Community Bancorp
Form 10-Q
November 10, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number 000 51044

COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

Nevada	**01-0668846**
(State or other jurisdiction of incorporation)	**(I.R.S. Employer Identification No.)**
400 South 4th Street, Suite 215, Las Vegas, NV	**89101**
(Address of principal executive offices)	**(Zip Code)**

(702) 878 0700
(Registrant s telephone number, including area code)

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Title of Class	**Outstanding as of October 31, 2008**
Common Stock, $0.001 par value	10,249,874 shares

COMMUNITY BANCORP

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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COMMUNITY BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2008	December 31, 2007
	(In thousands, except share data)	
ASSETS		
Cash and due from banks	$ 14,175	$ 19,243
Interest bearing deposits in other banks	739	141
Federal funds sold	73,881	20
Cash and cash equivalents	88,795	19,404
Interest bearing certificate of deposits at other financial institutions	2,000	
Securities available for sale, at fair value	60,212	88,217
Securities held to maturity, at amortized cost (fair value of $645 as of September 30, 2008 and $817 as of December 31, 2007)	632	801
Required equity investments, at cost	9,748	14,014
Loans, net of allowance for loan losses of $34,332 as of September 30, 2008 and $17,098 as of December 31, 2007	1,441,518	1,396,890
Premises and equipment, net	23,476	27,535
Other real estate owned	10,666	
Accrued interest and dividends receivable	6,354	8,046
Deferred income taxes, net	1,575	1,503
Bank owned life insurance	10,816	10,521
Goodwill	113,636	113,636
Core deposit intangible, net of accumulated amortization of $3,483 as of September 30, 2008 and $2,478 as of December 31, 2007	6,476	7,481
Other assets	11,639	5,473
Total assets	$ 1,787,543	$ 1,693,521
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 135,568	$ 170,725
Interest bearing:		
Demand	659,726	672,567
Savings	17,493	28,465
Time, $100,000 or more	199,867	171,664
Other time	416,187	187,041
Total deposits	1,428,841	1,230,462

Borrowings	46,849	146,684
Accrued interest payable and other liabilities	8,049	9,090
Junior subordinated debt	72,166	72,166
Total liabilities	1,555,905	1,458,402
Commitments and Contingencies (Note 9)		
Stockholders equity		
Preferred stock, par value: $0.001; shares authorized: 20,000,000 at September 30, 2008 and none at December 31, 2007; shares issued: none		
Common stock, par value: $0.001; shares authorized: 50,000,000 at September 30, 2008 and 30,000,000 at December 31, 2007; shares issued: 10,602,990 as of September 30, 2008 (including 139,694 shares of unvested restricted stock) and 10,620,529 as of December 31, 2007 (including 161,137 shares of unvested restricted stock)	11	11
Additional paid-in capital	170,192	168,931
Retained earnings	67,893	72,797
Accumulated other comprehensive income, net of tax	226	64
	238,322	241,803
Less cost of treasury stock, 350,575 shares as of September 30, 2008 and December 31, 2007	(6,684)	(6,684)
Total stockholders equity	231,638	235,119
Total liabilities and stockholders equity	$ 1,787,543	$ 1,693,521

See Notes to Consolidated Financial Statements (Unaudited).

COMMUNITY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the three months ended		For the nine months ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
	(In thousands, except per share data)			
Interest and dividend income:				
Loans, including fees	$ 23,278	$ 31,613	$ 77,336	$ 90,986
Securities and investments	888	1,345	2,955	4,229
Federal funds sold	431	301	458	1,348
Total interest and dividend income	24,597	33,259	80,749	96,563
Interest expense:				
Deposits	9,962	12,279	28,720	34,902
Borrowings	663	1,209	3,063	3,510
Junior subordinated debt	1,042	1,543	3,230	4,616
Total interest expense	11,667	15,031	35,013	43,028
Net interest income before provision for loan losses	12,930	18,228	45,736	53,535
Provision for loan losses	8,000	533	26,394	1,501
Net interest income after provision for loan losses	4,930	17,695	19,342	52,034
Non-interest income:				
Service charges and other income	824	621	2,225	1,806
Bank owned life insurance	97	111	295	340
Net swap settlements	(108)	52	(223)	144
Rental income	35	38	122	114
Gain on sale of securities			196	4
(Loss) gain on sale of property	(3)		1,207	
Net gain on sale of loans				285
Total non-interest income	845	822	3,822	2,693

Non-interest expense:								
Salaries, wages and employee benefits		4,606		5,337		15,701		16,638
Occupancy, equipment and depreciation		1,351		1,351		3,924		3,774
Core deposit intangible amortization		335		335		1,005		1,005
Data processing		295		246		828		829
Advertising and public relations		387		651		1,169		1,388
Professional fees		463		486		1,669		1,186
Telephone and postage		153		214		479		608
Stationery and supplies		171		189		573		547
Directors fees		106		71		342		249
Insurance		469		170		1,129		429
Software maintenance		175		106		494		327
Loan related		266		74		489		251
Foreclosed assets, net		798				952		
Loss on interest rate swaps		191				206		
Other operating expenses		590		813		1,788		1,893
Total non-interest expense		10,356		10,043		30,748		29,124
(Loss) income before income tax provision		(4,581)		8,474		(7,584)		25,603
Income tax (benefit) provision		(1,621)		2,943		(2,680)		8,980
Net (loss) income		(2,960)		5,531		(4,904)		16,623
Other comprehensive income unrealized gain on available-for-sale securities, net of income taxes of $176, $351, $150 and $89, respectively		388		640		162		195
Comprehensive (loss) income	$	(2,572)	$	6,171	$	(4,742)	$	16,818
(LOSS) EARNINGS PER SHARE:								
Basic	$	(0.29)	$	0.53	$	(0.49)	$	1.59
Diluted	$	(0.29)	$	0.53	$	(0.49)	$	1.59

See Notes to Consolidated Financial Statements (Unaudited).

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COMMUNITY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended
(Unaudited)

	September 30, 2008	September 30, 2007
	(In thousands)	
Cash flows from operating activities:		
Net (loss) income	$ (4,904)	$ 16,623
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation of premises and equipment	1,432	1,441
Gain on sales of fixed assets	(1,207)	(20)
Change in fair value of other real estate owned	870	
Amortization of core deposit intangible	1,005	1,005
Loss on interest rate swaps	206	
Income from bank owned life insurance	(295)	(340)
Gain on sale of loans		(285)
Gain on sale of securities	(196)	(4)
Proceeds from sales of loans held for sale		3,559
Originations of loans held for sale		(2,458)
Deferred taxes, net	(222)	1,308
Provision for loan losses	26,394	1,501
Share-based compensation expense	1,292	740
Net amortization (accretion) of investment premium and discount	45	(100)
Decrease (increase) in accrued interest receivable	1,692	(977)
(Increase) decrease in other assets	(6,166)	441
Decrease in accrued interest payable and other liabilities	(1,247)	(667)
Income from required equity investments stock dividends	(281)	(183)
Net cash provided by operating activities	18,418	21,584
Cash flows from investing activities:		
Net increase in loans	(86,885)	(119,791)
(Payments) receipts on net swap settlements	(223)	144
Proceeds from maturities of and principal paydowns on securities held to maturity	169	444
Purchase of securities available for sale	(1,152)	(4,685)
Proceeds from maturities, calls and principal paydowns of securities available for sale	29,590	18,714
Proceeds from sale of securities available for sale	30	3,272
Purchase of investments from other financial institutions	(2,000)	
Net investment in required equity investments	4,547	(6,948)

Purchase of premises and equipment	(1,187)	(2,698)
Proceeds from sale of other real estate owned	4,550	
Proceeds from sale of premises and equipment	5,021	20
Net cash used in investing activities	(47,540)	(111,528)
Cash flows from financing activities:		
Net (decrease) increase in borrowings	(96,081)	23,572
Net increase in deposits	198,379	82,627
Repayment of long-term debt	(3,754)	
Redemption of long-term subordinated debentures		(15,464)
Purchase of treasury stock		(985)
Excess tax benefit related to exercise of stock options	(31)	51
Proceeds from exercise of stock options		265
Net cash provided by financing activities	98,513	90,066
Net increase in cash and cash equivalents	69,391	122
Cash and cash equivalents, beginning of the year	19,404	46,116
Cash and cash equivalents, end of the period	$ 88,795	$ 46,238
Supplemental disclosure of cash flow information:		
Interest paid	$ 34,748	$ 42,512
Income taxes paid	$ 3,003	$ 9,904
Transfer of loans to other real estate owned	$ 16,086	$

See Notes to Consolidated Financial Statements (Unaudited).

COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business

Community Bancorp is a bank holding company headquartered in Las Vegas, Nevada with four wholly-owned subsidiaries: 1) Community Bank of Nevada, 2) Community Bank of Arizona, 3) Community Bancorp (NV) Statutory Trust II and 4) Community Bancorp (NV) Statutory Trust III. Community Bancorp exists primarily for the purpose of holding the stock of its wholly-owned subsidiaries and facilitating their activities. Community Bancorp and its consolidated subsidiaries discussed below are collectively referred to herein as the Company.

Community Bank of Nevada is a Nevada state chartered bank providing a full range of commercial and consumer bank products through thirteen branches located in the greater Las Vegas area.

Community Bank of Arizona is an Arizona state chartered bank providing a full range of commercial and consumer bank products through three branches located in the greater Phoenix, Arizona area. Community Bank of Arizona was acquired in September 2006.

The statutory trusts were formed for the exclusive purpose of issuing and selling trust preferred securities (see Note 2 and Note 8). The trust preferred securities issued through Community Bancorp (NV) Statutory Trust I were redeemed in September 2007 and management has dissolved this entity.

Community Bancorp s principal source of income is currently dividends from its two bank subsidiaries, Community Bank of Nevada and Community Bank of Arizona. The expenses of Community Bancorp, including interest from junior subordinated debt, other long-term debt, salaries, legal, accounting and NASDAQ listing fees, have been and will generally be paid from dividends and management fees paid to Community Bancorp by its bank subsidiaries.

Note 2. Basis of Presentation

The unaudited consolidated financial statements include the accounts of Community Bancorp, Community Bank of Nevada and Community Bank of Arizona. Intercompany items and transactions have been eliminated in consolidation. The statutory trusts are not consolidated, as disclosed in Note 8.

The interim consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial statements. The information furnished in these interim statements reflects all adjustments that are, in the opinion of management, necessary for the fair statement of results for the periods presented. All adjustments are of a normal and recurring nature. Results for the three months and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited consolidated financial statements should be read in conjunction with the audited financial statements and notes included in the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

A consolidated statement of stockholders equity is not included as part of these interim financial statements since there have been no material changes, other than a net loss, during the nine months ended September 30, 2008.

Note 3. Significant Accounting Policies

Accounting policies are fully described in Note 2 of the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 and there have been no material changes during the nine months ended September 30, 2008 (also see Note 4 and Note 17).

Note 4. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS No. 157 provides a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 157 effective January 1, 2008. The adoption of SFAS No. 157 had no effect on the Company s Consolidated Balance Sheet or Consolidated Statement of Operations and Comprehensive Income (Loss) (also see Note 17).

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 applies to all reporting entities, including not-for-profit organizations, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value. For companies electing the fair value option for financial instruments under SFAS No. 159, unrealized gains and losses will be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. However, early adoption was permitted subject to certain conditions including the adoption of SFAS No. 157 at the same time. The Company adopted SFAS No. 159 on January 1, 2008. The adoption of SFAS No. 159 had no effect on the Company s Consolidated Balance Sheet and Consolidated Statement of Operations and Comprehensive Income (Loss).

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133.* SFAS No. 161 requires enhanced disclosures about derivative instruments and hedging activities. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the extent, if any, of any additional required disclosures.

