2007 ANNUAL REPORT

South County BANK

MISSION STATEMENT

South County Bank is passionate about its professional team and serving our customers, communities, stakeholders, and shareholders with integrity, strong ethics, respect, understanding, and appreciation.

Customers: Customize to expedite solutions to meet your needs
Employee Team: Loyalty, opportunity, incentives and fun
Communities: Leadership, economic growth & responsible corporate citizenship
Stakeholders and Shareholders: Financial Strength, Growth

CORE BELIEFS

- Employee Empowerment
- Professional Integrity & Ethics
- Flexibility and Responsiveness
- Expedient Customer Service
- Increasing Stakeholder Value

CORE VALUES

- Financial strength
- Strong ethics & integrity
- Customer advocate
- Efficient operations

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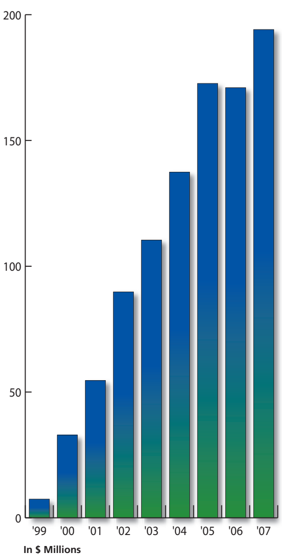
Letter to Shareholders

2007 was a year of achievements and many challenges for South County Bank and the banking industry as a whole. We are by far in the most difficult operating environment banking has seen in decades. It is much more challenging to increase quality earning assets. It is extremely difficult to increase core non-interest bearing deposits which cause the cost of funds to increase in banks with the migration to the interest bearing money market accounts. The continued rate reductions by the Federal Reserve have impacted rates and yields on bank assets overall. Unemployment is on the rise and small to medium size businesses are experiencing the higher cost to do business. Deposit costs continue to increase, loan yields are being impacted and the overall growth challenge for banks are squeezing margins and making it difficult to produce the results we saw 3 years ago in the banking sector.

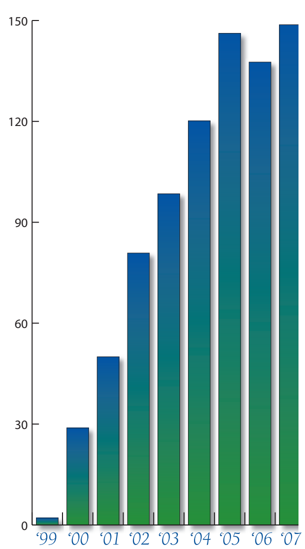
Total Asset Growth



Faced with many of those challenges South County Bank accomplished many milestones and achievements throughout the year. Some of the more notable accomplishments were:

- We reached an all-time high in Total Assets of $194.1 million at year-end 2007.
- Our lending pipeline remained steady through 2007. Total loans increased over 35% from $94.7 million for year-end 2006 to a new all time high for the bank of $127.8 million at year-end 2007.
- We opened our fifth and sixth branch offices within two weeks of each other in the first quarter 2007.
- The newly opened Redlands office includes a depository branch and also houses the Inland Valley Bank division's administration, the Bank's Construction Loan Department and the division's Commercial Lending unit.
- Surf City Bank, the Bank's third division was opened in March, 2007, in Huntington Beach The Surf City Bank division also includes the Bank's SBA Loan Department .
- We reached an all-time high in deposits with $148.7 million at year end 2007.
- Successfully recruited a Chief Administrative Officer for the bank highly skilled in Operations, HR, technology and organizational management with over 35 years of experience.
- Developed and introduced our Remote Deposit Product which allows us to expand our customer base, reduces courier expense and promotes higher efficiency and lower overhead costs for the bank.

Total Deposit Growth



Deposits

One strategy of our "Organic Plan" to expand the Bank's franchise was to compensate for deposit run off resulting from extreme competitive pressure in our "core" market. For example, Orange County went from 6 banks headquartered locally in year 2000 to over 30 banks in 2007, most of which incorporated in the last three years. Our plan proved to be a success as the Bank grew in total deposits from $137.6 million for year-end 2006 to $148.7 million for year-end 2007, despite over $20 million in runoff. Furthermore, customers are more focused on interest bearing deposits as opposed to the traditional non-interest bearing checking account. The deposit rates we pay are generally positioned in the middle of a highly competitive market. Even with such a prudent pricing strategy, the growth in money market accounts caused our interest expense to increase from $2.5 million at year-end 2006 to $4.1 million at year-end 2007.

