CITIZENS
BANCORP

March 6, 2009

Neil M. Barofsky
Special Inspector General -TARP
1500 Pennsylvania Avenue, NW, Suite 1064
Washington, DC 20220

E-mail address: SIGTARP.response@do.treas.gov

Dear Mr. Barofsky:

As you requested in your letter of February 6, 2009, we submit the following information regarding anticipated use and actual use of TARP funds by Citizens Bancorp (Company) and subsidiary, Citizens Bank of Northern California (Bank).

On December 23, 2008, the Company received an investment of $10.4 million from the U.S. Treasury's Capital Purchase Program. The Bank was founded in February 1995, and has achieved consistent growth over the past fourteen years serving Nevada County, Nevada City, Grass Valley, Penn Valley, Lake of the Pines, and Truckee, and Auburn in Placer County. The Bank offers community banking services, including a wide variety of deposit products, commercial, residential and consumer loans, and other traditional banking products and services, designed to meet the needs of small and middle market businesses and individuals.

ANTICIPATED USE OF TARP FUNDS

The Company specified the following reasons when it applied to the FDIC, the Bank's primary federal regulator, for the TARP funds:

- Management and the Board of Directors believed that the new capital would make depositors feel more secure and provide better opportunities in the market to attract new customers.
- Management and the Board of Directors believed that the new capital would also afford the Company the opportunity to continue making loans to qualified borrowers and offset possible loan losses while absorbing the impact of current loan losses.
- Management and the Board of Directors believed that the new capital would allow the Company to better time the decision to raise additional capital in its shareholder community.

Management and the Board of Directors believe those reasons are still valid.

WHETHER THE TARP FUNDS WERE SEGREGATED FROM OTHER INSTITUTIONAL FUNDS

The TARP funds are not segregated from other institutional funds.

ACTUAL USE OF TARP FUNDS TO DATE

Lending. The Bank remains committed to continue lending to commercial clients and retail customers in the communities the Bank serves. While overall lending and demand for credit has declined, since the receipt of TARP funds at the end of 2008, the Bank has continued to approve new loans and to renew existing loans at approximately the same percentages as in 2008. As demonstrated in the information provided in the table below, for the first two months of 2009, the ratio of loan approvals or renewals to disapprovals were the same or better than the average ratio of approvals to disapprovals in 2008. The table provides information for the twelve months ended 12/31/08 and separately, information for the activity for January 2009 and February 2009:

(Dollars in millions)	New Loans Approved (#)	New Loans Approved ($)	Renewed Loans Approved (#)	Renewed Loans Approved ($)	Average number of Loans new or renewed per month	Loan Applications Declined (#)	Average Number of Declined Applications per month
Jan-Dec 2008	289	$67.5	252	$148.0	45	155	13
Jan 2009	13	2.7	8	4.0	21	8	8
Feb 2009	19	1.6	20	5.0	39	13	13

Loan Modifications. The Bank's Special Asset committee focuses on finding long-term solutions for certain at-risk borrowers, both commercial and individual, where loan modification may be effective. In addition to the lending activity reflected in this table, the Bank has assisted eleven borrowers with balances outstanding of $7.4 million to restructure their loans to better suit their current financial circumstances and to avoid foreclosure or other negative actions.

Strengthening Capital; Loan Losses and Reserves. The receipt of TARP funds, along with earnings from the Bank's increased loans and deposits, allowed the Bank to offset the impact of current loan losses and to allocate increased amounts to its loan loss reserves. In 2008, the Bank had net loan losses of $4.6 million and allocated $7.9 million to its Loan Loss Reserve, resulting in a ratio of Loan Loss Reserve to Loans Outstanding of 2.2% as of December 31, 2008. The Bank continues to actively manage the loan portfolio in order to identify borrowers with whom the Bank can work, where appropriate and prudent, to minimize losses and keep owners in their property, or conversely, to proactively identify possible impairment in the Bank's loan portfolio.

