



**CALIFORNIA OAKS**  
S T A T E B A N K

February 26, 2009

Special Inspector General – TARP  
1500 Pennsylvania Avenue, NW  
Suite 1064  
Washington, D.C. 20220

Gentlemen,

This letter is in response to your letter dated February 6, 2009 requesting information with respect to TARP recipients use of funds and their compliance with EESA's executive compensation requirements.

The information requested is as follows:

(1)

- (a) The Bank received \$3.3 million in TARP funding on January 23, 2009. Based on the timing of receiving these funds, the Bank was able to include this funding in its 2009 budget projections and based on balance sheet projections, the TARP funding has increased the Bank's capacity to increase net outstanding loans.
- (b) The Bank's liquidity position and ability to fund loans is measured on a daily basis with the use of a liquidity report. (see attached) The TARP funds are not segregated but became a portion of the Bank's available funds to fund loans in its pipeline.
- (c) (d) Since receiving TARP funding on January 23, 2009, the Bank has had in its pipeline 3 loan requests totaling \$2.630 million. These loan requests have been formalized and reviewed by the Bank over the last few weeks and all 3 requests are set to close by approximately March 5, 2009 or soon after.

As a result of the applying for and accepting the TARP funding, the Banks liquidity position improved and the Bank has been able to entertain the funding requests mentioned above.

(b) (4)

(b) (4)

In addition, the Bank was able to inform its shareholders, depositors and general public through a market wire release that the Bank was able to enhance its well-capitalized capital position even further with the TARP funding which sent a positive message about the Bank during these troubled economic times. (see attached)



(2)

The Bank's Nominating and Compensation Committee met on February 17, 2009 to address and formalize the executive compensation issues with respect to accepting TARP funding.

The committee addressed goals that would be put in place for senior executive officers with respect to incentive compensation that would not be based on taking excessive loan and other operating risks with the intention of creating revenues to enhance overall profitability. As a result and as in the past, the committee set goals for its executive officers that reward stable, reliable growth of the organization and to continue lending and deposit efforts within in its market areas and also within its personnel strengths. The goals include the following:

(b) (4)

As a result, all the areas reflect executive management's ability to grow the Bank in a sound manner and not to compensate risky operational practices.

In addition, as a result of accepting the TARP funding, the Change of Control agreement of the Bank's CEO was discussed and amendments are in the process of being implemented. The amendments/changes being made will insure that the CEO's compensation as a result of a change of control of the Bank will include a 280(g) cut back in order not to fall under the IRS rules with respect to Golden Parachute payments.

I certify the accuracy of all statements, representations and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Please let me know if you need additional information by contacting me at (b) (6) or you can contact (b) (6), EVP, CFO at (b) (6)

Sincerely,



John A. Nerland  
President & CEO

# California Oaks State Bank Receives \$3.3 Million in TARP Funding

Monday January 26, 3:44 pm ET

THOUSAND OAKS, CA--(MARKET WIRE)--Jan 26, 2009 -- California Oaks State Bank (OTC BB:[COSB.OB](#) - [News](#)) announced today it has received \$3.3 million of new capital from the U.S. Treasury Department as part of the government's Capital Purchase Program (TARP).

The investment represents 3% of California Oaks State Bank's risk-weighted assets as of September 30, 2008. Based on the Bank's capital ratios as of September 30, 2008, the capital infusion would have increased the Bank's Leverage ratio from 12.5% to 15.1%, the Bank's Tier 1 capital to risk-weighted assets ratio from 13.6% to 16.5% and the Bank's total capital to risk-weighted assets ratio from 14.7% to 17.8%.

Under the terms of the TARP program, the Treasury purchased 3,300 shares of Series A Noncumulative Perpetual Preferred Stock of California Oaks State Bank totaling \$3.3 million and 10 year warrants to purchase an additional 165 shares of the Bank's Preferred Series B Noncumulative Perpetual Warrant Preferred Stock with a \$1,000 liquidation preference. The Bank will pay the U.S. Treasury a 5% dividend on the Series A shares quarterly for each of the first five years of the treasury investment and a 9% dividend thereafter or until the shares are redeemed.