Lending

Lending has received considerable press. This is particularly true of mortgage, commercial real estate and construction loans. The Bank does not participate in the residential mortgage business. The Bank has no sub-prime real estate loans on our books. Our loan portfolio is diverse in geographic disbursement, industry type and borrower type. This is a good position to be in when operating in the current economic environment.

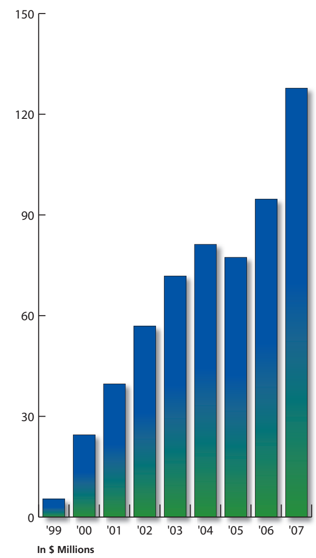
The Bank has originated commercial real estate (CRE) loans, mainly to its existing depositors and "owner-occupied" for the most part. This segment represents only about 21% of Total Loans. The Bank has virtually no "investment" type commercial real estate loans. At South County Bank commercial real estate lending is an extension of the Bank's relationship commercial and industrial lending, which has always been and remains the center of our lending services.

The Bank closely monitors developments in our real estate portfolios. More importantly, the Bank has always maintained close vigilance on its real estate loans and economic developments that have the potential for adverse effect on this portfolio. Construction lending has become a matter for concern for all banks due to high unsold inventories of competing product, a general decline in market prices, and difficulties in obtaining financing, particularly for loans over the former $417,000 secondary market limit. The concern as to the direction of residential tract lending was recognized by our Bank over two years ago. In that time, the Bank has adjusted its product and underwriting standards according to the developments within the industry. It lowered advance ratios, required additional cash equity, increased the appraisal frequency and stepped-up account officer monitoring of projects. At year-end, the Bank had no project for which the extended value of the collateral did not exceed the loan commitments by reasonable equity margins.

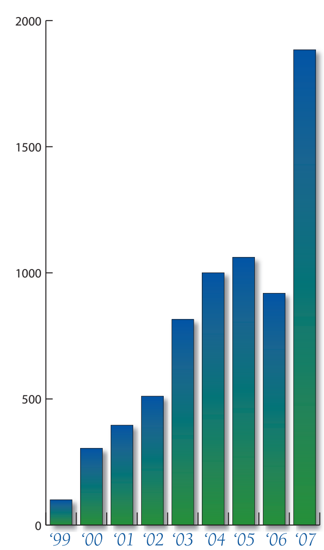
For over two years the Bank has originated over $40 million of government guaranteed loans through the U.S. Small Business Administration, and in doing so, substantial premiums were earned on the sale of the guarantied portion of said loans. The Bank holds Preferred Lender Program certification, the SBA's highest level of certification.

Reported delinquency and non-performing assets at year-end is a major focus for us. The process for liquidating such loans can be lengthy and highly controlled by the SBA. As a PLP lender the Bank must repurchase onto its books the sold, guarantied share of the loan (usually about 75% of the total loan). Once repurchased the Bank usually transfers the asset to "non-accrual" status while it works on reinstatement or liquidation. In such an accounting scenario the Bank must recognize roughly three times its net loan balance as non-performing loan until liquidation is complete and the SBA has repurchased the remaining balance from the Bank. This process accounts for the Bank's increasing Non-Performing Assets (NPA) since about mid-2007, nearly 80% of the non-performing total is U.S. Government guaranteed. SBA Loans represented the highest percentage of delinquent loans for the Bank. The Bank reported December 31, 2007 NPA nearing 3% of total loans. Yet the Bank's net NPA (less the guaranteed portion of SBA loans) for the period was approximately 0.79%.