On October 10, 2008, The FASB issued FASB Staff Position (FSP) FAS 157-3*, Determining the Fair Value of a Financial Asset When the Market for That Asset is not Active.* The FSP is effective October 10, 2008 and for prior periods for which financial statements have not been issued. FSP 157-3 clarifies the application of SFAS No. 157, 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 issuance of FSP 157-3 and the Company s adoption of FSP 157-3 had no effect on the Company s Consolidated Balance Sheet or Consolidated Statement of Operations and Comprehensive Income (Loss).

Note 5. Loans

The composition of the Company s loan portfolio as of September 30, 2008 and December 31, 2007 is as follows:

	September 30, 2008	**December 31, 2007**
	(In thousands)	
Commercial and industrial	$ 217,379	$ 210,614
Real estate:		
Commercial	401,597	370,464
Residential	42,024	43,212
Construction and land development	813,412	789,185
Consumer and other	4,755	5,707
Total gross loans	1,479,167	1,419,182
Less:		
Allowance for loan losses	34,332	17,098
Net unearned loan fees and discounts	3,317	5,194
Total net loans	$ 1,441,518	$ 1,396,890

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Changes in the allowance for loan losses for the three months and nine months ended September 30, 2008 and 2007 are as follow:

	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Balance at beginning of period	$ 28,050	$ 15,985	$ 17,098	$ 14,973
Provision for loan losses	8,000	533	26,394	1,501
Less amounts charged off	(1,798)	(349)	(9,469)	(577)
Recoveries of amounts charged off	80	15	309	287
Balance at end of period	$ 34,332	$ 16,184	$ 34,332	$ 16,184

The Company s allowance for loan losses increased to $34.3 million as of September 30, 2008, or 2.32% of total gross loans, compared to $17.1 million, or 1.20% of total gross loans, at December 31, 2007. The increase in the allowance for loan losses includes an increase in both the general allowance for loan losses and the specific allowance for loan losses on impaired loans.

Non-performing loans totaled $185.5 million, or 12.5% of total gross loans, at September 30, 2008, compared to $12.1 million, or 0.85% of total gross loans, at December 31, 2007. A $14.6 million specific allowance for loan losses was established for non-performing loans, which is a component of the $18.1 million specific allowance on impaired loans.

The following table sets forth information regarding non-performing loans as of September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
	(In thousands)	
Non-accrual loans, not restructured	$ 185,539	$ 12,076
Accruing loans past due 90 days or more	8	20
Restructured loans		
Total non-performing loans	$ 185,547	$ 12,096

The composite of non-accrual loans as of September 30, 2008 and December 31, 2007 was as follows:

	September 30, 2008			December 31, 2007		
	Non-Accrual Balance	%	Percent of Total Loans	Non-Accrual Balance	%	Percent of Total Loans
	(In thousands, except percentage data)					
Commercial and industrial	$ 3,516	1.9%	0.24%	$ 2,042	16.9%	0.15%
Real Estate:						
Commercial	21,970	11.8%	1.48%	4,291	35.5%	0.30%

Residential	290	0.2%	0.02%		0.0%	0.00%
Construction and land development	159,743	86.1%	10.80%	5,738	47.6%	0.40%
Consumer and Other	20	0.0%	0.00%	5	0.0%	0.00%
Total Loans	$ 185,539	100.0%	12.54%	$ 12,076	100.0%	0.85%

Impaired loans totaled $195.1 million at September 30, 2008, compared to $29.8 million at December 31, 2007. Impaired loans include all non-performing loans in the amount of $185.5 million and other loans in the amount of $9.6 million that, while currently performing, were deemed impaired by management. Management anticipates the losses associated with these loans will approximate $18.1 million and has established a specific allowance for loan losses in this amount

The following table sets forth information regarding impaired loans as of September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
	(In thousands)	
Impaired loans with a valuation allowance	$ 58,962	$ 3,097
Impaired loans without a valuation allowance	136,182	26,702
Total impaired loans	$ 195,144	$ 29,799
Average balance of impaired loans (1)	$ 106,221	$ 15,163
Related valuation allowance	$ 18,063	$ 1,283
Interest income recognized on impaired loans (1)	$ 644	$ 1,551
Interest income recognized on a cash basis on impaired loans (1)	$ 318	$ 948

(1) For the nine months ended September 30, 2008 and twelve months ended December 31, 2007.

Note 6. Other Real Estate Owned

OREO is real estate that is held for sale and is initially recorded at fair value, net of estimated disposition costs and is subsequently carried at the lower of its carrying amount or fair value. The Company s OREO as of September 30, 2008 consists of six properties totaling $10.7 million, compared to no OREO at December 31, 2007. During the nine

months ended September 30, 2008, the Company has foreclosed on eight properties totaling $16.1 million and sold two properties totaling $4.5 million which approximated the carrying value of the property at the time of sale. Subsequent to establishing the initial carrying value of the OREO, management has written down two properties by a combined total of $870,000.

OREO is evaluated to ensure the recorded amount is supported by its current fair value. Reductions in the carrying amount are recorded as necessary. Costs relating to the development and improvement of the OREO are capitalized to the extent that the total does not exceed the property s net realizable value.

Note 7. Borrowings

The Company has commitments from the Federal Home Loan Bank of San Francisco (FHLB) for borrowings, which are collateralized by certain securities and a blanket lien on loans secured by real estate and all business loans. The agreement can be terminated by the FHLB at any time. As of September 30, 2008 and December 31, 2007, loans with a balance of approximately $253.6 million and $245.3 million, respectively, were pledged as collateral on advances from the FHLB as part of the blanket lien. The Company regularly uses the FHLB for short term and long term borrowings. FHLB term debt, which matures from January 2009 through March 2009, amounted to $36.0 million at September 30, 2008. Interest on all FHLB borrowings accrued at an average rate of 4.39% and 4.20% for the three and nine months ended September 30, 2008, respectively. Remaining available debt financing based upon the current collateral pledged through the FHLB amounted to $122.5 million at September 30, 2008.

In September 2008, the Company entered into a commitment with the Federal Reserve Bank of San Francisco (FRB) for borrowings, which are collateralized by certain securities and loans. The Company can terminate the agreement at any time by giving written notice. The borrowing capacity with the FRB totaled $252.7 million, none of which was used or outstanding as of September 30, 2008.

The Company also has agreements with other lending institutions under which it can purchase up to $120.0 million of federal funds. The interest rate charged on borrowings is determined by the lending institutions at the time of borrowings. Each line is unsecured. As of September 30, 2008 and December 31, 2007, there were no federal funds purchased.

In September 2007, the Company borrowed $15.5 million and used the proceeds to redeem junior subordinated debt owed to Community Bancorp (NV) Statutory Trust I which used the proceeds to redeem its trust preferred issuances. The borrowing is unsecured, bears interest at the one month LIBOR plus 1.50% (equal to 3.97% at September 30, 2008), is payable in the amount of approximately $475,000 monthly with all unpaid interest and principal due on September 26, 2010 and requires the lender's approval prior to issuing dividends to shareholders. The outstanding balance on the note was $10.5 million and $14.3 million as of September 30, 2008 and December 31, 2007, respectively.

At September 30, 2008, the Company was not in compliance with the debt service coverage ratio requirement of this loan agreement. The Company is currently negotiating a waiver from the lender of this requirement and is current on all scheduled interest and principal payments. In the event these negotiations are not successful, the Company has the right and ability to prepay the note without penalty.

Note 8. Junior Subordinated Debt

The Company had $72.2 million of subordinated debentures outstanding at September 30, 2008, which bore interest at an average rate of 5.74% and 5.98% for the three months and nine months ended September 30, 2008, respectively. The subordinated debentures were issued in three separate series. Each issuance has a maturity of thirty years from its date of issue. The subordinated debentures were issued to trusts established by the Company, which in turn issued trust preferred securities. The proceeds from the issuance of the securities were used to fund the Company s 2005 and 2006 acquisitions.

In accordance with FIN 46 (revised December 2004), *Consolidation of Variable Interest Entities-an interpretation of ARB No. 51*, statutory trusts are not reported on a consolidated basis. Therefore, the trust preferred debt securities of $70.0 million do not appear on the Consolidated Balance Sheets. Instead, the junior subordinated debentures of $72.2 million payable by Community Bancorp to the statutory trusts and the investment in the statutory trusts common stock of $2.2 million (included in other assets) are reported on the Consolidated Balance Sheets.

The Company has the option to defer payments of interest on the trust preferred securities for a period of up to five years, as long as the Company is not in default on the payment of interest. If the Company elects to defer payments of interest by extending the interest distribution period, then the Company may not declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to any of the Company s common stock, until such time as all deferred interest is paid.

In the event of certain changes or amendments to regulatory requirements or federal tax rules, the debt is redeemable in whole. Certain obligations under these instruments are fully and unconditionally guaranteed by the Company and rank subordinate and junior in right of payment to all other liabilities of the Company.

In March 2005, the Federal Reserve Bank adopted a final rule that allows the continued inclusion of trust preferred securities in the Tier I capital of bank holding companies, subject to stricter quantitative limits and qualitative standards. Under the final ruling, qualifying mandatory preferred securities may be included in Tier I capital, subject to a limit of 25% of all core capital. Amounts of restricted core capital elements in excess of this limit generally may be included in Tier II capital. The quantitative limits become effective on March 31, 2009. As of September 30, 2008, the trust preferred securities have been included in Tier I capital for regulatory capital purposes up to the specified limit ($70.0 million).

Note 9. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Company is 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 standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in

the Consolidated Balance Sheets.

The Company s exposure to credit loss for these commitments, in the event of nonperformance, is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the contract amount of the Company s exposure to off-balance sheet risk as of September 30, 2008 and December 31, 2007 is as follows:

Outstanding commitments

	September 30, 2008	December 31, 2007
	(In thousands)	
Commitments to extend credit, including unsecured commitments of approximately $17,284 for 2008 and $28,137 for 2007	$ 282,082	$ 430,093
Credit card commitments, including unsecured amounts of approximately $848 for 2008 and $818 for 2007	848	818
Standby letters of credit, including unsecured commitments of approximately $2,263 for 2008 and $2,485 for 2007	3,966	4,083
	$ 286,896	$ 434,994

Commitments to extend credit are agreements to lend to a customer as long as there are no violations of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management s credit evaluation of the party. Collateral held varies, but may include accounts receivable; inventory; property and equipment; residential real estate; income-producing commercial properties; and owner-occupied commercial properties. The Company had approximately $989,000 and $877,000 at September 30, 2008 and December 31, 2007, respectively, reflected in other liabilities for losses associated with off-balance sheet risk associated with commitments to extend credit.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required as the Company deems necessary. Essentially all letters of credit issued have expiration dates within one year. Upon entering into letters of credit, the Company records the related liability at fair value pursuant to FASB Interpretation No. 45 (FIN 45). Thereafter, the liability is evaluated pursuant to FASB Statement No. 5, *Accounting for Contingencies*. As of September 30, 2008 and December 31, 2007, the amount of the liability related to guarantees was approximately $10,000.

In connection with standby letters of credit, the Company recognizes the related commitment fee received from the third party as a liability at the inception of the guarantee arrangement pursuant to FIN 45. Commitment fees, where the likelihood of exercise of the commitment is remote, are generally recognized as service fee income on a straight line basis over the commitment period. All other commitment fees are deferred over the entire commitment period and are not recognized as service fee income until the expiration of the commitment period.

Financial Instruments with Concentrations of Credit Risk

The Company makes commercial, commercial real estate, residential real estate and consumer loans to customers primarily in the greater Las Vegas, Nevada and Phoenix, Arizona areas. Real estate loans accounted for approximately 85% of the total gross loans as of September 30, 2008. Substantially all of these loans are secured by first liens with an initial loan-to-value ratio of generally not more than 75%. Approximately 2% of total gross loans were unsecured

as of September 30, 2008. The Company s loans are expected to be repaid from cash flows or from proceeds from the sale of selected assets of the borrowers.

At September 30, 2008 the Company s impaired loans totaled $195.1 million, including $185.5 million in non-accrual loans. Approximately 86% and 84% of the non-accrual loans and impaired loans, respectively, were related to borrowers in the greater Las Vegas, Nevada geographic region.

