BEACH BUSINESS BANK

Financial Statements

With

Independent Auditors' Report

December 31, 2007 and 2006

CONTENTS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of
Beach Business Bank

We have audited the accompanying statements of financial condition of Beach Business Bank as of December 31, 2007 and 2006 and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beach Business Bank as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

March 24, 2008

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BEACH BUSINESS BANK

STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006

ASSETS

	2007	2006
Cash and Due from Banks	$ 3,180,705	$ 1,928,590
Interest-Bearing Deposits in Financial Institutions	6,671,179	3,660,489
Federal Funds Sold	7,755,000	14,115,000
TOTAL CASH AND CASH EQUIVALENTS	17,606,884	19,704,079
Time Deposits in Financial Institutions	1,188,150	1,089,980
Investment Securities Available for Sale	1,719,156	1,277,539
Loans Held for Sale	-	11,161,555
Loans:		
Construction and Land Development	9,563,415	6,869,343
Real Estate - Other	111,258,101	63,671,542
Commercial	66,856,778	31,612,232
Consumer	43,596	104,815
TOTAL LOANS	187,721,890	102,257,932
Net Deferred Loan Costs	650,731	36,345
Allowance for Loan Losses	(2,600,000)	(1,565,000)
NET LOANS	185,772,621	100,729,277
Premises and Equipment	529,748	702,307
Federal Home Loan and Other Bank Stock, at Cost	575,800	310,000
Deferred Income Tax	571,000	54,000
Other Real Estate Owned	3,864,094	-
Accrued Interest and Other Assets	2,108,411	1,666,109
	$ 213,935,864	$ 136,694,846

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

BEACH BUSINESS BANK

STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006

LIABILITIES AND SHAREHOLDERS' EQUITY

	2007	2006
Deposits:		
Noninterest-Bearing Demand	$ 19,249,956	$ 8,232,992
Savings, NOW and Money Market Accounts	77,515,234	46,532,031
Time Deposits Under $100,000	9,364,070	5,926,986
Time Deposits $100,000 and Over	66,294,585	37,884,521
TOTAL DEPOSITS	172,423,845	98,576,530
Accrued Interest and Other Liabilities	2,125,940	1,669,370
Federal Home Loan Bank Advances	2,000,000	-
TOTAL LIABILITIES	176,549,785	100,245,900
Commitments and Contingencies - Notes D and K	-	-
Shareholders' Equity:		
Preferred Stock - 10,000,000 Shares Authorized, No Par Value, None Outstanding	-	-
Common Stock - 10,000,000 Shares Authorized, No Par Value; Shares Issued and Outstanding, 4,037,084 in 2007 and 2006	37,779,845	37,779,845
Additional Paid-in Capital	498,000	200,000
Accumulated Deficit	(895,983)	(1,490,639)
Accumulated Other Comprehensive Income - Unrecognized Gain/(Loss) on Available-for-Sale Securities	4,217	(40,260)
TOTAL SHAREHOLDERS' EQUITY	37,386,079	36,448,946
	$ 213,935,864	$ 136,694,846