Total Loan Growth



Allowance for Loan Loss



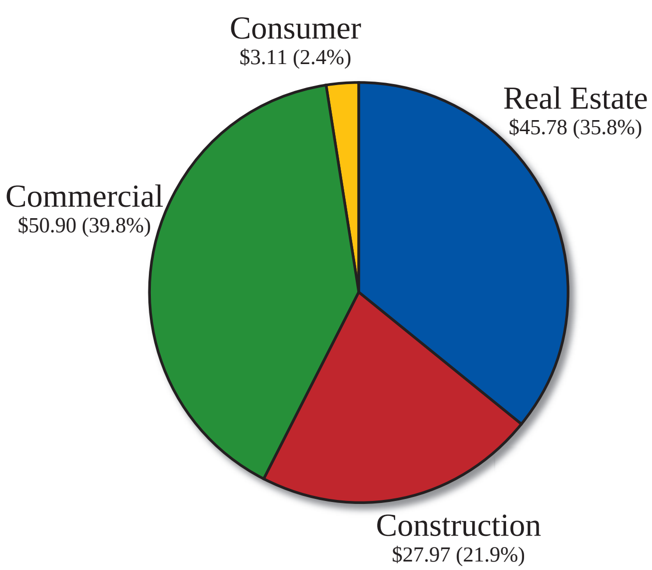
Profitability

There were several points that impacted the profitability for 2007. Here are some of the issues that affected profitability for 2007:

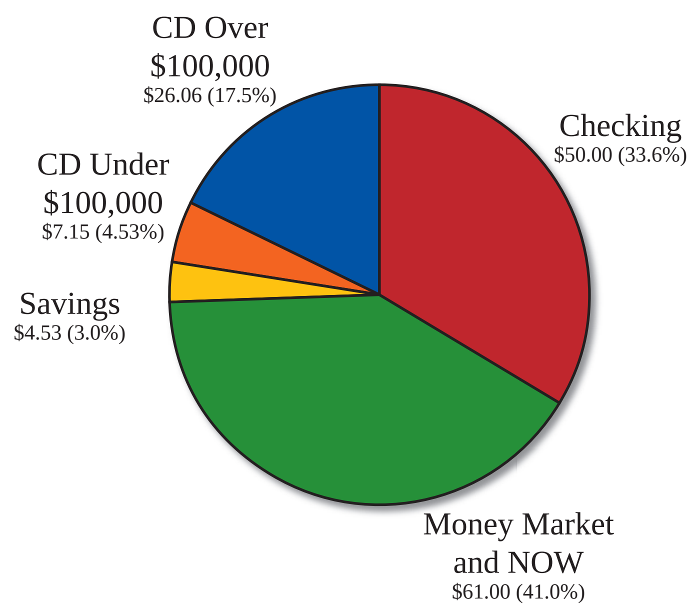
- As indicated, customer migration to money market accounts caused interest expense to almost double from the prior year, an increase over $1.6 million.
- As we continue to move forward in building out the expansion we created over the last 22 months, earnings were impacted to the extent of more than $900K in 2007. This impact has been diminishing as we experience growth in those branches and will continue to decrease throughout 2008.
- The weak economy has impacted our application flow in SBA lending. This type of transaction is directly affected by the confidence business owners have in the stability of the businesses they operate or are looking to purchase. We have made a conscious decision to be selective and to conservatively underwrite these credits in today's economic environment. We see a trend toward significantly lower production levels and premium on sales for SBA to continue in 2008.
- Considering the lower earnings we anticipated for 2007, the timing was right and it is a prudent strategy to take a sizeable allocation into loan reserves. Though our "core" delinquency shows no significant weaknesses, we felt it prudent to fortify our balance sheet in the reserve category in consideration of the deteriorating real estate market trends in southern California. Therefore, a provision of $945K was made to loan reserves in the month of December 2007. This strategic decision has placed our reserves in a healthy position. It allocated for the growth the Bank already experienced in the 4th Quarter 2007 and has placed our loan reserve ratio above that of our peer groups both on a regional and national level.

In reviewing earnings on a pre-tax basis net of the $945K loan reserve allocation we made in December, the Bank would have posted a profit of $376K instead of a $530K loss. There is no question but that the significant rise in interest expense, the lower SBA production levels (which impacts both non-interest fee income and interest income), and much lower production levels in the construction loan portfolio beginning about mid-year 2007, all affected profitability.

Our capital position remains strong as we continue to hold the classification of being a "Well Capitalized" bank with twice the amount required.