At September 30, 2008, eight customer balances totaling $615.9 million comprised 43.1% of total deposits. These customer balances constitute all brokered deposits at September 30, 2008. Of these deposits at September 30, 2008, $441.3 million were interest bearing wholesale demand deposits and $174.6 million were other time deposits.

Lease Commitments

The Company leases certain branches and office facilities under operating leases. The Company has lease obligations for twelve of its branch locations and its corporate headquarters and administrative offices under various non-cancelable agreements with expiration dates through October 2018, which require various minimum annual rentals.

In January 2008, the Company also executed a new land lease agreement for property on which it will construct a new branch. The Company took possession of the property on March 21, 2008 and has commenced construction of the branch. The initial term of the lease is ten years with four ten year renewal options. Monthly rent will commence on the date the branch facility is open for business or at the latest in November 2008.

In April 2008, the Company executed a new land lease agreement for property on which it will construct a new branch. Construction of the branch will commence once the necessary improvements have been completed by the landlord as specified under the lease agreement. The initial term of the lease is ten years with two five year renewal options. The initial first year rent is approximately $153,000 and increases 3% annually.

In July 2008, the Company executed a sale/leaseback agreement for its Jones property. The term of the lease is for five years and includes two five year renewal options. The initial first year rent is approximately $210,000 and increases 3% annually. The lease also includes an early termination clause that states the Company has the absolute right to early termination of the lease following the first thirty-sixth months of the lease term. If early termination is elected, written notice must be provided to the landlord as specified in the lease agreement and the Company will also be subject to an early termination penalty.

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the consolidated financial statements.

Note 10. Derivative Financial Instruments

During 2006, the Company originated two fixed rate loans with an aggregate principal balance of approximately $20.0 million. The Company also entered into two interest rate swap agreements with notional values equal to the principal balance of the two fixed rate loans. The interest rate swap agreements are LIBOR-based where the Company s interest payments are based on a fixed interest rate and the Company s receipt of interest payments are based on a variable interest rate. The Company retains any net swap settlement income and pays any net swap settlement expense. As the Company has not used hedge accounting, the net swap settlement has been recorded in non-interest income.

The interest rate swap agreements are recorded at fair value as required by SFAS No. 133 and as amended, by SFAS No. 155. The fair values of the swap agreements are reflected in other assets or other liabilities, as applicable and any amounts owed to the borrower are recorded in other liabilities on the Consolidated Balance Sheet. As a result of changes in market value associated with the interest rate swaps, a loss of $191,000 and $206,000 was recorded in the Company s Consolidated Statement of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2008, respectively. For the three and nine months ended September 30, 2007, there was no corresponding gain or loss on interest rate swaps.

Fair values for the swap agreements are based upon quoted market prices.

Note 11. Stockholders Equity

At the Company s annual stockholders meeting held May 29, 2008, the Company s shareholders approved an amendment of the Articles of Incorporation, increasing the number of authorized shares of common stock from 30,000,000 to 50,000,000 and creating a new class of preferred stock in the amount of 20,000,000 shares that, if issued, will have such terms, rights and features as may be determined by the Board of Directors. All shares of stock have a par value of $.001.

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Note 12. Earnings (Loss) per Share

Basic (loss) earnings per share (EPS) are calculated on the basis of weighted-average number of common shares outstanding (excluding non-vested restricted stock) during the period. Diluted EPS reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and non-vested restricted stock, and are determined using the treasury stock method. The diluted loss per share for the three and nine months ended September 30, 2008, was based only on the weighted-average number of common shares outstanding, as any common stock equivalents would have been antidilutive.

EPS has been computed based on the following:

	For the Three Months Ended September 30,						For the Nine Months Ended September 30,					
	2008			2007			2008			2007		
	(In thousands, except (loss) earnings per share data)						(In thousands, except (loss) earnings per share data)					
	Net (Loss)	Average Number of Shares	Per Share Amounts	Net Income	Average Number of Shares	Per Share Amounts	Net (Loss)	Average Number of Shares	Per Share Amounts	Net Income	Average Number of Shares	Per Share Amounts
Basic EPS	$ (2,960)	10,110	$ (0.29)	$ 5,531	10,395	$ 0.53	$ (4,904)	10,109	$ (0.49)	$ 16,623	10,410	$ 1.59
Effect of dilutive securities:												
Stock options					58						68	
Restricted stock					44						15	
Diluted EPS	$ (2,960)	10,110	$ (0.29)	$ 5,531	10,497	$ 0.53	$ (4,904)	10,109	$ (0.49)	$ 16,623	10,493	$ 1.59

Stock options and restricted stock that could potentially affect basic EPS in the future, that were not included in the computation of diluted EPS because they would have had an antidilutive effect, amounted to 669,000 shares and 695,000 shares for the three and nine months ended September 30, 2008, respectively.

Note 13. Share-Based Compensation

Stock options

As of September 30, 2008, the Company has outstanding options under two share-based compensation plans. The related compensation cost was approximately $155,000 and $198,000 for the three months ended September 30, 2008 and 2007, respectively, and $531,000 and $615,000 for the nine months ended September 30, 2008 and 2007, respectively. No share-based compensation was capitalized. No stock options were granted during the nine months ended September 30, 2008 and 2007.

Restricted stock

In August and September 2007, the Company issued a total of approximately 163,000 shares of restricted common stock to certain employees and directors. Restricted common stock issued to employees is subject to a three year cliff vesting and the directors restricted common stock vest annually over a three year period. Share-based compensation costs associated with the issuance of the restricted common stock is recognized on a straight-line basis over three years and amounted to approximately $253,000 and $761,000 for the three months and nine months ended

September 30, 2008, respectively. For the three and nine months ended September 30, 2007, the share-based compensation cost amounted to $125,000.

Stock appreciation rights

In July 2000, the Company s Board of Directors approved the 2000 Stock Appreciation Rights Plan. The Company accounts for the Stock Appreciation Rights (SAR) using liability accounting which requires the Company to record the liability of the SAR at fair value, rather than intrinsic value. All outstanding SAR were settled, with cash payments made in April 2007 and, accordingly, there was no accrued liability for SAR at September 30, 2008. There was no SAR expense recognized for the three months ended September 30, 2008 and 2007. SAR expense for the nine months ended September 30, 2008 and 2007 was $0 and $32,000, respectively.

The compensation cost related to share-based compensation plans was included in salaries, wages and employee benefits expense for grants to employees and directors fees for grants to board members in the Consolidated Statement of Operations and Comprehensive Income (Loss).

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Note 14. Segments

The Company provides a full range of banking services through its two consolidated subsidiaries, Community Bank of Nevada and Community Bank of Arizona. The Company currently manages its business with a primary focus on each bank subsidiary. Accordingly, the Company has two reportable segments. Community Bancorp s financial information is included in the Other category, because it represents an overhead function rather than an operating segment.

	For the three months ended and as of September 30, 2008				For the nine months ended and as of September 30, 2008			
	Community Bank of Nevada	Community Bank of Arizona	Other (3)	Total	Community Bank of Nevada	Community Bank of Arizona	Other (3)	Total
	(In thousands)				(In thousands)			
Interest and dividend income	$ 22,797	$ 1,783	$ 17	$ 24,597	$ 75,631	$ 5,120	$ (2)	$ 80,749
Interest expense	9,704	829	1,134	11,667	29,483	1,994	3,536	35,013
Net interest income before provision for loan losses	13,093	954	(1,117)	12,930	46,148	3,126	(3,538)	45,736
Provision for loan losses	7,600	400		8,000	24,119	2,275		26,394
Net interest income after provision for loan losses	5,493	554	(1,117)	4,930	22,029	851	(3,538)	19,342
Non-interest income	797	48		845	3,685	137		3,822
Non-interest expenses	8,357	1,202	797	10,356	24,129	3,742	2,877	30,748
Segment pretax (loss) income	$ (2,067)	$ (600)	$ (1,914)	$ (4,581)	$ 1,585	$ (2,754)	$ (6,415)	$ (7,584)
Segment assets (1)					$ 1,639,147	$ 144,593	$ 3,803	$ 1,787,543

	For the three months ended and as of September 30, 2007				For the nine months ended and as of September 30, 2007			
	Community	Community			Community	Community		

	Bank of Nevada	Bank of Arizona	Other (3)	Total	Bank of Nevada	Bank of Arizona	Other (3)	Total
	(In thousands)				(In thousands)			
Interest and dividend income	$ 31,590	$ 1,613	$ 56	$ 33,259	$ 91,890	$ 4,507	$ 166	$ 96,563
Interest expense	12,855	618	1,558	15,031	36,762	1,635	4,631	43,028
Net interest income before provision for loan losses	18,735	995	(1,502)	18,228	55,128	2,872	(4,465)	53,535
Provision for loan losses	357	176		533	1,125	376		1,501
Net interest income after provision for loan losses	18,378	819	(1,502)	17,695	54,003	2,496	(4,465)	52,034
Non-interest income	770	52		822	2,388	230	75	2,693
Non-interest expenses	8,275	909	859	10,043	24,762	2,656	1,706	29,124
Segment pretax income (loss)	$ 10,873	$ (38)	$ (2,361)	$ 8,474	$ 31,629	$ 70	$ (6,096)	$ 25,603
Segment assets (2)					$ 1,582,481	$ 92,326	$ 3,052	$ 1,677,859

(1) Goodwill included in Community Bank of Nevada s and Community Bank of Arizona s segment assets amounted to $103.7 million and $9.9 million, respectively.

(2) Goodwill included in Community Bank of Nevada s and Community Bank of Arizona s segment assets amounted to $105.2 million and $9.9 million, respectively.

(3) Includes intersegment eliminations and reclassifications.

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Note 15. Quarterly Data

	For the three months ended			For the three months ended		
	September 30, 2008	June 30, 2008	March 31, 2008	September 30, 2007	June 30, 2007	March 31, 2007
	(In thousands, except per share data)					
Interest and dividend income	$ 24,597	$ 26,197	$ 29,955	$ 33,259	$ 32,416	$ 30,888
Interest expense	11,667	10,670	12,676	15,031	14,618	13,379
Net interest income before provision for loan losses	12,930	15,527	17,279	18,228	17,798	17,509
Provision for loan losses	8,000	14,226	4,168	533	486	482
Net interest income after provision for loan losses	4,930	1,301	13,111	17,695	17,312	17,027
Non-interest income	845	821	2,156	822	1,004	867
Non-interest expense	10,356	9,282	11,110	10,043	9,623	9,458
(Loss) income before income tax provision	(4,581)	(7,160)	4,157	8,474	8,693	8,436
Income tax (benefit) provision	(1,621)	(2,524)	1,465	2,943	3,050	2,987
Net (loss) income	$ (2,960)	$ (4,636)	$ 2,692	$ 5,531	$ 5,643	$ 5,449
Basic (loss) earnings per share	$ (0.29)	$ (0.46)	$ 0.27	$ 0.53	$ 0.54	$ 0.52
Diluted (loss) earnings per share	$ (0.29)	$ (0.46)	$ 0.26	$ 0.53	$ 0.54	$ 0.52

Note 16. Sale of Property

Warm Springs

On February 13, 2008, the Company completed the sale of its Warm Springs branch. Previously, the Company consolidated the branch s activity with the Stephanie branch. The consolidation of the two branches and subsequent sale of the Warm Springs branch was implemented due to the close proximity of the two branches. The Stephanie branch was acquired in October 2006 through the acquisition of Valley Bancorp.

Gross proceeds from the sale were approximately $2.7 million (approximately $2.6 million after selling costs) and the related gain of approximately $1.2 million was recorded in non-interest income.

Jones Property

On July 21, 2008, the Company completed the sale of its Jones property (an administrative facility acquired as part of the Valley Bancorp acquisition). Gross proceeds from the sale were $2.6 million (approximately $2.5 million after

selling costs) resulting in a gain of approximately $41,000.