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

BEACH BUSINESS BANK

STATEMENTS OF INCOME
For the Years Ended December 31, 2007 and 2006

	2007	2006
INTEREST INCOME		
Interest and Fees on Loans	$ 12,387,477	$ 7,242,737
Interest on Interest-Bearing Deposits	348,200	403,752
Interest on Investment Securities	54,940	98,744
Interest on Federal Funds Sold	707,480	442,465
TOTAL INTEREST INCOME	13,498,097	8,187,698
INTEREST EXPENSE		
Interest on Savings, NOW and Money Market Accounts	2,872,389	1,777,796
Interest on Time Deposits	2,827,760	1,010,333
Interest on Other Borrowings	27,152	147
TOTAL INTEREST EXPENSE	5,727,301	2,788,276
NET INTEREST INCOME	7,770,796	5,399,422
Provision for Loan Losses	1,166,000	749,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,604,796	4,650,422
NONINTEREST INCOME		
Service Charges, Fees and Other	294,347	16,460
Loan Referral Fees, Net	231,693	247,788
Gain on Sale of Loans	756,198	1,477,210
	1,282,238	1,741,458
NONINTEREST EXPENSE		
Salaries and Employee Benefits	4,271,714	3,219,599
Occupancy and Equipment Expenses	1,034,725	817,298
Other Expenses	1,985,139	1,307,621
	7,291,578	5,344,518
INCOME BEFORE INCOME TAXES	595,456	1,047,362
Income Taxes	800	800
NET INCOME	$ 594,656	$ 1,046,562
NET INCOME PER SHARE - BASIC	$ 0.15	$ 0.28
NET INCOME PER SHARE - DILUTED	$ 0.15	$ 0.28

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

BEACH BUSINESS BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2007 and 2006

	Shares Outstanding	Common Stock	Additional Paid-in Capital	Comprehensive Income	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2006	3,035,450	$ 28,377,357	$ -		$(2,537,201)	$(39,779)	$ 25,800,377
Stock-Based Compensation			200,000				200,000
Exercise of Warrants	1,001,634	9,402,488					9,402,488
Comprehensive Income:							
Net Income				$ 1,046,562	1,046,562		1,046,562
Unrealized Loss on Available-for-Sale Securities				(481)		(481)	(481)
Total Comprehensive Income				$ 1,046,081			
Balance at December 31, 2006	4,037,084	37,779,845	200,000		(1,490,639)	(40,260)	36,448,946
Stock-Based Compensation			298,000				298,000
Comprehensive Income:							
Net Income				$ 594,656	594,656		594,656
Unrealized Gain on Available-for-Sale Securities				44,477		44,477	44,477
Total Comprehensive Income				$ 639,133			
Balance at December 31, 2007	4,037,084	$ 37,779,845	$ 498,000		($ 895,983)	$ 4,217	$ 37,386,079

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

BEACH BUSINESS BANK

STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2007 and 2006

	2007	2006
OPERATING ACTIVITIES		
Net Income	$ 594,656	$ 1,046,562
Adjustments to Reconcile Net Income to Net Cash		
Provided (Used) By Operating Activities:		
Depreciation and Amortization	211,704	164,249
Stock-Based Compensation	298,000	200,000
Deferred Taxes	(517,000)	(54,000)
Provision for Loan Losses	1,166,000	749,000
Loans Originated for Sale	(11,115,249)	(39,971,279)
Proceeds from Sale of Loans	23,501,626	30,851,018
Gain on Sale of Loans	(756,198)	(1,477,210)
Other Items	159,812	(938,312)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	13,543,351	(9,429,972)
INVESTING ACTIVITIES		
Net Change in Time Deposits in Other Banks	(98,170)	2,294,426
Purchase of Securities Available for Sale	(1,000,000)	(4,238,158)
Proceeds from Maturities of Securities Available for Sale	600,000	6,286,812
Net Increase in Loans	(90,704,566)	(49,472,562)
Purchases of Federal Home Loan Bank Stock	(246,200)	(139,400)
Purchases of Premises and Equipment	(38,925)	(403,751)
NET CASH USED BY INVESTING ACTIVITIES	(91,487,861)	(45,672,633)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	42,000,167	11,947,314
Net Increase in Time Deposits	31,847,148	29,973,471
Federal Home Loan Bank Advances	2,000,000	-
Proceeds from Exercise of Warrants	-	9,402,488
NET CASH PROVIDED BY FINANCING ACTIVITIES	75,847,315	51,323,273
DECREASE IN CASH AND CASH EQUIVALENTS	(2,097,195)	(3,779,332)
Cash and Cash Equivalents at Beginning of Period	19,704,079	23,483,411
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 17,606,884	$ 19,704,079

Supplemental Disclosures of Cash Flow Information:

	2007	2006
Interest Paid	$ 5,657,030	$ 2,673,462
Taxes Paid	$ 580,000	$ 135,800
Transfer of Loans to Other Real Estate Owned	$ 3,864,094	$ -

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Bank has been incorporated in the State of California and organized as a single operating segment that operates two branches in Manhattan Beach and Long Beach, California. The Bank also has two Business Loan Centers, one in Seal Beach, California and one in Orlando, Florida. The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks and federal funds sold. Generally, federal funds are sold for one-day periods.