2007 Loan Mix In $ Millions



2007 Deposit Mix In $ Millions

Moving Forward

As we continue to build the franchise, here are some of the initiatives we are looking to accomplish for 2008:

- One of our first initiatives for 2008 is to "right size" the Bank. When one expands, one must anticipate a certain amount of growth. After an appropriate timeframe you look for appropriate staffing levels, efficiencies we can capture and capacity we can continue to fill in. We are in the middle of that "right sizing" initiative and we expect to successfully complete this task. We estimate a savings to non-interest expense in excess of $500K.
- We are in the process of looking at all banking locations for sustainable growth or the lack thereof and then make strategic decisions accordingly.
- We have created a "Medical Division" within the Bank and have two senior officers managing our efforts in this market. The "Baby Boomer", over 90 million, are moving through the economy. We view this event as the catalyst that will increase the banking needs of the medical industry, specifically medical groups and individual practices which are generally recession proof. We have created products and services for this industry and we look to fill the production void from SBA with this medical division.

Stock Price

The industry as a whole has suffered major reduction in stock prices and we are not immune to that result. We have seen most bank stocks decline 40% to 60%, our previous 52 week high was $15.60 and we have been hovering around a $7.25 stock price. We know profitability has some influence over investors attitude towards a certain stock. However, the decrease in stock prices for most community banks appears to impact most institutions whether you post profits or not. No bank, including us, has any control over the market's reaction to the financial services industry. It began with the very damaging news of the sub-prime debacle in major banks, followed by significant write-downs in real estate portfolios of these same banks. Then a constant barrage of negative news for the economy, the recession has settled in and the market once again broad brushed the entire banking industry with much skepticism, including community banks like us, and our stock prices continue to be suppressed.

We are in the most difficult operating environment banking has seen in decades. It is much more challenging to increase quality earning assets. It is extremely difficult to increase core non-interest bearing deposits which cause the cost of funds to increase and impacts margins. The continued rate reductions by the Federal Reserve have impacted Earnings on the Bank's Investment Portfolio, further interest rate declines are expected as unemployment rises, real estate values erode, mortgage availability remains relatively weak, inflation remains a threat, and consumer confidence continues to ebb. All of this is making it difficult to produce the profitability results we saw 3 years ago in the banking sector. We continue to focus on the core business of the Bank, growing deposits and loans and strive continually to reduce "fixed costs" as much as possible.

We are extremely grateful to our shareholders for their continued support and patience towards your investment in our future through the Organic growth process. It may not be the most inexpensive way to grow, but it is by far the healthiest for our franchise value. Thank you again for your support and we all look forward to continued growth in 2008.

Thomas E. Yott
President, CEO and Director

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of
CalWest Bancorp and Subsidiary

We have audited the accompanying consolidated balance sheets of CalWest Bancorp and Subsidiary as of December 31, 2007 and 2006 and the related statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 CalWest Bancorp and Subsidiary 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.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating schedule is presented for purposes of additional analysis of the December 31, 2007 consolidated financial statements rather than to present the financial position and results of operations of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
February 29, 2008

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 Fax: 949.768.8408 www.vtdcpa.com

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CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006

ASSETS	2007	2006
Cash and Due from Banks	$ 6,418,210	$ 7,401,556
Federal Funds Sold	1,450,000	7,915,000
TOTAL CASH AND CASH EQUIVALENTS	7,868,210	15,316,556
Interest-Bearing Deposits in Other Banks	198,000	3,099,000
Investment Securities:		
Available for Sale	22,446,317	9,060,106
Held to Maturity	25,151,663	40,810,617
TOTAL INVESTMENT SECURITIES	47,597,980	49,870,723
Loans:		
Construction	27,964,074	27,673,588
Real Estate - Other	45,780,957	23,767,375
Commercial	50,902,537	41,094,216
Consumer	3,110,313	2,142,175
TOTAL LOANS	127,757,881	94,677,354
Net Deferred Loan Fees, Costs and Discounts	(261,666)	(637,528)
Allowance for Loan Losses	(1,884,431)	(918,863)
NET LOANS	125,611,784	93,120,963
Federal Reserve Bank and Federal Home Loan Bank Stock - at Cost	1,729,150	1,363,400
Premises and Equipment	1,603,468	1,463,836
Company Owned Life Insurance	5,813,501	3,614,564
Deferred Tax Assets	515,000	97,000
Accrued Interest and Other Assets	3,151,547	3,036,974
TOTAL ASSETS	$ 194,088,640	$ 170,983,016