Concurrent with the closing, the Company executed a leaseback agreement for the property. The term of the lease is for five years and includes two five year renewal options. The initial first year rent is approximately $210,000 and increases 3% annually. The lease also includes an early termination clause that states the Company has the absolute right to early termination of the lease following the first thirty-sixth months of the lease term. If early termination is elected, written notice must be provided to the landlord as specified in the lease agreement and the Company will also be subject to an early termination penalty.

In accordance with SFAS No. 28, *Accounting for Sales with Leasebacks, an amendment of SFAS No. 13,* the gain will be deferred and amortized over the initial term of the lease.

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Note 17. Fair Value Accounting

As discussed in Note 4, on January 1, 2008 the Company adopted SFAS No. 157, *Fair Value Measurements*, and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115*. The adoption of SFAS No. 157 and 159 had no affect on the Company s Consolidated Balance Sheet or the Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months and nine months ended September 30, 2008.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value. SFAS No. 159 permits an entity to choose to measure many financial instruments and certain other items at fair value and contains financial statement presentation and disclosure requirements for assets and liabilities for which the fair value option under this pronouncement is elected. Upon adoption of SFAS No. 159, none of the Company s assets or liabilities were valued using the fair value option allowed under this pronouncement.

SFAS No. 157 also establishes a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follow:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to valuation methodology.

Securities available for sale, at fair value Where quoted prices are available in an active market, securities are classified within level 1 of the hierarchy. Level 1 includes securities that have quoted prices in an active market for identical assets. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The Company has categorized its securities as level 2.

Impaired loans SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, *Accounting by Creditors for Impairment of a Loan,* including impaired loans measured at an observable market price (if available) or at the fair value of the loan s collateral (if collateral dependent). Fair value of the loan s collateral is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. The Company has categorized its impaired loans as level 2.

Interest rate swaps The Company determines the fair value of its interest rate swaps based on termination estimates provided by the counter party to the swaps. These values are then validated by management using internal valuation models based on market information. The Company has categorized its interest rate swaps as level 2.

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The following table represents the assets and liabilities measured at fair value on a recurring basis by the Company.

		Fair Value Measurements at Reporting Date Using:		
Description	September 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)	
Assets:				
Securities available for sale, at fair value	$ 60,212	$	$ 60,212	$
Total	$ 60,212	$	$ 60,212	$
Liabilities:				
Interest rate swaps (1)	$ 586	$	$ 586	$
	$ 586	$	$ 586	$

(1) Included in accrued interest payable and other liabilities.

For the three months and nine months ended September 30, 2008, the increase in fair value of securities available for sale was $564,000 and $312,000, respectively, which is included in other comprehensive income (loss) (net of taxes). The change in fair value of interest rate swaps resulting in a loss of $191,000 and $206,000 for the three and nine months ended September 30, 2008, respectively, is included in non-interest expense. Methods of measuring fair values at September 30, 2008 for securities available-for-sale and interest rate swaps are consistent with those used in prior reporting periods.

Certain assets are measured at fair value on a nonrecurring basis (e.g., the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments when there is evidence of impairment). The following table represents the assets measured at fair value on a nonrecurring basis by the Company.

Fair Value Measurements at Reporting Date Using:		
Quoted Prices in Active Markets for	Significant Other	Significant Unobservable Inputs

Description	September 30, 2008		Identical Assets (Level 1)		Observable Inputs (Level 2)		(Level 3)
					(In thousands)		
Assets:							
Impaired loans with specific valuation allowance under SFAS No. 114	$	40,899	$	$	40,899	$	

At September 30, 2008, impaired loans in the amount of $59.0 million (all collateral dependent) were written down to fair value of the underlying collateral, less cost to sell, through establishing a specific allowance for loan losses of $18.1 million. Methods of measuring fair values at September 30, 2008 for impaired loans are consistent with those used in prior reporting periods.

Note 18. Goodwill

Goodwill represents the excess of the consideration over the fair value of the net assets acquired through the 2005 and 2006 acquisitions of Bank of Commerce, Community Bank of Arizona and Valley Bancorp. Under SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is not amortized but rather tested for impairment, at least annually. The Company s annual testing of impairment was conducted as of October 1, 2007 for each of its reporting units (i.e., segments). No impairment of goodwill was identified at that time. In accordance with SFAS No. 142, goodwill of a reporting unit shall be tested for impairment between annual tests if an event or circumstance occurs that would more likely than not reduce the fair value of a reporting unit below its carry value. The Company will perform its annual test of goodwill as of October 1, 2008, during the fourth quarter 2008 which might result in a reduction of the carrying value of goodwill and an impairment loss. Because goodwill is not included in the calculation of risk-based capital, the Company s regulatory risk-based capital would not be impacted by this potential expense.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

When used in this document, the words or phrases such as will likely result in, management expects that, will continue, is anticipated, estimate, projected, or similar expressions are intended to identify forward-looking statem within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Specific factors include, but are not limited to the current financial turmoil in the United States and abroad, the recent fluctuations in the U.S. capital and credit markets, loan production, balance sheet management, the economic condition of the markets in Las Vegas, Nevada, or Phoenix, Arizona and their deteriorating real estate sectors, net interest margin, loan quality, the ability to control costs and expenses, interest rate changes and financial policies of the United States government, our ability to manage systemic risks and control operating risks, and general economic conditions. Additional information on these and other factors that could affect financial results are included in Item 1A. Risk Factors of our Annual Report on Form 10K for the year ended December 31, 2007, and our other Securities and Exchange Commission filings. Readers should not place undue reliance on forward-looking statements, which reflect management s view only as of the date hereof. Community Bancorp undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances. This statement is included for the express purpose of protecting Community Bancorp under the PSLRA s safe harbor provisions. When relying on forward-looking statements to make decisions with respect to our Company, investors and others are cautioned to consider these and other risks and uncertainties.

EXECUTIVE OVERVIEW

Community Bancorp is a bank holding company headquartered in Las Vegas, Nevada, with four wholly-owned subsidiaries: 1) Community Bank of Nevada, 2) Community Bank of Arizona, 3) Community Bancorp (NV) Statutory Trust II and 4) Community Bancorp (NV) Statutory Trust III. Community Bancorp exists primarily for the purpose of holding the stock of its wholly-owned subsidiaries and facilitating their activities. In accordance with FIN 46 (revised December 2004), the statutory trusts are not reported on a consolidated basis. Community Bancorp and its consolidated subsidiaries are collectively referred to herein as the Company. Community Bank of Nevada and Community Bank of Arizona are collectively referred to herein as the Banks.

During the three and nine months ended September 30, 2008, the Company continued to be challenged by difficult economic conditions in its primary markets as the deterioration of the real estate market that occurred during the second half of 2007 has continued throughout 2008. The deterioration in the real estate market is due to a variety of factors, the most significant of which has been the fallout from the defaults associated with the residential sub-prime market and Alt-A loans. While the Company does not engage in sub-prime lending or Alt-A loans, its markets have been affected by these factors.

Results of operations

- The provision for loan losses increased to $8.0 million and $26.4 million for the three and nine months ended September 30, 2008, respectively, compared to a provision for loan losses of $533,000 and $1.5 million for the same periods in 2007.
- Interest and dividend income was adversely affected due to an increase in non-performing loans for the three and nine months ended September 30, 2008.
- As a result of the increased provision for loan losses and the adverse effect of the increase in non-performing loans on interest and dividend income (including the effect of non-earning assets on interest and dividend income), the Company recognized a loss for the three and nine months ended September 30, 2008 of $3.0 million, or $0.29 per diluted share and $4.9 million, or $0.49 per diluted share, respectively, compared to net income of $5.5 million, or $0.53 per share, and $16.6 million, or $1.59 per diluted share, for the same periods in 2007.

Financial condition

- The allowance for loan losses increased to $34.3 million, or 2.32% of total gross loans, at September 30, 2008, compared to $17.1 million, or 1.20% of total gross loans, at December 31, 2007.

Non-performing loans totaled $185.5 million, or 12.5% of total gross loans, at September 30, 2008, compared to $12.1 million, or 0.85% of total gross loans, at December 31, 2007.

Impaired loans, which include all non-performing loans, increased to $195.1 million at September 30, 2008, compared to $29.8 million at December 31, 2007.

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SUMMARY CONSOLIDATED FINANCIAL DATA AND OTHER DATA
(Unaudited)

	3rd Quarter 2008	3rd Quarter 2007	Percentage Change	Nine Months 2008	Nine Months 2007	Percentage Change
	(In thousands, except share and percentage data)			(In thousands, except share and percentage data)		
SHARE DATA						
Earnings (loss) per share basic	$ (0.29)	$ 0.53	(154.7)%	$ (0.49)	$ 1.59	(130.8)%
Earnings (loss) per share diluted	$ (0.29)	$ 0.53	(154.7)%	$ (0.49)	$ 1.59	(130.8)%
Book value per share	22.59	$ 22.37	1.0%	22.59	$ 22.37	1.0%
Shares outstanding at period end	10,252,415	10,540,619	(2.7)%	10,252,415	10,540,619	(2.7)%
Weighted average shares outstanding basic	10,110,430	10,395,240	(2.7)%	10,109,358	10,410,277	(2.9)%
Weighted average shares outstanding diluted (5)	10,110,430	10,497,060	(3.7)%	10,109,358	10,492,685	(3.7)%
SELECTED OTHER BALANCE SHEET DATA						
Average assets	$ 1,822,461	$ 1,663,541	9.6%	$ 1,758,552	$ 1,635,260	7.5%
Average earning assets	$ 1,651,177	$ 1,484,626	11.2%	$ 1,587,091	$ 1,454,622	9.1%
Average stockholders equity	$ 234,721	$ 234,234	0.2%	$ 237,759	$ 228,645	4.0%
Gross loans	$ 1,479,167	$ 1,373,661	7.7%	$ 1,479,167	$ 1,373,661	7.7%
SELECTED FINANCIAL RATIOS						
Return on average assets	(0.65)%	1.32%	(149.2)%	(0.37)%	1.36%	(127.2)%
Return on average stockholders equity	(5.02)%	9.37%	(153.6)%	(2.76)%	9.72%	(128.4)%
Net interest margin (1)	3.14%	4.90%	(35.9)%	3.88%	4.95%	(21.6)%
Efficiency ratio (2)	75.18%	52.72%	42.6%	62.04%	51.80%	19.8%
Capital Ratios						
Average stockholders equity to average assets	12.88%	14.08%	(8.5)%	13.52%	13.98%	(3.3)%

Tier 1 leverage capital ratios						
Consolidated Company				10.65%	11.89%	(10.4)%
Community Bank of Nevada				10.60%	11.74%	(9.7)%
Community Bank of Arizona				16.67%	28.42%	(41.3)%
Tier 1 risk-based capital ratios						
Consolidated Company				11.04%	11.73%	(5.9)%
Community Bank of Nevada				10.96%	11.44%	(4.2)%
Community Bank of Arizona				18.07%	34.54%	(47.7)%
Total risk-based capital ratios						
Consolidated Company				12.30%	12.77%	(3.7)%
Community Bank of Nevada				12.22%	12.47%	(2.0)%
Community Bank of Arizona				19.34%	35.76%	(45.9)%
Asset Quality Ratios						
Non-performing loans (3)				$ 185,547	$ 7,714	2,305.3%
Non-performing assets (4)				$ 196,213	$ 7,714	2,443.6%
Non-performing loans to total gross loans				12.54%	0.56%	2,139.3%
Non-performing assets to total assets				10.98%	0.46%	2,287.0%
Past due loans						
30 59 days				$ 2,030	$ 4,599	(55.9)%
60 89 days				$ 31,009	$ 1,057	2,833.7%
Allowance for loan losses to total gross loans				2.32%	1.18%	96.6%
Allowance for loan losses to non-performing loans				19%	210%	(91.2)%
Net charge-offs to average loans (6)	0.46%	0.10%	360.0%	0.83%	0.03%	2,666.7%

(1) Net interest margin represents net

interest income on a tax equivalent basis as a percentage of average interest-earning assets.

(2) Efficiency ratio represents non-interest expenses, excluding provision for loan losses, as a percentage of the aggregate of net interest income and non-interest income.