Mr. John Nerland, the Bank's President and CEO, noted, "The increase in capital has enhanced the Bank's current well-capitalized position based on regulatory standards and our ability to service the needs of our customer base."

The U.S. Treasury announced the voluntary Capital Purchase Program on October 14 to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Information about the Capital Purchase Program, including the Treasury's term sheet, is available at the Treasury's Web site at [www.ustreas.gov](http://www.ustreas.gov).

For additional information, visit [www.caloaks.com](http://www.caloaks.com).

## About California Oaks State Bank

California Oaks State Bank (OTC BB:[COSB.OB](#) - [News](#)) with \$128 million in assets is located in Ventura County with offices in Thousand Oaks and Simi Valley and a Loan Production Office located in Walnut Creek, Calif. California Oaks State Bank was founded in 1998 as a locally owned community business bank. The Bank provides a full range of products and services including commercial and real estate loan, as well as cash management products and deposit services. Its unique capability in diversified lending, in addition to its customary community bank credit products help its customers meet their cash management goals. For additional information, visit [www.caloaks.com](http://www.caloaks.com).

Certain matters discussed in this press release constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and are subject to the safe harbors created by the act. These forward-looking statements refer to the Company's current expectations regarding future operating results, and growth in loans, deposits, and assets. These forward-looking statements are subject to certain risks and uncertainties that could cause the actual results, performance, or achievements to differ materially from those expressed, suggested, or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to (1) the impact of changes in interest rates, a decline in economic conditions, and increased competition by financial service providers on the Company's results of operation, (2) the Company's ability to continue its internal growth rate, (3) the Company's ability to build net interest spread, (4) the quality of the Company's earning assets, and (5) governmental regulations.

*Contact:*

Media Contact:  
John Nerland  
President & CEO  
(805) 413-0111  
[Email Contact](#)

**California Oaks State Bank**  
**Liquidity Sources and Exposure Analysis**  
**February 24, 2009**

<b>LIQUIDITY SOURCES</b>		<b>As % of Total Assets</b>	<b>Liquidity Policy Guidelines</b>
<b>Primary Asset Liquidity</b>			
Cash and Due From, Demand	4,077,910		
Less FRB Reserve Requirements	0		
Due From, Time	0		
Federal Funds Sold	10,510,000		
<b>Total</b>	<b>14,587,910</b>		
<b>Secondary Asset Liquidity</b>			
Securities Available for Sale	4,424,603		
Mark to Market	53,574		
Less Collateralized Usage			
TT&L	(21,294)		
Letter of Credit	0		
FHLB	0		
Public Funds	(110,810)		
<b>Total</b>	<b>4,346,073</b>		
<b>Total Asset Liquidity</b>	<b>18,933,983</b>		
<b>Available Liquidity Sources</b>			
Total FHLB Financing Availability	26,866,518		
FHLB Advances - 0 to one year	(7,500,000)		
FHLB Advances - 1 year to 2 years	(5,500,000)		
FHLB Advances - over 2 years	(3,000,000)		
Overnight Credit Outstanding - Securities	0		
Overnight Credit Outstanding - Loans	0		
Unused FHLB Capacity	10,866,518		
CDARS/Brokered Deposits remaining availability	1,605,513		
Loan Pipeline	(1,500,000)		
<b>Total Available Sources</b>	<b>10,972,031</b>		
<b>Total Available Liquidity</b>	<b>29,906,014</b>	<b>23.4%</b>	<b>20% Minimum</b>
<b>Contingent Sources</b>			
Lines from Correspondent Banks			
<b>(b) (4)</b>	6,000,000		
	3,500,000		
	4,000,000		
<b>Total Contingency Liquidity</b>	<b>13,500,000</b>	<b>10.5%</b>	<b>5% Minimum</b>
<b>TOTAL LIQUIDITY SOURCES</b>	<b>43,406,014</b>		
	<b>Maximum Exposure</b>		
Letter of Credit	(407,805)		
Undisbursed Loans (20%)	(3,758,692)		
Commitment Letters (33%)	(300,000)		
<b>TOTAL LIQUIDITY EXPOSURE</b>	<b>(4,466,497)</b>		
<b>EXCESS LIQUIDITY</b>	<b>38,939,517</b>		