Cash and Due From Banks

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Bank was in compliance with its reserve requirements as of December 31, 2007.

The Bank maintains amounts due from banks, which may exceed federally insured limits. The Bank has not experienced any losses in such accounts.

Investment Securities

Bonds, notes, and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

Investments not classified as trading securities nor as held-to-maturity securities are classified as available-for-sale securities and recorded at fair value. Unrealized gains or losses on available-for-sale securities are excluded from net income and reported as an amount net of taxes as a separate component of other comprehensive income included in shareholders' equity. Premiums or discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method. Realized gains or losses on sales of held-to-maturity or available-for-sale securities are recorded using the specific identification method.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment Securities - Continued

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers; the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale

SBA loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains or losses realized on the sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold, adjusted for any servicing asset or liability. Gains and losses on sales of loans are included in noninterest income.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectibility. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans - Continued

The Bank considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral. The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans.

The Bank has adopted Statement of Financial Accounting Standard ("SFAS") No. 140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"*. The Statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Under this Statement, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan is uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Servicing Rights

Servicing rights are recognized separately when they are acquired through sale of loans. For sales of SBA loans prior to January 1, 2007, a portion of the cost of the loan was allocated to the servicing right based on relative fair values. The Bank adopted SFAS No. 156, *Accounting for Servicing of Financial Assets,* on January 1, 2007, for sales of SBA loans beginning in 2007. Servicing rights are initially recorded at fair value with the income statement effect recorded in gain on sale of loans. Fair value is based on a valuation model that calculates the present value of estimated future cash flows from the servicing assets. The valuation model uses assumptions that market participants would use in estimating cash flows from servicing assets, such as the cost to service, discount rates and prepayment

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Servicing Rights - Continued

speeds. The Bank compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. For purposes of measuring impairment, the Bank has identified each servicing asset with the underlying loan being serviced. A valuation allowance is recorded where the fair value is below the carrying amount of the asset. If the Bank later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and changes in the discount rates.

Servicing fee income which is reported on the income statement as servicing income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and recorded as income when earned. The amortization of servicing rights and changes in the valuation allowance are netted against loan servicing income.

Other Real Estate Owned

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value at the date of foreclosure, establishing a new cost basis by a charge to the allowance for loan losses, if necessary. Other real estate owned is carried at the lower of the Bank's carrying value of the property or its fair value, less estimated costs of disposition. Fair value is based on current appraisals less estimated selling costs. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which ranges from three to seven years for furniture, equipment and computer equipment. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

Advertising Costs

The Bank expenses the costs of advertising in the period incurred.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

Deferred income taxes are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the consolidated financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods.

The Bank has adopted Financial Accounting Standards Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Comprehensive Income

Statement of Financial Accounting Standard ("SFAS") No. 130, *"Reporting Comprehensive Income,"* requires the disclosure of comprehensive income and its components. Changes in unrealized gain on available-for-sale securities are the only component of accumulated other comprehensive income for the Bank.

Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note K. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Earnings Per Share (EPS)

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Disclosure About Fair Value of Financial Instruments

SFAS No. 107 requires the disclosure of the estimated fair value of financial instruments. The Bank's estimated fair value amounts have been determined using available market information and appropriate valuation methodologies.

However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Bank could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Stock-Based Compensation

The Bank has adopted SFAS No. 123(R) "*Shared-Based Payment*". This Statement generally requires entities to recognize the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period.