(3) Non-performing loans are defined as loans that are past due 90 days or more plus loans placed in non-accrual status.

(4) Non-performing assets are defined as assets that are past due 90 days or more plus assets placed in non-accrual status and other real estate owned.

(5) Weighted average shares outstanding-diluted were equal to weighted average shares-basic for the three and nine months ended September 30, 2008, as any common stock equivalents would have been anti-dilutive.

(6) Annualized.

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CRITICAL ACCOUNTING POLICIES

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

Allowance for loan losses. The allowance for loan losses represents the Company s best estimate of the probable losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced when loans charged-off exceed loan recoveries. The allowance for loan losses is evaluated at least quarterly. The quarterly evaluation includes management s assessment of various factors affecting the collectibility of loans, including current economic conditions, past credit experience, delinquency status, the value of the underlying collateral, if any, and a continuing review of the portfolio of loans. In addition to assessing these various factors, management considers a number of quantitative and qualitative factors, including levels and trends of past due and non-accrual loans, asset classifications, loan grades, changes in the volume of loans, collateral value, historical loss experiences, peer group loss experiences, size and complexity of individual credits and economic conditions. The provision for loan losses contains a general and specific component. The general component is based on a portfolio segmentation based on risk grading, with a further evaluation of the various quantitative and qualitative factors noted above. The specific component is for impaired loans, where the expected or anticipated loss is measurable (e.g., impairment).

Available-for-sale securities. Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, requires that available-for-sale securities be carried at fair value. The Company believes this to be a critical accounting estimate in that the fair value of a security is based on quoted market prices or, if quoted market prices are not available, fair values are extrapolated from the quoted prices of similar instruments. See SFAS No. 157, *Fair Value Measurements* below.

Goodwill and other intangibles. Net assets of entities acquired in purchase transactions are recorded at fair value at the date of acquisition. Identified intangibles are amortized on a straight-line basis over the period benefited. Goodwill is not amortized, although it is reviewed for impairment on an annual basis or if events or circumstances indicate a potential impairment. The impairment test is performed in two phases. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure compares the implied fair value of the reporting unit s goodwill (as defined in SFAS No. 142, *Goodwill and Other Intangible Assets*) with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

Other intangible assets subject to amortization are evaluated for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. An impairment loss will be recognized if the carrying amount of the intangible asset is not recoverable and exceeds fair value. The carrying amount of the intangible is considered not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset.

Share-based compensation. The Company recognizes share-based compensation expense under the provisions of the FASB issued Statement No. 123 (revised 2004) (SFAS No. 123R), *Share-Based Payment,* and SEC Staff Accounting Bulletins No. 107 (SAB 107) and No. 110 (SAB 110), which requires the measurement and recognition of all share-based compensation under the fair value method. In determining the fair value of stock options, the Company employed the following assumptions (no stock options have been issued since June 2006):

Expected volatility based on the historical volatility of similar entities stock price that have been public for a period of time at least equal to the expected life of the option.

Expected term of the option based on the simple average of the vesting term and the original contract term.

Risk-free rate based upon the rate on a zero coupon U.S. Treasury bill, for periods within the expected term of the option.
Dividend yield the Company currently has a no dividend policy and accordingly, no dividend yield is utilized.

The fair value of restricted stock grants is based on the closing price of the Company s common stock on the date of grant.

Segment reporting. With the acquisition of Community Bank of Arizona in September 2006, the Company expanded to the greater Phoenix, Arizona market. During the quarter ended December 31, 2006, certain changes were implemented in the management and reporting of the Company s business units, resulting in two reportable operating segments: Community Bank of Nevada and Community Bank of Arizona.

Fair Value Measurements. Effective January 1, 2008 the Company adopted SFAS No. 157, *Fair Value Measurements*, and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value.

SFAS No. 157 also establishes a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follow:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

RESULTS OF OPERATIONS

As previously noted, the Company recorded a net loss of $3.0 million and $4.9 million for the three and nine months ended September 30, 2008, respectively, compared to net income of $5.5 million and $16.6 million, respectively, for the same periods of 2007. The Company earns income from two primary sources: net interest income, which is the difference between interest income generated from interest earning assets and interest expense created by interest bearing liabilities; and non-interest income, of which a majority is fees and charges earned from customer services. Income from these sources is offset by the provision for loan losses, non-interest expense and income taxes.

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Net Interest Income and Net Interest Margin

The following table presents the net interest spread, net interest margin, average balances, interest income and expense, and average yields and rates by asset and liability components for the periods indicated.

Distribution, Rate and Yield Analysis of Net Interest Income

	Three Months Ended September 30,					
	2008			2007		
	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield (7)	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield (7)
	(In thousands, except percentage data)					
Assets:						
Interest earning assets:						
Loans (1)(2)	$ 1,491,121	$ 23,278	6.21%	$ 1,351,327	$ 31,613	9.28%
Investment securities (3)(4)	73,179	888	5.39%	109,663	1,345	5.26%
Federal funds sold	86,877	431	1.97%	23,636	301	5.05%
Total interest earning assets (3)	1,651,177	24,597	5.95%	1,484,626	33,259	8.92%
Non-interest earning assets:						
Cash and due from banks	17,331			21,421		
Goodwill and intangibles	120,305			122,996		
Other assets	33,648			34,498		
Total assets	$ 1,822,461			$ 1,663,541		
Liabilities and stockholders equity:						
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	$ 73,782	345	1.86%	$ 73,048	524	2.85%
Money market	636,903	3,868	2.42%	505,620	5,885	4.62%
Savings	19,993	70	1.39%	35,820	306	3.39%
Time	558,644	5,679	4.04%	423,741	5,564	5.21%
Total interest bearing deposits	1,289,322	9,962	3.07%	1,038,229	12,279	4.69%
Borrowings	60,929	663	4.33%	93,052	1,209	5.16%
Junior subordinated debt	72,166	1,042	5.74%	86,790	1,543	7.05%
Total interest bearing liabilities	1,422,417	11,667	3.26%	1,218,071	15,031	4.90%

Non-interest bearing liabilities:						
Demand deposits	155,988			200,972		
Other liabilities	9,335			10,264		
Total liabilities	1,587,740			1,429,307		
Stockholders equity	234,721			234,234		
Total liabilities and stockholders equity	$ 1,822,461			$ 1,663,541		
Net interest income		$ 12,930			$ 18,228	
Net interest spread (3)(5)			2.69%			4.02%
Net interest margin (3)(6)			3.14%			4.90%

(1) Includes average non-accrual loans of $119.0 million and $3.7 million for the three months ended September 30, 2008 and 2007, respectively.

(2) Net loan fees of $1.6 million and $2.2 million are included in the yield computations for the three months ended September 30, 2008 and 2007, respectively.

(3) Yields on securities, total interest-earning assets, net interest spread

and net interest margin have been adjusted to a tax-equivalent basis.

These adjustments amounted to $103,000 and $109,000 for the three months ended September 30, 2008 and 2007, respectively.

(4) Includes securities available for sale, securities held to maturity, interest bearing deposits in other banks and required equity investments.

(5) Net interest spread represents the average yield earned on interest earning assets less the average rate paid on interest bearing liabilities.

(6) Net interest margin is computed by dividing net interest income, on a tax equivalent basis, by total average earning-assets.

(7)

Yields are computed based on actual number of days during the period.

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	Nine Months Ended September 30, 2008			2007		
	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield (7)	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield (7)
	(In thousands, except percentage data)					
Assets:						
Interest earning assets:						
Loans (1)(2)	$ 1,473,918	$ 77,336	7.01%	$ 1,305,660	$ 90,986	9.32%
Investment securities (3)(4)	82,461	2,955	5.30%	114,505	4,229	5.32%
Federal funds sold	30,712	458	1.99%	34,457	1,348	5.23%
Total interest earning assets (3)	1,587,091	80,749	6.82%	1,454,622	96,563	8.91%
Non-interest earning assets:						
Cash and due from banks	16,711			23,227		
Goodwill and intangibles	120,636			123,359		
Other assets	34,114			34,052		
Total assets	$ 1,758,552			$ 1,635,260		
Liabilities and stockholders equity:						
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	$ 73,494	1,058	1.92%	$ 68,539	1,389	2.71%
Money market	634,170	12,802	2.70%	495,324	17,152	4.63%
Savings	22,743	248	1.46%	43,752	954	2.92%
Time	448,993	14,612	4.35%	413,213	15,407	4.99%
Total interest bearing deposits	1,179,400	28,720	3.25%	1,020,828	34,902	4.57%
Borrowings	95,834	3,063	4.27%	91,077	3,510	5.15%
Junior subordinated debt	72,166	3,230	5.98%	87,347	4,616	7.07%
Total interest bearing liabilities	1,347,400	35,013	3.47%	1,199,252	43,028	4.80%
Non-interest bearing liabilities:						
Demand deposits	164,103			197,086		

Other liabilities	9,290			10,277		
Total liabilities	1,520,793			1,406,615		
Stockholders equity	237,759			228,645		
Total liabilities and stockholders equity	$ 1,758,552			$ 1,635,260		
Net interest income		$ 45,736			$ 53,535	
Net interest spread (3)(5)			3.35%			4.11%
Net interest margin (3)(6)			3.88%			4.95%

(1) Includes average non-accrual loans of $57.9 million and $2.2 million for the nine months ended September 30, 2008 and 2007, respectively.

(2) Net loan fees of $5.4 million and $5.9 million are included in the yield computations for the nine months ended September 30, 2008 and 2007, respectively.

(3) Yields on securities, total interest-earning assets, net interest spread and net interest margin have been adjusted to a tax-equivalent

basis. These adjustments amounted to $315,000 and $330,000 for the nine months ended September 30, 2008 and 2007, respectively.

(4) Includes securities available for sale, securities held to maturity, interest bearing deposits in other banks and required equity investments.

(5) Net interest spread represents the average yield earned on interest earning assets less the average rate paid on interest bearing liabilities.

(6) Net interest margin is computed by dividing net interest income, on a tax equivalent basis, by total average earning-assets.

(7) Yields are computed based on actual number of days during the period.

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The following table sets forth, for the period indicated, the dollar amount of changes in interest earned for interest earning assets and paid for interest bearing liabilities and the amount of change attributable to (i) average daily balances (volume) and (ii) interest rates (rate):

	Three months ended September 30, 2008 vs. 2007 increase (decrease) due to change in (In thousands)			Nine months ended September 30, 2008 vs. 2007 increase (decrease) due to change in (In thousands)		
	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:						
Loans	$ 3,012	$ (11,347)	$ (8,335)	$ 10,732	$ (24,382)	$ (13,650)
Investments securities	(443)	(14)	(457)	(1,151)	(123)	(1,274)
Federal funds sold	406	(276)	130	(133)	(757)	(890)
Total interest and dividend income	2,975	(11,637)	(8,662)	9,448	(25,262)	(15,814)
Interest expense:						
Interest bearing demand	6	(185)	(179)	95	(426)	(331)
Money market	1,272	(3,289)	(2,017)	4,002	(8,352)	(4,350)
Savings	(102)	(134)	(236)	(347)	(359)	(706)
Time	1,538	(1,423)	115	1,266	(2,061)	(795)
Borrowings	(370)	(176)	(546)	178	(625)	(447)
Junior subordinated debt	(236)	(265)	(501)	(736)	(650)	(1,386)
Total interest expense	2,108	(5,472)	(3,364)	4,458	(12,473)	(8,015)
Net interest income	$ 867	$ (6,165)	$ (5,298)	$ 4,990	$ (12,789)	$ (7,799)

Net interest income is derived from interest and dividends received on interest earning assets, less interest expense incurred on interest bearing liabilities. The most significant impact on the Company s net interest income between periods is derived from the interaction of changes in volumes and rates. The volume of loans, investment securities and other interest earning assets, compared to the volume of interest bearing deposits and indebtedness, combined with the rate relationships, produces changes in the net interest income between periods.