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

CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006

LIABILITIES AND SHAREHOLDERS' EQUITY	2007	2006
Deposits:		
Noninterest-Bearing Demand	$ 50,006,930	$ 61,398,936
Money Market and NOW Accounts	60,998,840	55,639,203
Savings	4,532,952	6,426,789
Time Deposits Under $100,000	7,145,294	3,904,501
Time Deposits $100,000 and Over	26,063,874	10,274,274
TOTAL DEPOSITS	148,747,890	137,643,703
Other Borrowings	21,000,000	9,500,000
Junior Subordinated Deferrable Interest Debentures	3,093,000	3,093,000
Accrued Interest and Other Liabilities	1,268,128	310,640
TOTAL LIABILITIES	174,109,018	150,547,343
Commitments and Contingencies - Notes D and M	-	-
Shareholders' Equity :		
Common Stock - 10,000,000 Shares Authorized, Par Value $5.00; Shares Issued and Outstanding 2,350,289 in 2007 and 2,136,627 in 2006	11,751,445	10,683,135
Surplus	15,965,368	13,616,845
Accumulated Deficit	(7,663,506)	(3,852,965)
Accumulated Other Comprehensive Income - Unrealized Losses on Available-for-Sale Securities, Net of Taxes of $55,874 in 2007 and $7,562 in 2006	(73,685)	(11,342)
TOTAL SHAREHOLDERS' EQUITY	19,979,622	20,435,673
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 194,088,640	$ 170,983,016

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

CALWEST BANCORP AND SUBSIDIARY

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

	2007	2006
INTEREST INCOME		
Interest and Fees on Loans	$ 9,811,397	$ 7,689,100
Interest on Investment Securities	2,067,133	1,771,173
Other Interest Income	418,588	972,906
TOTAL INTEREST INCOME	12,297,118	10,433,179
INTEREST EXPENSE		
Interest on Money Market and NOW Accounts	2,085,866	1,529,729
Interest on Savings Deposits	87,226	127,678
Interest on Time Deposits	1,146,490	492,956
Interest on Borrowings	776,138	331,153
TOTAL INTEREST EXPENSE	4,095,720	2,481,516
NET INTEREST INCOME	8,201,398	7,951,663
Provision for Loan Losses	1,395,000	260,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,806,398	7,691,663
NONINTEREST INCOME		
Service Charges and Fees	852,350	513,818
Gain and Servicing Income on Loans Sold	812,689	1,462,218
Gain on Sale of Securities	313,500	-
Earnings on Company Owned Life Insurance	198,937	114,564
Other Income	28,740	145,007
TOTAL NONINTEREST INCOME	2,206,216	2,235,607
NONINTEREST EXPENSE		
Salaries and Employee Benefits	5,277,746	4,549,127
Occupancy Expenses	1,072,885	795,891
Furniture and Equipment	682,347	528,592
Other Expenses	2,998,433	2,721,539
TOTAL NONINTEREST EXPENSE	10,031,411	8,595,149
INCOME (LOSS) BEFORE TAXES	(1,018,797)	1,332,121
Income Taxes (Benefit)	(487,001)	500,369
NET INCOME (LOSS)	$ (531,796)	$ 831,752
Per Share Data:		
Net Income - Basic	$ (0.23)	$ 0.36
Net Income - Diluted	N/A	$ 0.34

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

CALWEST BANCORP AND SUBSIDIARY

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

	Comprehensive Income	Common Stock Number of Shares	Common Stock Amount	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
January 1, 2006		1,929,293	$ 9,646,465	$ 11,185,684	$(1,466,572)	$(35,342)	$ 19,330,235
Ten Percent Stock Dividend		192,902	966,510	2,251,635	(3,218,145)		
Issuance of Common Stock		27	135	370			505
Exercise of Options		14,405	70,025	77,756			147,781
Stock-based Compensation				101,400			101,400
Comprehensive Income:							
Net Income	$ 831,752				831,752		831,752
Unrealized Gain on Available-for-Sale Securities Net of Taxes of $16,000	24,000					24,000	24,000
Total Comprehensive Income	$ 855,752						
December 31, 2006		2,136,627	10,683,135	13,616,845	(3,852,965)	(11,342)	20,435,673
Ten Percent Stock Dividend		213,599	1,067,995	2,210,750	(3,278,745)		
Issuance of Common Stock		63	315	662			977
Stock-based Compensation				137,111			137,111
Comprehensive Income:							
Net Loss	$(531,796)				(531,796)		(531,796)
Reclassification of Gain on Sale of Securities Recognized in Earnings, net of Tax of $128,535	(184,965)					(184,965)	(184,965)
Unrealized Gain on Available-for-Sale Securities Net of Taxes of $80,223	122,622					122,622	122,622
Total Comprehensive Loss	$(594,139)						
December 31, 2007		2,350,289	$ 11,751,445	$ 15,965,368	$(7,663,506)	$(73,685)	$ 19,979,622