Current Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*", effective for the Bank January 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement establishes a fair value hierarchy that distinguishes between valuations obtained from sources independent of the entity and those from the entity's own observable inputs that are not corroborated by observable market data. SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value, and for recurring fair value measurements using significant unobservable inputs, the effect of the measurements on earnings or changes in net assets for the period. The Bank is currently assessing the impact of this guidance on its financial statements.

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. Most of the provisions of SFAS No. 159 are elective; however, the amendment to SFAS No. 115, "*Accounting for Certain Investments in Debt and Equity Securities,*" applies to all entities with available-for-sale or trading securities. For financial instruments elected to be accounted for at fair value, an entity will report the unrealized gains and losses in earnings. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Bank is currently assessing the financial impact this Statement will have on its financial statements.

NOTE B - INVESTMENT SECURITIES

Debt and equity securities have been classified in the statements of condition according to management's intent. The carrying amount of securities and their approximate fair values at December 31 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
December 31, 2007				
U.S. Government Agency Securities	$ 1,714,939	$ 4,217	$ -	$ 1,719,156
Available-for-Sale:				
December 31, 2006				
U.S. Government Agency Securities	$ 1,317,799	$ -	$(40,260)	$ 1,277,539

Investment securities carried at approximately $1,617,000 and $1,181,000 at December 31, 2007 and 2006, respectively, were pledged to secure public deposits and for other purposes as permitted or required by law.

The scheduled maturities of securities at December 31, 2007 were as follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
Due in One Year or Less	$ -	$ -
Due from Five Years to Ten Years	1,714,939	1,719,156
	$ 1,714,939	$ 1,719,156

NOTE B - INVESTMENT SECURITIES - Continued

The gross unrealized loss and related estimated fair value of investment securities that have been in a continuous loss position for less then twelve months and over twelve months at December 31, 2007 and 2006 are as follows:

	Less than Twelve Months		Over Twelve Months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized losses	Fair Value
December 31, 2007:						
U.S. Government Agencies	$ -	$ -	$ -	$ -	$ -	$ -
December 31, 2006:						
U.S. Government Agencies	$(250)	$ 499,750	$(40,010)	$ 777,789	$(40,260)	$ 1,277,539

NOTE C - LOANS

The Bank's loan portfolio consists primarily of loans to borrowers within Southern California. Although the Bank seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Bank's market area and, as a result, the Bank's loan and collateral portfolios are, to some degree, concentrated in those industries.

A summary of the changes in the allowance for loan losses as of December 31 follows:

	2007	2006
Beginning Balance	$ 1,565,000	$ 816,000
Additions to the Allowance Charged to Expense	1,166,000	749,000
Recoveries on Loans Charged Off	-	-
	2,731,000	1,565,000
Less Loans Charged Off	(131,000)	-
Ending Balance	$ 2,600,000	$ 1,565,000

The Bank had no significant non-performing or impaired loans during the years ended December 31, 2007 and 2006.

NOTE C - LOANS - Continued

The Bank also originated SBA loans for sale to institutional investors. Substantial portions of the Bank's revenues are from origination of loans guaranteed by the Small Business Administration under its various programs and sale of the guaranteed portions of those loans. Funding for these SBA programs depends on annual appropriations by the U.S. Congress.

The Bank was servicing approximately $25,652,000 and $25,624,000 in SBA loans previously sold as of December 31, 2007 and 2006, respectively. The Bank has recorded servicing assets related to these loans totaling $245,263 and $362,774 as of December 31, 2007 and 2006, respectively. The estimated fair value of the servicing assets approximated the carrying value as of December 31, 2007 and 2006. Fair value is estimated by discounting estimated future cash flows from the servicing assets using discount rates that approximate current market rates over the expected lives of the loans being serviced. For purposes of measuring impairment, the Bank has identified each servicing asset with the underlying loan being serviced. A valuation allowance is recorded where the fair value is below the carrying amount of the asset.