For the three months and nine months ended September 30, 2008, interest and dividend income was $24.6 million and $80.7 million, respectively, compared to $33.3 million and $96.6 million, respectively, for the same periods in 2007. The decrease in interest and dividend income was due to the adverse effects of the increase in non-performing loans ($185.5 million at September 30, 2008) and lower yields on indexed loans. The Company s average prime rate for the three and nine months ended September 30, 2008, decreased 318 and 280 basis points, respectively, to 5.00% and 5.43%, respectively, compared to 8.18% and 8.23%, respectively, in the same periods in 2007, in response to the 325 basis point decrease in the interest rate target set by the Federal Open Market Committee (FOMC) from September 2007 through April 2008. Mitigating these downward pressures on interest and dividend income was an increase in loans outstanding resulting from organic growth and interest rate floors on loans which are active on approximately 50% of the Company s indexed loans. As a result of these factors, the Company s yields on loans for the three and nine months ended September 30, 2008 decreased to 6.21% and 7.01%, respectively, compared to 9.28%

and 9.32%, respectively, in the same periods in 2007.

For the three and nine months ended September 30, 2008, interest expense was $11.7 million and $35.0 million, respectively, compared to $15.0 million and $43.0 million, respectively, for the same periods in 2007. The same FOMC action mentioned above affected the cost of interest bearing liabilities. The target average federal funds rate for the three and nine months ended September 30, 2008 was 1.94% and 2.40%, respectively, a decrease of 313 basis points and 279 basis points, respectively, compared to 5.07% and 5.19%, respectively, for the same periods in 2007. The full impact of these decreases was not reflected in the cost of interest bearing liabilities as competitive pressures and the level of market rates do not always allow equal changes in interest rates paid. Unfavorable changes in funding liability mix also slowed the decrease in the average cost of funding liabilities as the Company funded its loan growth and increased liquidity with higher cost certificate of deposits and wholesale funds. As a result of these factors, the Company s cost of interest bearing liabilities decreased to 3.26% and 3.47% for the three and nine months ended September 30, 2008, respectively, compared to 4.90% and 4.80%, respectively, for the same periods in 2007.

Based on the aforementioned factors, the Company s net interest margin for the three and nine months ended September 30, 2008, declined to 3.14% and 3.88%, respectively, compared to 4.90% and 4.95%, respectively, in the same periods in 2007.

Provision for Loan Losses

The Company has established an allowance for loan losses through charges to earnings that are reflected in the Consolidated Statements of Operations and Comprehensive Income (Loss) as provision for loan losses. Specifically, the provision for loan losses represents the amount charged against current period earnings to achieve an allowance for loan losses that, in management s judgment, is adequate to address the risks in the Company s loan portfolio. To quantify these risks, the Company performs a quarterly assessment of the losses inherent in its loan portfolio, as well as a detailed review of each significant loan with identified weaknesses.

The provision for loan losses was $8.0 million and $26.4 million, respectively, for the three and nine months ended September 30, 2008, compared to $533,000 and $1.5 million, respectively, in the same periods in 2007. The increase in the loan loss provision has resulted in a substantial increase in both the general and specific loan loss allowances which management deemed necessary due to the continued decline in economic conditions in the Company s primary markets as the deterioration of the real estate market during the second half of 2007 has continued throughout 2008.

Non-Interest Income

The following table sets forth the various components of the Company s non-interest income for the periods indicated:

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	Increase	2008	2007	Increase
	Amount (In thousands)		(decrease)	Amount (In thousands)		(decrease)
Service charges and other income	$ 824	$ 621	$ 203	$ 2,225	$ 1,806	$ 419
Income from bank owned life insurance	97	111	(14)	295	340	(45)
Net swap settlements	(108)	52	(160)	(223)	144	(367)
Rental income	35	38	(3)	122	114	8
Gain on sale of securities				196	4	192
(Loss) gain on sale of property	(3)		(3)	1,207		1,207
Net gain on sales of loans					285	(285)
Total non-interest income	$ 845	$ 822	$ 23	$ 3,822	$ 2,693	$ 1,129

Non-interest income increased to $845,000 for the three months ended September 30, 2008, compared to $822,000 in the same period in 2007. The increase resulted from greater service charges and other income generated from increased transaction fees (e.g., customer service charges and ATM fees), offset by lower yields on the bank owned life insurance and the recognition of net interest expense on the Company s interest rate swaps (compared to net interest income in the prior period).

Non-interest income for the nine months ended September 30, 2008, increased to $3.8 million, compared to $2.7 million for the same period in 2007. The increase resulted from greater service charges and other income generated from increased transaction fees, an increase in the gain on sale of securities due to calls on outstanding debt (resulting in a required redemption of the securities) and the gain on sale of the Company s Warm Springs property in February 2008 of approximately $1.2 million for which there was no corresponding amount in 2007. Offsetting these increases in non-interest income were lower yields on the bank owned life insurance, the recognition of net interest expense on the Company s interest rate swaps (compared to net interest income in the prior period) and the gain on sale of loans in 2007 for which there was no corresponding amount in the current period.

Non-Interest Expense

The following table sets forth the components of non-interest expense for the periods indicated:

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	Increase	2008	2007	Increase
	Amount (In thousands)		(decrease)	Amount (In thousands)		(decrease)
Salaries, wages and employee benefits	$ 4,606	$ 5,337	$ (731)	$ 15,701	$ 16,638	$ (937)
Occupancy, equipment and depreciation	1,351	1,351		3,924	3,774	150
Core deposit intangible amortization	335	335		1,005	1,005	
Data processing	295	246	49	828	829	(1)
Advertising and public relations	387	651	(264)	1,169	1,388	(219)
Professional fees	463	486	(23)	1,669	1,186	483
Telephone and postage	153	214	(61)	479	608	(129)
Stationery and supplies	171	189	(18)	573	547	26
Directors fees	106	71	35	342	249	93
Insurance	469	170	299	1,129	429	700
Software maintenance	175	106	69	494	327	167
Loan related	266	74	192	489	251	238
Foreclosed assets, net	798		798	952		952
(Gain) loss on interest rate swaps	191		191	206		206
Other operating expenses	590	813	(223)	1,788	1,893	(105)
Total non-interest expense	$ 10,356	$ 10,043	$ 313	$ 30,748	$ 29,124	$ 1,624

For the three and nine months ended September 30, 2008, non-interest expense was $10.4 million and $30.7 million, respectively, compared to $10.0 million and $29.1 million for the same periods in 2007.

Salaries, wages and employee benefits decreased to $4.6 million and $15.7 million for the three and nine months ended September 30, 2008, respectively, compared to $5.3 million and $16.6 million for the same periods in 2007. These decreases resulted primarily from lower incentive and commission expenses and a reduction in estimated 2008 bonuses due to slower asset growth and the Company s current year financial performance, offset in part by annual salary increases during the first quarter of 2008 and increased share-based compensation costs associated with the issuance of restricted stock in August of 2007.

Advertising and public relations expenses decreased to $387,000 and $1.2 million for the three and nine months ended September 30, 2008, respectively, compared to $651,000 and $1.4 million for the same periods in 2007. These decreases resulted from the completion in 2007 of advertising campaigns associated with the Company s 2006 mergers and a decision by management to migrate to more cost effective media platforms.

Professional fees amounted to $463,000 and $1.7 million for the three and nine months ended September 30, 2008, respectively, compared to $486,000 and $1.2 million for the same periods in 2007. The increase in professional fees for the nine months ended September 30, 2008, was primarily the result of increased fees associated with the Company s quarterly reviews, tax compliance and annual audit and increases in legal and consulting costs associated

with Securities and Exchange Commission reporting as well as an efficiency/compliance study of its Bank Secrecy Act function during the first six months of 2008.

Insurance expense was $469,000 and $1.1 million for the three and nine months ended September 30, 2008, respectively, compared to $170,000 and $429,000 for the same periods in 2007. The increase for the three and nine months ended September 30, 2008, was primarily related to higher Federal Deposit Insurance Corporation (FDIC) insurance expense resulting from deposit growth and increases in rates associated with the Federal Deposit Insurance Reform Act of 2005.

Loan related expenses totaled $266,000 and $489,000 for the three and nine months ended September 30, 2008, respectively, compared to $74,000 and $251,000 for the same periods in 2007. These increases are due primarily to greater legal expenses and appraisal costs associated with protecting the Company s interest in the underlying collateral of loans due to the weakening economies and deterioration of the residential real estate sectors experienced in the Company s primary markets.

Foreclosed assets expenses amounted to $798,000 and $952,000 for the three and nine months ended September 30, 2008. These expenses represent legal expenses, filing fees, property taxes, appraisal costs and other costs associated with the foreclosure process as well as costs associated with the maintenance of the property prior to sale, any decrease in fair value on the foreclosed property prior to sale and the gain or loss on sale of the foreclosed property. There were no corresponding expenses in 2007.

The Company recognized a mark-to-market loss of $191,000 and $206,000 for the three and nine months ended September 30, 2008, respectively, associated with interest rate swaps entered into during 2006. Since the Company did not use hedge accounting for these swaps, any fair value adjustment is included in non-interest expense. For the three and nine months ended September 30, 2007 there was no corresponding loss on interest rate swaps.

Other operating expenses were $590,000 and $1.8 million for the three and nine months ended September 30, 2008, respectively, compared to $813,000 and $1.9 million for the same periods in 2007. For the three months ended September 30. 2008 the decrease in other operating expenses resulted from the recognition of a loss on extinguishment of debt of $377,000 in 2007 for which there is no corresponding amount in 2008, offset in part by increases in correspondent bank charges of $103,000 and sundry and operational losses of $78,000. For the nine months ended September 30, 2008, other operating expenses were relatively stable as the 2008 reduction in these expenses due to the extinguishment of debt noted above were offset by increased expenses associated with correspondent bank charges, other employee expenses and sundry and operational losses.

Income Tax Expense

The Company s income tax (benefit)/expense is the sum of two components, current tax (benefit)/expense and deferred tax (benefit)/expense. The current tax (benefit)/expense is the result of applying the current tax rate to the reportable (loss) or income for tax purposes. The deferred tax (benefit)/expense reflects the (loss)/income on which taxes are (received)/paid versus financial statement pre-tax (loss)/income, as some items of income and expense are recognized differently for income tax purposes than for the financial statements.

The Company recognized an income tax benefit of $1.6 million and $2.7 million for the three and nine months ended September 30, 2008, respectively, representing an effective tax rate of 35.4% and 35.3%, respectively. For the three and nine months ended September 30, 2007 the Company recognized an income tax expense of $2.9 million and $9.0 million, respectively, representing an effective rate of 34.7% and 35.1%, respectively. The primary reason for the difference from the federal statutory tax rate of 35% is the inclusion of state taxes and reductions related to tax-advantaged investments in municipal obligations and bank owned life insurance.

Deferred income tax assets or liabilities reflect the estimated future tax effects attributable to differences as to when certain items of income or expense are reported in the financial statements versus when they are reported in the tax return. The Company had a net deferred tax asset of $1.6 million and $1.5 million as of September 30, 2008 and December 31, 2007, respectively. The change in deferred taxes was primarily attributable to the tax effect of the fair market value change in available-for-sale securities.

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FINANCIAL CONDITION

Investment Securities

The following table summarizes the amortized cost, fair value and distribution of the Company s investment securities as of the dates indicated:

	As of September 30, 2008		As of December 31, 2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Available for sale:				
U.S. Government-sponsored agencies	$ 5,963	$ 6,041	$ 26,537	$ 26,811
Municipal bonds	19,345	19,614	20,750	20,982
SBA loan pools	333	332	501	497
Mortgage-backed securities	34,159	34,225	40,300	39,897
Mutual funds			30	30
Total available for sale	$ 59,800	$ 60,212	$ 88,118	$ 88,217
Held to maturity:				
Municipal bonds	$ 491	$ 503	$ 646	$ 661
SBA loan pools	141	142	155	156
Total held to maturity	$ 632	$ 645	$ 801	$ 817
Total investment securities	$ 60,432	$ 60,857	$ 88,919	$ 89,034

As of September 30, 2008, investment securities totaled $60.8 million, or 3.4% of total assets, compared to $89.0 million, or 5.3% of total assets, as of December 31, 2007. The decrease in the investment portfolio was due primarily to maturities and calls on securities. The related proceeds were used in part to fund the Company s 2008 loan growth.