Receipt of TARP funds has strengthened the Bank's Capital position. As of December 31, 2008, the Bank's capital ratios were in excess of the minimums for well-capitalized banks, as follows:

	12/31/08	Minimum for Well-Capitalized Banks
Total Risk-Based Capital	13.90%	10.00%
Tier 1 Risk-Based Capital	12.64%	6.00%
Leverage Capital	12.03%	5.00%

EXPECTED USE OF UNSPENT TARP FUNDS

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. The addition of TARP funds to the Bank's capital, along with the Bank's ability to leverage the TARP funds and the Bank's existing capital, has and will continue to enable the Bank to do the following:

- Provide new loans or renew loans to qualified borrowers and individuals in the communities the Bank serves;
- Identify potential at-risk borrowers and modify or restructure loans and help such borrowers avoid foreclosure where feasible or prudent;
- Offset actual losses in the Bank's loan portfolio;
- Allocate amounts to the Bank's loan loss reserves as deemed prudent by the Bank; and
- Maintain the Bank's well-capitalized status and strengthen the Bank's capital position.

SPECIFIC PLANS AND THE STATUS OF IMPLEMENTATION OF THOSE PLANS FOR ADDRESSING EXECUTIVE COMPENSATION REQUIREMENTS

The Executive Committee of the Board of Directors is comprised of independent directors and is responsible for establishing compensation policy, setting executive compensation, recommending executive compensation plans and equity-based plans, approving other compensation plans, if any, and reviewing the performance of the President/CEO. All compensation decisions of the Executive Committee will be consistent with the Company's agreement with the Treasury for the TARP Capital Purchase Program and as more specifically outlined below. The Committee will meet at least semi-annually to discuss and evaluate employee compensation plans in light of an assessment of any risk posed to the Company from those plans.

As a result of its participation in the Capital Purchase Program under the Emergency Economic Stabilization Act ("EESA"), the Company adopted the Treasury's standards for executive compensation and corporate governance. These requirements apply to the Company's Senior Executive Officers (the "SEOs"), which presently are comprised of the Company's named executive officers – Judy Hess, President and Chief Executive Officer, Susann Trevena, Executive Vice President and Chief Financial Officer, and Timothy Peterson, Executive Vice President and Chief Credit Officer.

As a condition to the sale of the Series A Preferred Stock and Warrant to the Treasury, the Company agreed to implement the following executive compensation provisions, limitation and restrictions: (1) a prohibition on incentive compensation plans and arrangements for SEOs that encourage unnecessary and excessive risks that threaten the value of Citizens Bancorp; (2) a clawback of any bonus or incentive compensation paid (or under a legally binding obligation to be paid) to an SEO based on materially inaccurate financial statements or other materially inaccurate performance metric criteria; (3) a prohibition on making any payment to SEOs for departure from the Company except for payments for services performed or benefit accrued ("Golden Parachute"); and (4) an agreement not to claim a deduction, for federal income tax purposes, for compensation paid to any of the SEOs in excess of $500,000 per year.

In addition, the American Recovery and Reinvestment Act of 2009 (the "ARRA") was signed into law by President Obama on February 17, 2009. The Company is reviewing the provisions of ARRA and the rules and regulations being promulgated under ARRA to ensure compliance to the amendment of Section 111 of the EESA.

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COMMUNITY OUTREACH

Advertising, Community Events and News Opportunities

The Company remains community focused during these turbulent economic times, using advertising, participation in community events and press releases to keep the public informed and to keep the Bank visible in the community. As in 2008, during January and February 2009, the Bank was a participant in several Business to Business sponsored events, community meetings, and continued involvement in organizations in the community. The Company issued a press release on December 23, 2008 regarding the TARP investment, participated in an interview by The Union newspaper entitled "Citizens Bank Ready to Loan", and continues its business-focused advertising in local newspapers, radio, and other publications.

Participation in Loan Pools

The Bank is an underwriter for the City of Nevada City and County of Nevada's Community Development Block Grant (CDBG) grant pools and is prepared to "participate" in loans where opportunity warrants. Two loans are currently in the approval process.

