30
17.00	1,053	17.00	8.50	1,053	17.00
17.00	3,500	17.00	8.56	1,400	17.00
15.60	1,206	15.60	8.75	1,206	15.60
13.50	1,234	13.50	9.00	1,234	13.50
13.25	2,000	13.25	9.13	400	13.25
Warrants:					
\$ 10.00	<u>2,400</u>	10.00	5.44	<u>2,400</u>	10.00
Total	<u>136,054</u>	<u>\$ 11.79</u>	<u>7.64</u>	<u>122,574</u>	<u>\$ 11.14</u>

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

12. Stock Incentive Plan, continued

Total exercisable options and warrants at December 31, 2007 were 95,204 and 2,400, respectively.

A summary of the Bank's nonvested stock option activity during the years ended December 31, is presented below:

	2008		2007	
	Shares	Weighted - Average Grant Date Fair Value Per Share	Shares	Weighted - Average Grant Date Fair Value Per Share
Nonvested at beginning of year	36,450	\$ 5.95	46,568	\$ 2.92
Granted	2,000	\$ 3.71	21,944	\$ 6.10
Vested	(25,150)	\$ 3.17	(32,062)	\$ 3.47
Nonvested at end of year	13,300	\$ 5.73	36,450	\$ 5.95

The total intrinsic value of outstanding stock options and warrants and outstanding exercisable stock options and warrants was approximately \$-0- and \$-0- and \$365,000 and \$292,000, at December 31, 2008 and 2007, respectively. The Bank had no stock options exercised for the years ended December 31, 2008 and 2007.

Stock-based compensation expense is recognized ratably over the requisite service period for all awards. As a result of applying the provisions of SFAS 123R during 2008 and 2007, the Bank recognized additional stock-based compensation expense related to stock options of \$18,602 and \$51,303, respectively. The increase in stock-based compensation expense related to stock options resulted in a \$0.00 and \$0.02 decrease in both basic and diluted earnings per share during 2008 and 2007. Unrecognized stock-based compensation expense related to stock options totaled \$55,785 and \$78,446 at December 31, 2008 and 2007. At December 31, 2008 and 2007, the weighted-average period over which this unrecognized expense was expected to be recognized was 3.0 and 3.2 years.

13. Regulatory Matters

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

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

13. Regulatory Matters, continued

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 capital to average assets and Tier 1 and total capital to risk-weighted assets (all as defined in the regulations). Management believes that as of December 31, 2008 and 2007, the Bank met or exceeded all relevant capital adequacy requirements.

As of June 30, 2008, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as “well capitalized” under the regulatory framework for prompt correction 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 in the following table. There are no conditions or events since that notification that management believes would change the Bank’s regulatory capital categorization.

The Bank’s actual and required capital amounts and ratios as of December 31, are presented in the following table (dollars in thousands):

	<u>Actual</u>		<u>Regulatory Minimum to be “Adequately Capitalized”</u>		<u>Regulatory Minimum to be “Well Capitalized” under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>December 31, 2008</u>						
Tier 1 capital (to average assets)	\$ 10,271	13.3%	\$ 3,082	4.0%	\$ 3,852	5.0%
Tier 1 capital (to risk-weighted assets)	\$ 10,271	12.6%	\$ 3,250	4.0%	\$ 4,875	6.0%
Total capital (to risk-weighted assets)	\$ 11,135	13.7%	\$ 6,500	8.0%	\$ 8,125	10.0%
<u>December 31, 2007</u>						
Tier 1 capital (to average assets)	\$ 10,036	16.2%	\$ 2,479	4.0%	\$ 3,098	5.0%
Tier 1 capital (to risk-weighted assets)	\$ 10,036	14.0%	\$ 2,877	4.0%	\$ 4,315	6.0%
Total capital (to risk-weighted assets)	\$ 10,735	14.9%	\$ 5,753	8.0%	\$ 7,192	10.0%

Until March 31, 2007, the Bank was required to maintain a Tier 1 capital to average assets level of above 8.0 percent for its first three years of operations. At December 31, 2008 and 2007, this Tier 1 capital requirement was approximately \$6,164,000 and \$4,957,000, respectively, while the Bank’s Tier 1 capital was approximately \$10,271,000 and \$10,036,000, respectively. Accordingly, at December 31, 2008 and 2007, the Bank had an excess of approximately \$4,107,000 and \$5,079,000, respectively, of Tier 1 capital.

These financial statements have not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

CENTURY BANK
NOTES TO FINANCIAL STATEMENTS

13. Regulatory Matters, continued

On November 21, 2008, the Federal Deposit Insurance Corporation adopted the Temporary Liquidity Guarantee Program (TLG Program) inaugurated October 14, 2008. The TLG Program consists of two basic components: a guarantee of newly issued senior unsecured debt of banks, thrifts, and certain holding companies (the Debt Guarantee Program) and full guarantee of non-interest bearing deposit transactions accounts regardless of dollar amount (the Transaction Account Guarantee Program) through December 31, 2009. The Bank elected not to participate in the Debt Guarantee Program, but did elect to participate in the Transaction Account Guarantee Program.

The Bank also elected to opt out of the Treasury Department's Capital Purchase Plan which became a component of the Emergency Economic Stabilization Act of 2008, further described under Note 1, Summary of Significant Accounting Policies, earlier in this report.

14. Subsequent Events

Subsequent to year end, the Bank sold the property recorded under other real estate owned. The property sold in January 2009, to an unrelated party for \$1,906,000.