NOTE D - PREMISES AND EQUIPMENT

A summary of premises and equipment as of December 31 follows:

	2007	2006
Leasehold Improvements	$ 194,055	$ 192,444
Furniture, Fixtures, and Equipment	524,134	504,693
Computer Equipment	287,358	270,666
	1,005,547	967,803
Less Accumulated Depreciation and Amortization	(475,799)	(265,496)
	$ 529,748	$ 702,307

The Bank has entered into several leases for its branches and business loan centers, which expire at various dates through 2016. These leases include provisions for periodic rent increases as well as payment by the lessee of certain operating expenses. Rental expense relating to these leases were approximately $351,000 and $333,000 for the years ended December 31, 2007 and 2006, respectively.

NOTE D - PREMISES AND EQUIPMENT - Continued

At December 31, 2007 the future lease rental payable under noncancellable operating lease commitments for the Bank's branches and business loan centers were as follows:

2008	$ 283,502
2009	288,611
2010	297,271
2011	251,472
2012	93,970
Thereafter	315,564
	$ 1,530,390

The minimum rental payments shown above are given for the existing lease obligation and are not a forecast of future rental expense.

NOTE E - DEPOSITS

At December 31, 2007 the scheduled maturities of time deposits are as follows:

2008	$ 34,746,862
2009	11,358,482
2010 and 2011	29,553,311
	$ 75,658,655

As of December 31, 2007 the Bank had six deposit relationships that exceeded 2.0% of total deposits and aggregated approximately $83,371,000.

NOTE F - BORROWING ARRANGEMENTS

The Bank may borrow up to $14,000,000 overnight on an unsecured basis from five of its correspondent banks. As of December 31, 2007, no amounts were outstanding under these arrangements. The Bank may also borrow up to $43,140,250 from the Federal Home Loan Bank of San Francisco ("FHLB"), collateralized by a blanket lien on the Bank's loan portfolio and subject to fulfilling other conditions of the credit facility. As of December 31, 2007 the Bank had a $2,000,000 advance from the FHLB that accrued interest at 3.75% per annum and was due on January 2, 2008.

NOTE G - OTHER EXPENSES

Other expenses as of December 31 are comprised of the following:

	2007	2006
Data Processing	$ 275,158	$ 234,973
Marketing and Business Promotion	288,514	206,352
Professional Fees	332,404	179,077
Office Expenses	289,703	229,213
Insurance	30,981	28,557
Director Fees and Expenses	148,249	124,730
Regulatory Expense	99,732	29,993
Other Real Estate Owned Expenses	183,619	-
Other Expenses	336,779	274,726
	$ 1,985,139	$ 1,307,621

NOTE H - EARNINGS PER SHARE (EPS)

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute EPS:

	2007		2006	
	Income	Shares	Income	Shares
Net Income as Reported	$ 594,656		$ 1,046,562	
Shares Outstanding at Year End		4,037,084		4,037,084
Impact of Weighting Shares Issued During the Year		-		(355,357)
Used in Basic EPS	594,656	4,037,084	1,046,562	3,681,727
Dilutive Effect of Outstanding Stock Options		58,790		56,760
Used in Dilutive EPS	$ 594,656	4,095,874	$ 1,046,562	3,738,487

At December 31, 2007 and 2006 there were 170,825 and 152,050 stock options, respectively, that could potentially dilute earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been antidilutive.