ATTACHMENTS

Attached are the following items in support of this letter:

- Press Release dated December 23, 2008 announcing Participation of Citizens Bancorp in the TARP Capital Purchase Program
- Press Release dated March 6, 2009 Reporting Solid Loan and Deposit Growth with 4th Quarter 2008 and Year End Financial Results

CERTIFICATION

I, Judith Hess, President and Chief Executive Officer of Citizens Bancorp certify that: I have reviewed this response and supporting documents, and based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading."

Please feel free to contact me if you have any questions.

Sincerely,

Judith Hess
President & Chief Executive Officer

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CITIZENS BANCORP

CITIZENS BANK OF NORTHERN CALIFORNIA

For Immediate Release: December 23, 2008

Contacts: (530) 478-6000
Judy Hess, President/CEO
Tim Peterson, Executive Vice President/CCO
Susann Trevena, Executive Vice President/CFO

CITIZENS BANCORP RECEIVES $10.4 MILLION INVESTMENT FROM THE U.S. TREASURY'S CAPITAL PURCHASE PROGRAM

Nevada City, California December 23, 2008. Today, Citizens Bancorp (the "Company") (OTCBB: CZNB), the holding company of Citizens Bank of Northern California (the "Bank"), announced that it has received $10.4 million from the U.S. Treasury Department as a part of the Treasury's Capital Purchase Program. This voluntary program is available to strong and healthy financial institutions and will allow the Bank to increase credit availability to qualified businesses and consumers in the communities it serves.

"Citizens Bancorp is in a strong financial position and is considered "well-capitalized" by FDIC regulatory guidelines. The Company reported a total risk-based capital ratio of 11.96% as of September 30, 2008. We believe it is prudent in these economic times to bolster our already solid capital position", said Judy Hess, President & CEO. "Being selected to participate in this program is an important indication that the Treasury Department recognizes our stability." She continued, "Additional capital will enhance our ability to grow and expand on our already successful strategy of making quality, relationship-driven loans within our communities. This ultimately supports local economic activity", Hess concluded.

This $10.4 million funding marks the Company's successful completion of its sale to the Treasury of 10, 400 shares of preferred stock and a related warrant to purchase 520 shares of a second series of preferred stock. A summary of the Capital Purchase Program, including the terms of the preferred stock and warrant, can be found on the Treasury's web site at www.ustreas.gov/initiatives/eesa for "privately held institutions" or those institutions such as the Company, whose securities are not listed on a national securities exchange. The securities issued to the Treasury will be accounted for as components of regulatory Tier 1 capital. With the addition of this capital, the Bank's risk-based capital will exceed 14.00%.

Founded in February 1995, Citizens Bank, headquartered in Nevada City, became a wholly owned subsidiary of the Company in 2003. In addition to the new Auburn branch in Placer County, the Bank has six other branches in communities throughout Nevada County, including Nevada City, Grass Valley, Penn Valley, Lake of the Pines, and Truckee. The opening of the Auburn branch represents the Bank's first physical entry into neighboring Placer County. The Bank offers community banking services, including a wide variety of deposit products, commercial, residential and consumer loans, and other traditional banking products and services, designed to meet the needs of small and middle market businesses and individuals.

CITIZENS BANCORP

CITIZENS BANK OF NORTHERN CALIFORNIA

For Immediate Release: March 6, 2009

Contact: Judy Hess
President/CEO
(530) 470-2804

**CITIZENS BANCORP
REPORTS SOLID LOAN AND DEPOSIT GROWTH
WITH 4TH QUARTER AND YEAR END FINANCIAL RESULTS**

Nevada City, California, March 6, 2009. Today, Citizens Bancorp (the "Company") (OTCBB: CZNB), the holding company of Citizens Bank of Northern California (the "Bank"), announced financial results for the three and twelve months ended December 31, 2008 stating that solid loan and deposit growth were over shadowed by the Bank's aggressive and prudent steps toward increasing its loan loss reserve by $4.9 million in the fourth quarter of 2008, which ultimately took a toll on the Bank's earnings for the year. For the three months ended December 31, 2008, the Company's net loss totaled $2.0 million or ($1.02) per diluted share, compared to net income of $508,000, or $0.26 per diluted share for the same period in 2007. For the twelve month period ended December 31, 2008, the Company's net loss was $1.1 million, or ($0.56) per diluted share compared to net income of $2.6 million, or $1.32 per diluted share for the same period in 2007. Earnings per share for 2007 have been adjusted to reflect the 5% stock dividend in June 2008.