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

CALWEST BANCORP AND SUBSIDIARY

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

	2007	2006
OPERATING ACTIVITIES		
Net Income (Loss)	$(531,796)	$ 831,752
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	544,354	411,669
Provision for Loan Losses	1,395,000	260,000
Gain on Sale of Loans	(670,417)	(1,397,510)
Stock-based Compensation	137,111	101,400
Deferred Taxes	(370,000)	102,000
Income on Company Owned Life Insurance	(198,937)	(114,564)
Gain on Sale of Securities	(313,500)	-
Other Items	533,566	(912,813)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	525,381	(718,066)
INVESTING ACTIVITIES		
Net Decrease in Interest Bearing Deposits in Other Banks	2,901,000	2,797,000
Purchases of Held-to-Maturity Securities	(2,183,202)	(9,810,652)
Purchases of Available-for-Sale Securities	(44,138,381)	(5,000,772)
Proceeds from Maturities of Held-to-Maturity Securities	17,829,165	6,739,724
Proceeds from Maturities of Available-for-Sale Securities	3,480,074	1,332,604
Proceeds from the Sale of Available-for-Sale Securities	27,483,442	-
Net Increase in Loans	(44,947,188)	(35,839,402)
Proceeds from Sale of SBA Loans	12,045,935	19,551,686
Net Increase of Federal Reserve and Federal Home Loan Bank Stock	(365,750)	(307,050)
Purchase of Company Owned Life Insurance	(2,000,000)	(3,500,000)
Purchases of Premises and Equipment	(683,986)	(1,499,538)
NET CASH USED BY INVESTING ACTIVITIES	(30,578,891)	(25,536,400)
FINANCING ACTIVITIES		
Net Decrease in Demand Deposits and Savings Accounts	(7,926,206)	(12,158,823)
Net Increase in Time Deposits	19,030,393	3,627,948
Increase in Borrowings	11,500,000	6,350,000
Proceeds from Exercise of Stock Options	-	147,781
Proceeds from Issuance of Common Stock, Net of Expenses	977	505
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	22,605,164	(2,032,589)
IDECREASE IN CASH AND CASH EQUIVALENTS	(7,448,346)	(28,287,055)
Cash and Cash Equivalents at Beginning of Period	15,316,556	43,603,611
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 7,868,210	$ 15,316,556
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 3,850,922	$ 2,459,973
Taxes Paid	$ 800	$ 720,000

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Principles of Consolidation</u>

The financial statements include the accounts of CalWest Bancorp and its subsidiary, South County Bank ("the Bank") collectively referred to herein as the "Company."

<u>Nature of Operations</u>

The Bank has been organized as a single operating segment with two separate divisions, Inland Valley Bank and Surf City Bank. As of December 31, 2007, three full-service branches in Rancho Santa Margarita, Laguna Beach and Irvine, California operated as the Bank's branches. The Bank also has a full-service branch in Moreno Valley, California and a loan production office and full-service branch in Redlands, California operated as Inland Valley Bank. They also have a loan production office and full service branch in Huntington Beach, California operated as Surf City Bank, both are divisions of South County Bank. Hence, as of December 31, 2007, the Bank has six full-service branches and two loan production offices.

The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

<u>Use of Estimates in the Preparation of Financial Statements</u>

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.

<u>Cash and Cash Equivalents</u>

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.

<u>Cash and Due from Banks</u>

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Company complied with the reserve requirements as of December 31, 2007 and 2006.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment Securities

Bonds, notes, and debentures for which the Company 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.

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

Loans are reported at the principal amount outstanding, net of any deferred loan origination fee income and deferred direct loan origination costs, and net of any unearned interest on discounted loans. Deferred loan origination fee income and direct loan origination costs are amortized to interest income over the life of the loan using the interest method. Interest on loans is accrued to income daily based upon the outstanding principal balances.