NOTE I - INCOME TAXES

The income tax expense for the years ended December 31, is comprised of the following:

	2007	2006
Current Taxes:		
Federal	$ 517,000	$ 54,000
State	800	800
	517,800	54,800
Deferred	(517,000)	(54,000)
	$ 800	$ 800

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying statements of financial condition at December 31:

	2007	2006
Deferred Tax Assets:		
Pre-Opening Expenses	$ 121,000	$ 206,000
Allowance for Loan Losses Due to Tax Limitations	988,000	548,000
Stock-Based Compensation	63,000	26,000
Operating Loss Carryforwards and Tax Credits	23,000	124,000
Other	124,000	69,000
	1,319,000	973,000
Valuation Allowance	(311,000)	(550,000)
Deferred Tax Liabilities:		
Depreciation Differences	(61,000)	(57,000)
Accrual to Cash	(30,000)	(42,000)
Loan Fees	(346,000)	(270,000)
	(437,000)	(369,000)
Net Deferred Tax Assets	$ 571,000	$ 54,000

NOTE I - INCOME TAXES - Continued

The valuation allowance was established because the Bank has not reported earnings sufficient enough to support the full recognition of the deferred tax assets. The Bank has net operating loss carryforwards of approximately $95,000 for California franchise tax purposes. California net operating loss carryforwards, to the extent not used will expire in 2014.

The Bank is subject to federal and California franchise tax. Income tax returns for the years ended December 31, 2006, 2005 and 2004 are open to audit by the federal authorities and income tax returns for the years ended December 31, 2006, 2005, 2004 and 2003 are open to audit by California authorities. Unrecognized tax benefits are not expected to significantly increase or decrease within the next twelve months.

A comparison of the federal statutory income tax rates to the Bank's effective income tax rates at December 31 follows:

	2007		2006	
	Amount	Rate	Amount	Rate
Tax Expense at Statutory Rate	$ 202,000	34.0%	$ 356,000	34.0%
State Franchise Tax, Net of Federal Benefit	4,000	0.7%	69,000	6.6%
Stock-Based Compensation	71,000	11.9%	46,000	4.4%
Valuation Allowance	(239,000)	(40.2%)	(477,000)	(45.5%)
Other Items	(37,200)	(6.3%)	6,800	0.6%
	$ 800	0.1%	$ 800	0.1%

NOTE J - RELATED PARTY TRANSACTIONS

Deposits from certain directors, officers and their related interests with which they are associated held by the Bank at December 31, 2007 and 2006 amounted to approximately $15,599,000 and $11,148,000, respectively.

NOTE K - COMMITMENTS

In the ordinary course of business, the Bank enters into financial commitments to meet the financing needs of its customers. These financial commitments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk not recognized in the Bank's financial statements.

The Bank's exposure to loan loss in the event of nonperformance on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for loans reflected in the financial statements.

As of December 31, 2007 and 2006, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2007	2006
Commitments to Extend Credit	$ 33,654,000	$ 15,735,000
Letters of Credit	817,000	-
	$ 34,471,000	$ 15,735,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Bank evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank is based on management's credit evaluation of the customer. The majority of the Bank's commitments to extend credit and standby letters of credit are secured by real estate.

NOTE L - WARRANTS

In connection with the original stock offering one warrant for every two shares of common stock purchased was issued. The warrants were exercisable for $9.09 per share and all unexercised warrants expired on May 31, 2006.

NOTE M - STOCK OPTION PLAN

The Bank's 2003 Stock Plan was approved by its shareholders in May 2003. Under the terms of the 2003 Stock Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and other consultants, who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase 1,100,000 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of grant. However, at the time of any grant of an option under this plan, the total number of shares that may be optioned and sold under the Plan, taking into consideration all previously issued option grants, shall be limited to no more than 15% of the total number of shares of stock issued and outstanding. Based on this limitation, the maximum number of shares which could have been granted as of December 31, 2007 was 605,563. Stock options expire no later than five years to ten years from the date of the grant and generally vest over four years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. The Bank recognized stock-based compensation cost of $298,000 and $200,000 in 2007 and 2006, respectively.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions presented below:

	2007	2006
Expected Volatility	27.88%	17.86%
Expected Term	5.8 Years	5.8 Years
Expected Dividends	None	None
Risk Free Rate	4.77%	5.02%
Weighted-Average Grant Date Fair Value	$ 4.73	$ 3.87

Since the Bank has a limited amount of historical stock activity the expected volatility is based on the historical volatility of similar banks that have a longer trading history. The expected term represents the estimated average period of time that the options remain outstanding. Since the Bank does not have sufficient historical data on the exercise of stock options, the expected term is based on the "simplified" method that measures the expected term as the average of the vesting period and the contractual term. The risk free rate of return reflects the grant date interest rate offered for zero coupon U.S. Treasury bonds over the expected term of the options.