President/Chief Executive Officer Judith Hess said, "Our core business operations and customer relationships remain strong and our Company continues to have capital reserves that exceed regulatory requirements for well-capitalized banks. At the end of 2008, we further strengthened our solid capital foundation by obtaining a $10.4 million investment from the U.S. Treasury as part of its TARP capital purchase program. The Treasury made TARP funds available to healthy, viable banks with the goal of increasing the flow of financing available to small business and consumers. Citizens Bank is committed to continuing to provide loans to qualified businesses and individuals in our communities."

Total assets for the Company as of December 31, 2008 were $372.9 million, an increase of $44.4 million, or 14% from $328.4 million as of December 31, 2007. Total loans for the Company as of December 31, 2008 were $323.2 million, an increase of $18.0 million, or 6% compared to $305.1 million as of December 31, 2007. Over the same period, deposits grew $25.5 million, or 9%, to $299.8 million at December 31, 2008 compared to $274.3 million at December 31, 2007.

The decrease in net income in the fourth quarter of 2008 compared to the fourth quarter of 2007 was attributed primarily to an increase in the provision for loan losses. During the three months ended December 31, 2008 the Company recorded a loan loss provision of $4.9 million to its loan loss reserve compared to $675,000 during the same period in 2007. During the twelve months ended December 31, 2008, the Company recorded a provision for loan losses of $7.9 million compared to $945,000 during the same period in the prior year. Hess said, "The identification and timely recognition of problem loans, including required specific reserves, or charge-off when merited, is essential in helping us best position our Bank for opportunities in the marketplace." Net charge-offs during the three and twelve month periods ending December 31, 2008 were $2.1 million and $4.6 million, respectively, compared to $389,000 and $400,000, respectively for the same periods in 2007. Non-performing assets, which include non-performing loans, other real estate owned, and loans delinquent 90 days or more totaled $18.5 million as of December 31, 2008, which was up from $9.4 million as of December 31, 2007. Hess continued, "Our problem loans are primarily centered in the construction and land development loan categories. Management continues to actively monitor the loan portfolio in order to minimize loan losses where possible or to identify impairment where prudent." Hess added, "In addition, our Company remains in a favorable position to allow the necessary time to sell previously foreclosed properties at reasonable prices."

Net Interest Income and Net Interest Margin. Net interest income was $3.9 million for the three month period ended December 31, 2008, an increase of $265,000, or 7% as compared to $3.6 million for the same period in 2007. The Company's net interest margin dropped 27 basis points from 4.78% during the three month period ended December 31, 2007 to 4.51% during the three month period ended December 31, 2008. Average earning assets for the three months ended December 31, 2008 grew by $42 million to $344.4 million compared to $302.5 million for the same period in 2007. Net interest income was $15.4 million for the twelve month period ended December 31, 2008, an increase of $1.1 million as compared to $14.3 million for the same period in 2007. The Company's net interest margin dropped 35 basis points from 5.04% during the twelve month period ended December 31, 2007 to

4.69% during the twelve month period ended December 31, 2008. Average earning assets for the twelve months ended December 31, 2008 grew by $45 million to $328.8 million compared to $283.9 million for the same period in 2007.

Non-interest Income. Non-interest income was $522,000 for the three months ended December 31, 2008 compared to $570,000 for the same period in 2007. The variance was due to lower mortgage broker fees, partially offset by increased earnings from service charges due to an increase in the number and usage of customer deposit accounts and gains from the sale of the guaranteed portion of certain SBA loans. For the twelve month period ended December 31, 2008, non-interest income was $2.1 million compared to $2.2 million in 2007. Hess said, "Our 2008 Business Development Initiatives resulted in robust new account growth in 2008 which continues to build on our Bank's core deposits."