Loans for which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on such loans is discontinued when there exists a reasonable doubt as to the full and timely collection of either principal or interest or when principal or interest is past due 90 days, based on the contractual terms of the loan. Income on such loans is then only recognized to the extent that cash is received and where the future collection of principal is probable. Accrual of interest is resumed only when principal and interest are brought fully current and when such loans are considered to be collectible as to both principal and interest.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Loans - Continued

For impairment recognized in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 114, *"Accounting by Creditors for Impairment of a Loan,"* as amended by SFAS No. 118, the entire change in the present value of expected cash flows is reported as either provision for loan losses in the same manner in which impairment initially was recognized, or as a reduction in the amount of provision for loan losses that otherwise would be reported.

Allowance for Loan Losses

The allowance for loan losses is adjusted by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Company's known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions.

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 ten years for furniture and fixtures. 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 Company expenses the costs of advertising in the period incurred.

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 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 carry forwards depends on having sufficient taxable income of an appropriate character within the carry forward periods.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes - Continued

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

The Company adopted SFAS No. 130, "*Reporting Comprehensive Income,*" which requires the disclosure of comprehensive income and its components. Changes in unrealized gain (loss) on available-for-sale securities net of income taxes is the only component of accumulated other comprehensive income for the Company.

Financial Instruments

In the ordinary course of business, the Company 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 M. 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 options 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.

Stock-Based Compensation

The Company 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.

CALWEST BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of New Accounting Pronouncements

In March 2006, the FASB issued SFAS No. 156, "*Accounting for Servicing of Financial Assets*," ("SFAS No. 156"), which amends SFAS No. 140. SFAS No. 156 changes SFAS No. 140 by requiring that servicing assets be initially recognized at their fair value and by providing the option to either: (1) carry servicing rights at fair value with changes in fair value recognized in current period earnings; or (2) continue recognizing periodic amortization expense and assess the servicing rights for impairment as originally required by SFAS No. 140. This option may be applied by class of servicing asset or liability. The Bank adopted SFAS No. 156 effective January 1, 2007. The Company identified servicing assets in relating to all existing SBA loans as a class of serving rights and elected to apply the amortization method accounting to these servicing assets. Presently, this class represents all of the Company's servicing assets. The application of SFAS No. 156 did not have a significant impact on the consolidated financial position or earnings of the Company.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "*Fair Value Measurements*", effective for the Company 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 Company is currently assessing the financial impact this Statement will have on the statement of financial condition or results of operations.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncements – continued

In September 2006, the FASB ratified the FASB's Emerging Issues Task Force (or "EITF") consensus on EITF Issue No. 06-4, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*" and in March 2007 the FASB ratified EITF Issue No. 06-10, "*Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements*." The EITF's consensus on both of these issues focuses on the accounting for arrangements in which a company has agreed to share a portion of the value of the insurance policy with the employee. These arrangements are referred to as "split-dollar" arrangements. Entities with split-dollar life insurance policies will have to accrue, for years beginning after December 15, 2007, liabilities and associated expense for those insurance benefits under the same rules that apply when such benefits are provided by means other than life insurance. The provisions of the consensus would be applied through a cumulative effect adjustment to retained earnings with the option of retrospective application. The Company does not expect the implementation of this standard to have a material effect on its financial statements.

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to the classifications used in 2007.

NOTE B - INVESTMENT SECURITIES

Debt and equity securities have been classified in the consolidated balance sheets 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
December 31, 2007				
Available-for-Sale Securities:				
U.S. Government and Agency Securities	$ 1,500,000	$ 7,590	$ -	$ 1,507,590
State and Municipal Securities	797,139	9,420	(6,543)	800,016
Mortgage-Backed Securities	20,278,737	9,837	(149,863)	20,138,711
	$ 22,575,876	$ 26,847	$(156,406)	$ 22,446,317
Held-To-Maturity Securities:				
U.S. Government and Agency Securities	$ 5,998,704	$ 47,967	$(986)	$ 6,045,685
State and Municipal Securities	3,581,558	20,598	(4,834)	3,597,322
Mortgage-Backed Securities	15,571,401	93,175	(71,502)	15,593,074
	$ 25,151,663	$ 161,740	$(77,322)	$ 25,236,081
December 31, 2006				
Available-for-Sale Securities:				
U.S. Government and Agency Securities	$ 3,000,000	$ -	$(12,705)	$ 2,987,295
State and Municipal Securities	807,354	4,351	-	811,705
Mortgage-Backed Securities	5,271,656	7,496	(18,046)	5,261,106
	$ 9,079,010	$ 11,847	$(30,751)	$ 9,060,106
Held-To-Maturity Securities:				
U.S. Government and Agency Securities	$ 18,689,297	$ -	$(100,050)	$ 18,589,247
State and Municipal Securities	3,588,178	12,425	(18,355)	3,582,248
Mortgage-Backed Securities	18,533,142	2,861	(271,554)	18,264,449
	$ 40,810,617	$ 15,286	$(389,959)	$ 40,435,944

NOTE B - INVESTMENT SECURITIES - Continued

Investment securities carried at approximately $11,273,000 and $16,801,000, at December 31, 2007 and December 31, 2006, respectively, were pledged to secure public deposits and the borrowings discussed in Note G.