NOTE M - STOCK OPTION PLAN - Continued

A summary of the status of the Bank's stock option plan as of December 31, 2007 and changes during the year ending thereon is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	508,750	$ 10.89		
Granted	30,500	$ 12.70		
Exercised	-	$ -		
Forfeited	(11,725)	$ 12.49		
Outstanding at End of Year	527,525	$ 10.96	5.7 Years	None
Options Exercisable	283,306	$ 10.38	5.1 Years	None

As of December 31, 2007, there was approximately $711,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 1.7 years.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding the current interest rate environment and future expected loss experience, economic conditions, cash flows and risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business, and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Financial Assets

The carrying amounts of cash, short-term investments, due from customers on acceptances, and Bank acceptances outstanding are considered to approximate fair value. Short-term investments include federal funds sold, securities purchased under agreements to resell, and interest bearing deposits with Banks. The fair values of investment securities, including available for sale, are generally based on quoted market prices. The fair value of loans are estimated using a combination of techniques, including discounting estimated future cash flows and quoted market prices of similar instruments where available.

Financial Liabilities

The carrying amounts of deposit liabilities payable on demand, commercial paper, and other borrowed funds are considered to approximate fair value. For fixed maturity deposits, fair value is estimated by discounting estimated future cash flows using currently offered rates for deposits of similar remaining maturities. The fair value of long-term debt is based on rates currently available to the Bank for debt with similar terms and remaining maturities.

Off-Balance Sheet Financial Instruments

The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. The fair value of these financial instruments is not material.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The estimated fair value of financial instruments at December 31 is summarized as follows (amounts in thousands):

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and Cash Equivalents	$ 17,607	$ 17,607	$ 19,704	$ 19,704
Time Deposits in Financial Instiutions	1,188	1,188	1,090	1,090
Investment Securities	1,719	1,719	1,278	1,278
Loans, net	185,773	192,002	111,891	113,313
FHLB and Other Bank Stock	576	576	310	310
Accrued Interest Receivable	1,040	1,040	609	609
Financial Liabilities:				
Deposits	172,424	173,072	98,577	98,600
Accrued Interest and Other Liabilities	2,126	2,126	1,669	1,669
Federal Home Loan Bank Advance	2,000	2,000	-	-

NOTE O - REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007, that the Bank meets all capital adequacy requirements to which it is subject.

NOTE O - REGULATORY MATTERS - Continued

As of December 31, 2007, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well capitalized, the Bank must maintain minimum ratios as set forth in the table below. The following table also sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

	Actual		Amount of Capital Required: For Capital Adequacy Purposes		Amount of Capital Required: To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007:						
Total Capital (to Risk-Weighted Assets)	$39,826	20.2%	$15,795	8.0%	$19,731	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$37,357	18.9%	$ 7,898	4.0%	$11,846	6.0%
Tier 1 Capital (to Average Assets)	$37,357	18.3%	$ 8,188	4.0%	$10,235	5.0%
As of December 31, 2006:						
Total Capital (to Risk-Weighted Assets)	$37,992	30.9%	$ 9,842	8.0%	$12,302	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$36,453	29.6%	$ 4,921	4.0%	$7,381	6.0%
Tier 1 Capital (to Average Assets)	$36,453	29.6%	$ 4,919	4.0%	$6,149	5.0%

The California Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of the Bank's undivided profits or the Bank's net income for its last three fiscal years less the amount of any distribution made by the Bank's shareholders during the same period.