Available-for-sale securities totaled $60.2 million as of September 30, 2008, compared to $88.2 million at December 31, 2007. Available-for-sale securities as a percentage of total assets decreased to 3.4% as of September 30, 2008, compared to 5.2% at December 31, 2007. Securities held to maturity decreased to $632,000 at September 30, 2008 from $801,000 at December 31, 2007. For the nine months ended September 30, 2008, the tax equivalent yield on the average investment portfolio was 5.30%, representing a decrease of 2 basis points, compared to 5.32% for the same period in 2007.

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Loans

The following table sets forth the composition of the Company s loan portfolio as of the dates indicated:

	September 30, 2008	December 31, 2007
	(In thousands)	
Commercial and industrial	$ 217,379	$ 210,614
Real estate:		
Commercial	401,597	370,464
Residential	42,024	43,212
Construction and land development	813,412	789,185
Consumer and other	4,755	5,707
Total gross loans	1,479,167	1,419,182
Less:		
Allowance for loan losses	34,332	17,098
Net unearned loan fees and discounts	3,317	5,194
Total net loans	$ 1,441,518	$ 1,396,890

The Company s loan portfolio represents the largest single portion of earning assets. The quality and diversification of the Company s loans are important considerations when reviewing the Company s results of operations. The Company s lending activities consist of commercial and industrial, commercial real estate, residential real estate, construction and land development and consumer and other. None of these categories of the loan portfolio contain residential sub-prime or Alt-A mortgages.

As of September 30, 2008 and December 31, 2007, total gross loans represented 82.7% and 83.8%, respectively of total assets.

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The following tables set forth the detailed composition of the Company s loan portfolio and related amounts for impairment (specific allowance) and impaired loans as of September 30, 2008:

DETAIL COMPOSITE OF LOAN PORTFOLIO

	Balance	Specific Allowance	Total	Total Impaired Accruing	Non Accrual
			(In thousands)		
Real Estate:					
Total Construction & Land					
Single Family					
Single Family Residential	$ 194,411	$ 10,723	$ 81,341	$ 2,970	$ 78,371
Condominiums	16,321				
Total Single Family	210,732	10,723	81,341	2,970	78,371
Multifamily	45,954	3,714	28,698		28,698
Retail	336,399	410	46,038	1,904	44,134
Industrial	91,292				
Office	80,711		8,540		8,540
Other	48,324				
Total Construction & Land	813,412	14,847	164,617	4,874	159,743
Commercial					
Office					
Owner occupied	108,002	28	3,518	144	3,374
Non owner occupied	42,042				
Total Office	150,044	28	3,518	144	3,374
Retail	126,169	55	2,012	450	1,562
Industrial	72,031	77	388	388	
Other	53,353	100	17,034		17,034
Total Commercial	401,597	260	22,952	982	21,970
Residential	42,024	199	429	139	290
Total Real Estate	1,257,033	15,306	187,998	5,995	182,003
Commercial & Industrial	217,379	2,739	7,126	3,610	3,516
Consumer	4,755	18	20		20
Total Gross Loans	1,479,167	$ 18,063	$ 195,144	$ 9,605	$ 185,539
Allowance for loan losses	34,332		$ 18,063		

Deferred Fees, Net	3,317
Net Loans	$ 1,441,518

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DETAIL COMPOSITE OF CONSTRUCTION & LAND LOAN PORTFOLIO

	Balance	Specific Allowance	Total (In thousands)	Total Impaired Accruing	Non Accrual
Construction & Land					
Construction					
Single Family					
Single Family Residential	$ 26,374	$ 872	$ 8,482	$ 1,442	$ 7,040
Condominiums	16,321				
Total Single Family	42,695	872	8,482	1,442	7,040
Multifamily	7,413	3,264	7,413		7,413
Retail	146,702	410	14,560	1,904	12,656
Industrial	26,735				
Office	39,776				
Other	18,641				
Total Construction	281,962	4,546	30,455	3,346	27,109
Acquisition & Development					
Single Family	73,716	3,552	26,161		26,161
Multifamily	17,535	450	17,535		17,535
Retail	129,621		26,138		26,138
Industrial	18,027				
Office	25,373		6,290		6,290
Other	6,583				
Total Acquisition & Development	270,855	4,002	76,124		76,124
Developed Land					
Single Family	30,413	1,805	5,029		5,029
Multifamily	21,006		3,750		3,750
Retail	36,890		4,040		4,040
Industrial	833				
Office	443				
Other	18,600				
Total Developed Land	108,185	1,805	12,819		12,819
Raw Land					
Single Family	63,908	4,494	41,669	1,528	40,141
Retail	23,186		1,300		1,300
Industrial	45,697				
Office	15,119		2,250		2,250
Other	4,500				

Total Raw Land	152,410	4,494	45,219	1,528	43,691
Total Construction & Land	$ 813,412	$ 14,847	$ 164,617	$ 4,874	$ 159,743

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Non-performing Assets

Non-performing assets include non-accrual loans, loans past due 90 days or more still accruing interest and OREO. The following table sets forth information regarding non-performing assets as of the dates indicated:

	September 30, 2008	December 31, 2007	September 30, 2007
		(In thousands)	
Non-accrual loans, not restructured	$ 185,539	$ 12,076	$ 7,714
Accruing loans past due 90 days or more	8	20	
Restructured loans			
Total non-performing loans (NPLs)	185,547	12,096	7,714
OREO	10,666		
Total non-performing assets (NPAs)	$ 196,213	$ 12,096	$ 7,714
Selected ratios			
NPLs to total gross loans	12.54%	0.85%	0.56%
NPAs to total gross loans and OREO	13.17%	0.85%	0.56%
NPAs to total assets	10.98%	0.71%	0.46%

The composite of non-accrual loans as of September 30, 2008 and December 31, 2007 was as follows:

	September 30, 2008			December 31, 2007		
	Non-Accrual Balance	%	Percent of Total Loans	Non-Accrual Balance	%	Percent of Total Loans
	(In thousands, except percentage data)					
Commercial and industrial	$ 3,516	1.9%	0.24%	$ 2,042	16.9%	0.15%
Real Estate:						
Commercial	21,970	11.8%	1.48%	4,291	35.5%	0.30%
Residential	290	0.2%	0.02%		0.0%	0.00%
Construction and land development	159,743	86.1%	10.80%	5,738	47.6%	0.40%
Consumer and Other	20	0.0%	0.00%	5	0.0%	0.00%
Total Loans	$ 185,539	100.0%	12.54%	$ 12,076	100.0%	0.85%

Non-performing loans totaled $185.5 million, or 12.5% of total gross loans, at September 30, 2008, compared to $12.1 million, or 0.85% of total gross loans, at December 31, 2007. The increase in non-performing loans is due primarily to the weakening economies and deterioration in the residential real estate sectors experienced in the Company s primary markets during the second half of 2007 and continuing throughout 2008. While all categories of the Company s loan portfolio have been affected by the current economic downturn, acquisition and land development loans have experienced the largest increase due to the short-term nature of the loans and the decline in value of the underlying collateral (e.g. real estate).

Thirteen relationships comprise $147.1 million, or 79.3% of all non-performing loans, as of September 30, 2008. As all non-performing loans are deemed impaired, management has individually reviewed the underlying collateral value (less cost to sell) on each of these loans as part of its analysis of impaired loans. As a result of this comprehensive analysis, a $14.6 million specific allowance for loan losses was established for non-performing loans, which is a component of the $18.1 million specific allowance on impaired loans.

OREO is real estate that is held for sale and is initially recorded at fair value, net of estimated disposition costs and is subsequently carried at the lower of its carrying amount or fair value. The Company s OREO as of September 30, 2008 consists of six properties totaling $10.7 million, compared to no OREO at December 31, 2007. During the nine months ended September 30, 2008, the Company has foreclosed on eight properties totaling $16.1 million and sold two properties totaling $4.5 million which approximated the carrying value of the property at the time of sale. Subsequent to establishing the initial carrying value of the OREO, management has written down two properties by a combined total of $870,000.

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Impaired Loans

Impaired loans are loans for which it is probable that the Company will not be able to collect all amounts due according to the original contractual terms of the loan agreement. The category of impaired loans includes all non-accrual loans, regardless of size, as well as other loans that management has reviewed and believes it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The following table sets forth information regarding impaired loans as of the dates indicated:

	September 30, 2008	December 31, 2007
	(In thousands)	
Impaired loans with a valuation allowance	$ 58,962	$ 3,097
Impaired loans without a valuation allowance	136,182	26,702
Total impaired loans	$ 195,144	$ 29,799
Average balance of impaired loans (1)	$ 106,221	$ 15,163
Related valuation allowance	$ 18,063	$ 1,283
Interest income recognized on impaired loans (1)	$ 644	$ 1,551
Interest income recognized on a cash basis on impaired loans (1)	$ 318	$ 948

(1) For the nine months ended September 30, 2008 and twelve months ended December 31, 2007.

Impaired loans totaled $195.1 million at September 30, 2008, compared to $29.8 million at December 31, 2007. Impaired loans include all non-performing loans in the amount of $185.5 million and other loans in the amount of $9.6 million that, while currently performing, were deemed impaired by management. An analysis is performed on the collateral value (less cost to sell) of each impaired loan and a specific allowance for loan losses is established. Based on this comprehensive review of impaired loans, management anticipates the losses associated with these loans will approximate $18.1 million and has established a specific allowance for loan losses in this amount.

Based on current collateral values, management believes the specific allowance of $18.1 million as of September 30, 2008 is adequate. While collateral values have declined over the last year, conservative loan to values at the inception of the loans have been beneficial in mitigating increases in the specific loan loss allowance. All non-performing real estate loans were recently appraised and will continue to be reappraised as necessary. Although management expects a number non-performing loans to be paid-off prior to the sale of the underlying collateral, the marketing and sales of

these properties is currently in process.

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Allowance for Loan Losses

The following table sets forth information regarding the Company s allowance for loan losses for the dates indicated:

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008	Year Ended December 31, 2007 (In thousands)	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Allowance for Loan Losses:					
Balance at beginning of period	$ 28,050	$ 17,098	$ 14,973	$ 15,985	$ 14,973
Charge-offs:					
Commercial and industrial	1,219	3,056	1,125	67	224
Real Estate:					
Commercial		229			
Residential	528	1,789	228	211	227
Construction and land development	17	4,301			
Consumer and other	34	94	199	71	126
Total charge-offs	1,798	9,469	1,552	349	577
Recoveries					
Commercial and industrial	50	268	294	14	286
Real Estate:					
Commercial					
Residential	3	3	26		
Construction and land development	18	29	1		
Consumer and other	9	9	1	1	1
Total recoveries	80	309	322	15	287
Net loans charge-offs (recoveries)	1,718	9,160	1,230	334	290
Provision for loan losses	8,000	26,394	3,355	533	1,501
Balance at end of period	$ 34,332	$ 34,332	$ 17,098	$ 16,184	$ 16,184
Total gross loans	$ 1,479,167	$ 1,479,167	$ 1,419,182	$ 1,373,661	$ 1,373,661
	1,491,121	1,473,918	1,318,995	1,351,327	1,305,660

Average gross loans (net of deferred fees)					
Non-performing loans	185,547	185,547	12,096	7,714	7,714
Non-performing assets	196,213	196,213	12,096	7,714	7,714
Selected ratios:					
Net charge-offs (recoveries) to average loans (annualized)	0.46%	0.83%	0.09%	0.10%	0.03%
Provision for loan losses to average loans (annualized)	2.13%	2.39%	0.25%	0.16%	0.15%
Allowance for loan losses to total gross loans outstanding at end of period	2.32%	2.32%	1.20%	1.18%	1.18%
Allowance for loan losses to total non-performing loans	19%	19%	141%	210%	210%

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The provision for loan losses was $8.0 million and $26.4 million, respectively, for the three and nine months ended September 30, 2008, compared to $533,000 and $1.5 million, respectively, in the same periods in 2007. The increase in the loan loss provision has resulted in a substantial increase in both the general and specific loan loss allowance which was deemed necessary by management due to the continued decline in economic conditions in the Company s primary markets as the deterioration of the real estate market during the second half of 2007 continued throughout 2008.