Non-interest Expense. Non-interest expense of $3.0 million for the three months ended December 31, 2008 represented an increase of $224,000 when compared with the three months ended December 31, 2007. Non-interest expense for the twelve months ended December 31, 2008 of $11.6 million increased by $411,000 when compared to the $11.2 million incurred during the 2007 period. Salaries & benefits decreased by $780,000 during the twelve months ended December 31, 2008 as compared to the same period in 2007 as a result of a decrease in the number of full-time equivalent employees. Costs associated with the holding and disposition of other real estate owned increased by $561,000 during the twelve months ended December 31, 2008 as compared to the same period in 2007. In addition, other expenses increased $561,000 during the same period primarily as a result of $125,000 in miscellaneous loan expenses, $118,000 in additional data processing costs, and $88,000 in additional regulatory assessments. "While 2009 has the appearance that it will be equally challenging for the U.S. and local economy, all of our employees at Citizens Bank continue to focus on the essence of community banking – serving our customers and helping our communities grow toward a better future", Hess said.

Founded in February 1995, Citizens Bank, headquartered in Nevada City, became a wholly owned subsidiary of the Company in 2003. The Bank has six branches in communities throughout Nevada County, including Nevada City, Grass Valley, Penn Valley, Lake of the Pines, and Truckee, and one branch located in Auburn in neighboring Placer County. The Bank offers community banking services, including a wide variety of deposit products, commercial, residential and consumer loans, and other traditional banking products and services, designed to meet the needs of small and middle market businesses and individuals.

This release may contain certain forward-looking statements that are based on management's current expectations regarding economic, legislative, and regulatory issues that may impact the Company's earnings in future periods. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words "believe", "expect", "intend", "estimate" or words of similar meaning, or future or conditional verbs such as "will", "would", "should", "could" or "may". Factors that could cause future results to vary materially from current management expectations include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, real estate values, and competition; changes in accounting principles, policies or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory and technological factors affecting the Bank's operations, pricing, products and services. These and other important factors are detailed in various Federal Deposit Insurance Corporation filings made periodically by the Bank, copies of which are available from the Bank without charge. The Company or the Bank undertakes no obligation to release publicly the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this press release or to reflect the occurrence of unanticipated events.

Citizens Bancorp
Selected Financial Highlights

(In thousands, except per share data) (Unaudited)	3 months ended 12/31/08	3 months ended 12/31/07	Change %	12 months ended 12/31/08	12 months ended 12/31/07	Change %
Net interest income	$3,909	$3,643	(7%)	$15,436	$14,294	8%
Provision for loan losses	4,900	675	626%	7,900	945	736%
Total non-interest income	522	570	(8%)	2,140	2,206	3%
Total non-interest expense	2,999	2,776	8%	11,654	11,242	4%
Net (loss) income	($1,962)	$508	(486%)	($1,074)	$2,585	(142%)
Weighted average shares outstanding: (1)						
Basic	1,916	1,913		1,915	1,912	
Diluted	1,916	1,941		1,915	1,957	
Earnings per share: (1)						
Basic	($1.02)	$0.27		($0.56)	$1.35	
Diluted	($1.02)	$0.26		($0.56)	$1.32	
RATIOS & OTHER INFORMATION:						
Annualized return on average assets	(2.13%)	0.63%		(0.31%)	0.85%	
Annualized return on average equity	(34.62%)	9.02%		(4.85%)	12.55%	
Net interest margin	4.51%	4.78%		4.69%	5.04%	
Average earning assets	$344,427	$302,467		$328,817	$283,860	
Loan to deposit ratio	107.81%	111.26%		107.81%	111.26%	
Efficiency ratio	67.70%	65.87%		66.31%	68.14%	
Net charge-offs as % of total loans	0.65%	0.13%		1.46%	0.14%	
Allowance for loan losses as % of total loans	2.22%	1.28%		2.22%	1.28%	
Non-performing loans as % of avg. total loans	3.83%	3.13%		3.89%	3.34%	
Non-performing assets as % of avg. total assets	5.08%	2.92%		5.27%	3.10%	

	As of 12/31/08	As of 12/31/07	Change %
Shareholders' equity	$30,873	$21,572	43%
Common shares outstanding (end of period) (1)	1,916	1,913	
Book and tangible book value per common share (1)	$10.70	$11.28	
Tier 1 leverage capital ratio	11.23%	8.95%	
Tangible equity/tangible assets	11.01%	6.57%	
Total risk based capital ratio	14.33%	12.43%	
Number of full service banking offices	7	7	
Number of full-time equivalent employees	85	90	

(1) Share and per share information has been retroactively adjusted for 5% stock dividend in June 2008.