General Allowance for Loan Losses (SFAS No. 5, Accounting for Contingencies)

The increase in the general allowance for loan losses (from $15.8 million at December 31, 2007 to $16.3 million at September 30, 2008) is a direct result of the difficult economic conditions that exist in the Company s primary markets. Management s assessment of these conditions is reflected in the general allowance. As of September 30, 2008, the general allowance was 1.27% of non-impaired loans, compared to 1.14% at December 31, 2007.

Specific Allowance for Loan Losses (SFAS No. 114, Accounting by Creditors for the Impairment of a Loan)

The increase in the specific allowance for loan losses (from $1.3 million at December 31, 2007 to $18.1 million at September 30, 2008), is a result of the difficult economic conditions in the Company s primary markets. The specific allowance for loan losses is based on a review of all impaired loans. Management has individually reviewed each impaired loan and its underlying collateral value (less cost to sell). As a result of this analysis, an $18.1 million specific allowance for loan losses was established, representing management s assessment of the anticipated losses on these loans in the event of foreclosure on the underlying collateral and subsequent sale of the property.

Management believes the level of allowance as of September 30, 2008 is adequate to absorb the estimated losses from any known or inherent risks in the loan portfolio. However, the Company s results can be significantly influenced by changes in the credit quality of its borrowers. The Company s allowance for loan losses, OREO, charged-off loans, non-performing loans, impaired loans and the provision for loan losses all increased significantly during the three and nine months ended September 30, 2008, compared to the same periods in 2007. These increases are primarily the result of the weakening economies and deterioration of the residential real estate sectors experienced in the Company s primary markets during the second half of 2007 and continuing throughout 2008 and the effect these conditions had on its commercial and industrial, commercial real estate, residential and construction and land development loans (e.g., increased charge-offs, an increase in the economic risk metrics and an increase in the valuation allowance for impaired loans). As a result, while management believes the allowance for loan losses is adequate to absorb the estimated losses from any known or inherent risks in the loan portfolio, any prolonged or further deterioration in the real estate markets with resulting declines in the value of real estate collateral may cause higher levels of non-performing assets and loan losses in future periods.

Goodwill

Goodwill represents the excess of the consideration over the fair value of the net assets acquired through the 2005 and 2006 acquisitions of Bank of Commerce, Community Bank of Arizona and Valley Bancorp. Under SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is not amortized but rather tested for impairment, at least annually. The Company s annual testing of impairment was conducted as of October 1, 2007 for each of its reporting units (i.e., segments). No impairment of goodwill was identified at that time. In accordance with SFAS No. 142, goodwill of a reporting unit shall be tested for impairment between annual tests if an event or circumstance occurs that would more likely than not reduce the fair value of a reporting unit below its carry value. The Company will perform its annual test of goodwill as of October 1, 2008, during the fourth quarter 2008 which might result in a reduction of the carrying value of goodwill and an impairment loss. Because goodwill is not included in the calculation of risk-based capital, the Company s regulatory risk-based capital would not be impacted by this potential expense.

Deposits

Total deposits increased by $198.4 million, or 16.1%, to $1.43 billion as of September 30, 2008, from $1.2 billion as of December 31, 2007. The increase in deposits were secured to reduce the Company s FHLB borrowings (both short-term and maturing term debt), fund a substantial portion of the Company s loan growth during the nine months ended September 30, 2008 and create additional liquidity.

The Company s increase in deposits was accompanied by a shift in deposit mix as core deposits (non-interest bearing demand, non-broker interest bearing demand and savings) declined to $812.7 million at September 30, 2008, compared to $910.5 million at December 31, 2007, resulting in an increased reliance on wholesale money market funds and broker certificate of deposits. While the economic downturn had an adverse effect on customer deposits, the decrease in core deposits was primarily driven by customers negative reaction to economic conditions and adverse publicity of banks and other financial institutions. Management believes the recently enacted increase of FDIC insurance to $250,000 and unlimited insurance protection on non-interest bearing accounts should mitigate future erosion of core deposits.

At September 30, 2008, eight customer balances totaling $615.9 million comprised 43.1% of total deposits. These customer balances constitute all brokered deposits at September 30, 2008. Of these deposits at September 30, 2008, $441.3 million were interest bearing wholesale demand deposits and $174.6 million were other time deposits.

Borrowings and Junior Subordinated Debt

The Company has commitments from the FHLB for borrowings, which are collateralized by certain securities and a blanket lien on loans secured by real estate and all business loans. The agreement can be terminated by the FHLB at any time. As of September 30, 2008 and December 31, 2007, loans with a balance of approximately $253.6 million and $245.3 million, respectively, were pledged as collateral on advances from the FHLB as part of the blanket lien. The Company regularly uses the FHLB for short term and long term borrowings. FHLB term debt, which matures from January 2009 through March 2009, amounted to $36.0 million at September 30, 2008. Interest on all FHLB borrowings accrued at an average rate of 4.39% and 4.20% for the three and nine months ended September 30, 2008, respectively. Remaining available debt financing based upon the current collateral pledged through the FHLB amounted to $122.5 million at September 30, 2008.

In September 2008, the Company entered into a commitment with the FRB for borrowings, which are collateralized by certain securities and loans. The Company can terminate its consent to be bound under the agreement at any time by giving written notice as specified under the agreement. The borrowing capacity with the FRB totaled $252.7 million, none of which was used or outstanding as of September 30, 2008.

The Company also has agreements with other lending institutions under which it can purchase up to $120.0 million of federal funds. The interest rate charged on borrowings is determined by the lending institutions at the time of borrowings. Each line is unsecured. As of September 30, 2008 and December 31, 2007, there were no federal funds purchased.

In September 2007, the Company borrowed $15.5 million and used the proceeds to redeem junior subordinated debt owed to Community Bancorp (NV) Statutory Trust I which used the proceeds to redeem its trust preferred issuances. The borrowing is unsecured, bears interest at the one month LIBOR plus 1.50% (equal to 3.97% at September 30, 2008), is payable in the amount of approximately $475,000 monthly with all unpaid interest and principal due on September 26, 2010 and requires the lender’s approval prior to issuing dividends to shareholders. The outstanding balance on the note was $10.5 million and $14.3 million as of September 30, 2008 and December 31, 2007, respectively.

At September 30, 2008, the Company was not in compliance with the debt service coverage ratio requirement of this loan agreement. The Company is currently negotiating a waiver from the lender of this requirement and is current on all scheduled interest and principal payments. In the event these negotiations are not successful, the Company has the right and ability to prepay the note without penalty.

The Company had $72.2 million of subordinated debentures outstanding at September 30, 2008, which bore interest at an average rate of 5.74% and 5.98% for the three months and nine months ended September 30, 2008, respectively. The subordinated debentures were issued in three separate series. Each issuance has a maturity of thirty years from its date of issue. The subordinated debentures were issued to trusts established by the Company, which in turn issued trust preferred securities. The proceeds from the issuance of the securities were used to fund the Company s 2005 and 2006 acquisitions.

In accordance with FIN 46 (revised December 2004), *Consolidation of Variable Interest Entities-an interpretation of ARB No. 51*, statutory trusts are not reported on a consolidated basis. Therefore, the trust preferred debt securities of $70.0 million do not appear on the Consolidated Balance Sheets. Instead, the junior subordinated debentures of $72.2 million payable by Community Bancorp to the statutory trusts and the investment in the statutory trusts common stock of $2.2 million (included in other assets) are reported on the Consolidated Balance Sheets.

REGULATORY MATTERS

The regulatory capital guidelines as well as the actual capital ratios for Community Bank of Nevada, Community Bank of Arizona and the Company as of September 30, 2008 are as follows:

	Minimum Regulatory	Well Capitalized	Actual Community Bank of Nevada	Actual Community Bank of Arizona	Community Bancorp
Tier 1 leverage capital	4.00%	5.00%	10.60%	16.67%	10.65%
Tier 1 risk-based capital	4.00%	6.00%	10.96%	18.07%	11.04%
Total risk-based capital	8.00%	10.00%	12.22%	19.34%	12.30%

In March 2005, the Federal Reserve Bank adopted a final rule that allows the continued inclusion of trust preferred securities in the Tier I capital of bank holding companies, subject to stricter quantitative limits and qualitative standards. Under the final ruling, qualifying mandatory preferred securities may be included in Tier I capital, subject to a limit of 25% of all core capital. Amounts of restricted core capital elements in excess of this limit generally may be included in Tier II capital. After a four-year phase in period, the final quantitative limits become effective on March 31, 2009. As of September 30, 2008, the junior subordinated debentures have been included in Tier I capital for regulatory capital purposes up to the specified limit ($70.0 million). The Company anticipates that its Tier 1 leverage capital and Tier 1 risk-based capital ratios will remain above well capitalized thresholds under the stricter quantitative and qualitative limits.

LIQUIDITY MANAGEMENT

The Company s liquidity represented by cash and due from banks, federal funds sold and available-for-sale securities, is a result of its operating, investing and financing activities and related cash flows. In order to ensure funds are available at all times, the Company devotes resources to projecting the amount of funds that will be required and maintains relationships with a diversified customer base so that funds are accessible. The Company believes it has the ability to increase liquidity by soliciting higher levels of deposit accounts through promotional activities, wholesale funding, borrowing from its correspondent banks, the FRB and the FHLB.

Management believes the Company s liquid assets are adequate to meet its cash flow needs for loan funding and deposit withdrawals. At September 30, 2008, the Company had $151.0 million in liquid assets comprised of $88.8 million in cash and cash equivalents, $2.0 million in interest bearing certificates of deposits at other financial institutions and $60.2 million in available-for-sale securities. The $43.4 million increase in liquidity since December 31, 2007 was primarily a result of increased federal funds sold held by the Company offset by lower available-for-sale securities resulting from scheduled maturities which were used in part to fund the Company s 2008 loan growth.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

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Item 4. Controls and Procedures

Evaluation of Controls and Procedures

With the participation of management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) were evaluated as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that:

(a) information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and the other reports which the Company files or submits under the Exchange Act would be accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure;

(b) information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and the other reports which the Company files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms; and

(c) the Company s disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that material information relating to the Company and its consolidated subsidiary is made known to them, particularly during the period for which periodic reports, including this Quarterly Report on Form 10-Q, are being prepared.

Changes in Internal Control over Financial Reporting

There were no changes during the period covered by this Quarterly Report on Form 10-Q in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes in legal proceedings as described in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

Item 1A. Risk Factors

There have been no material changes in the discussion pertaining to risk factors that was provided in the December 31, 2007 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Stock Repurchase Program

The Board of Directors at its regular meeting of July 25, 2007, authorized the purchase of up to 5% of the Company s outstanding shares as of June 30, 2007, or 520,996 shares, over twelve months. The Company repurchased 316,200 shares under the July 2007 authorization. The repurchase authorization expired on July 25, 2008.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

During the quarter ended September 30, 2008, there were no changes to the procedures by which stockholders may recommend nominees to the Company s Board of Directors.

Item 6. Exhibits

31.1 Rule 13a-14(a) Certification by Chief Executive Officer

31.2 Rule 13a-14(a) Certification by Chief Financial Officer

32.1 Section 1350 Certifications

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMUNITY BANCORP

By: /s/ Edward M. Jamison
Edward M. Jamison
President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 10, 2008

COMMUNITY BANCORP

By: /s/ Patrick Hartman
Patrick Hartman
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)
(Chief Accounting Officer)

Dated: November 10, 2008

EXHIBITS INDEX

31.1 Rule 13a-14(a) Certification by Chief Executive Officer

31.2 Rule 13a-14(a) Certification by Chief Financial Officer

32.1 Section 1350 Certifications