CITIZENS BANCORP

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CONDITION

At December 31, 2008 and 2007

(In thousands)

	December 31, 2008	December 31, 2007
Assets		
Cash and due from banks	$7,050	$9,035
Federal funds sold	25,260	2,350
Total cash and cash equivalents	32,310	11,385
Interest-bearing deposits in other banks	519	213
Investment securities	1,161	1,296
Loans	323,170	305,135
Allowance for loan losses	(7,177)	(3,919)
Net loans	315,993	301,216
Premises and equipment, net	2,073	2,577
Cash surrender value of bank-owned life insurance	5,907	5,700
Other real estate owned	6,195	0
Interest receivable and other assets	8,693	6,046
Total Assets	**$372,851**	**$328,433**
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Non-interest bearing	$65,218	$67,201
Interest bearing	234,540	207,053
Total deposits	299,758	274,254
Federal funds purchased and Federal Home Loan Bank Borrowings	23,000	13,500
Junior subordinated debentures	15,465	15,465
Interest payable and other liabilities	3,755	3,642
Total Liabilities	341,978	306,861
Shareholders' Equity		
Preferred stock, series A	9,849	0
Preferred stock, series B	520	0
Common, stock, no par value	14,374	12,956
Retained earnings	6,123	8,618
Accumulated other comprehensive income (loss), net	7	(2)
Total Shareholders' Equity	30,873	21,572
Total Liabilities and Shareholders' Equity	**$372,851**	**$328,433**

CITIZENS BANCORP
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
For the twelve months and three months ended December 31, 2008 and 2007

(In thousands, except share data)

	Three months ended 12/31/08	Three months Ended 12/31/07	Twelve months ended 12/31/08	Twelve months ended 12/31/07
Interest Income				
Interest and fees on loans	$5,541	$5,816	$22,137	$22,428
Interest on investment securities	9	12	40	55
Interest on federal funds sold	28	24	125	66
Interest on deposits in banks	1	2	4	8
Total Interest Income	**5,579**	**5,854**	**22,306**	**22,557**
Interest Expense				
Interest on interest-bearing deposits	1,294	1,748	5,449	6,690
Interest on short-term borrowings	107	177	493	398
Interest on junior subordinated debentures	269	286	928	1,175
Total Interest Expense	**1,670**	**2,211**	**6,870**	**8,263**
Net Interest Income	**3,909**	**3,643**	**15,436**	**14,294**
Provision for loan losses	**4,900**	**675**	**7,900**	**945**
Net Interest Income After Provision for Loan Losses	**(991)**	**2,968**	**7,536**	**13,349**
Non-Interest Income				
Service charges on deposit accounts	283	277	1,251	1,031
Mortgage brokerage fees	86	204	491	798
Other income	153	89	398	377
Total Non-Interest Income	**522**	**570**	**2,140**	**2,206**
Non-Interest Expense				
Salaries and employee benefits	1,202	1,447	5,271	6,051
Occupancy and equipment	482	452	1,863	1,793
Other expense	1,315	877	4,520	3,398
Total Non-Interest Expense	**2,999**	**2,776**	**11,654**	**11,242**
(Loss) Income before (benefit from) provision for income tax	**(3,468)**	**763**	**(1,978)**	**4,313**
(Benefit from) provision for income taxes	(1,506)	255	(904)	1,728
Net (Loss) Income	**($1,962)**	**$508**	**($1,074)**	**$2,585**
Net income (loss) per common share (1)				
Basic	($1.02)	$0.27	($0.56)	$1.35
Diluted	($1.02)	$0.26	($0.56)	$1.32

(1) Restated for the 5% stock dividend in June 2008.