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

	Available-for-Sale Securities		Held-to-Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	$ -	$ -	$ 3,798,836	$ 3,800,565
Due in One Year to Five Years	1,500,000	1,507,590	2,199,868	2,245,120
Due in Five to Ten Years	512,139	521,559	2,484,289	2,503,273
Greater Than Ten Years	285,000	278,457	1,097,269	1,094,049
Mortgage-Backed Securities	20,278,737	20,138,711	15,571,401	15,593,074
	$ 22,575,876	$ 22,446,317	$ 25,151,663	$ 25,236,081

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

	Less than Twelve Months		Over Twelve Months		Total	
	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value
December 31, 2007						
U.S. Government and Agency Securities	$ -	$ -	$ (986)	$ 1,299,005	$ (986)	$ 1,299,005
State and Municipal Securities	(6,543)	278,457	(4,834)	563,853	(11,377)	842,310
Mortgage-Backed Securities	(150,847)	16,134,045	(70,518)	6,708,068	(221,365)	22,842,113
	$(157,390)	$ 16,412,502	$(76,338)	$ 8,570,926	$(233,728)	$ 24,983,428
December 31, 2006						
U.S. Government and Agency Securities	$ (6,728)	$ 1,693,023	$(106,027)	$11,896,112	$ (112,755)	$13,589,135
State and Municipal Securities	(2,272)	367,069	(16,083)	1,705,717	(18,355)	2,072,786
Mortgage-Backed Securities	(4,650)	2,591,049	(284,950)	18,894,232	(289,600)	21,485,281
	$(13,650)	$ 4,651,141	$(407,060)	$ 32,496,061	$(420,710)	$ 37,147,202

NOTE B - INVESTMENT SECURITIES - Continued

As of December 31, 2007, the Company had twenty-four investment securities where estimated fair value had declined 0.9% from the Company's amortized cost. Management evaluates investment securities for other-than-temporary impairment taking into consideration the extent and length of time the fair value has been less than cost, the financial condition of the issuer and whether the Company has the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value, which may be at maturity. As of December 31, 2007, no declines in value are deemed to be other-than-temporary.

NOTE C - LOANS

The Company's loan portfolio consists primarily of loans to borrowers within Southern California. Although the Company 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 Company's market area and, as a result, the Company'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
Balance at Beginning of Year	$ 918,863	$ 1,061,090
Additions to the Allowance Charged to Expense	1,395,000	260,000
Recoveries on Loans Charged Off	94,326	106,998
	2,408,189	1,428,088
Less Loans Charged Off	(523,758)	(509,225)
	$ 1,884,431	$ 918,863

The following is a summary of the investment in impaired loans, the related allowance for loan losses, and income recognized thereon and information pertaining to nonaccrual and past due loans as of December 31:

	2007	2006
Recorded Investment in Impaired Loans	$ 2,495,000	$ 750,000
Related Allowance for Loan Losses	$ 374,250	$ 112,000
Average Recorded Investment in Impaired Loans	$ 1,376,500	$ 215,000
Interest Income Recognized for Cash Payments	$ -	$ -
Total Nonaccrual Loans	$ 2,495,000	$ 750,000
Total Loans Past-Due Ninety Days or More and Still Accruing	$ -	$ -

NOTE C - LOANS - Continued

The Company originates SBA Loans. The guaranteed portion of these loans may be periodically sold to institutional investors depending on the Company's overall asset allocation and goals. Funding for the SBA program depends on annual appropriations by the U.S. Congress.

At December 31, 2007 and 2006, the Company was servicing approximately $35,192,000 and $29,611,000, respectively, in SBA loans previously sold. The Company has recorded servicing assets related to these loans totaling $557,374 and $504,760 at December 31, 2007 and 2006, respectively. The estimated fair value of the servicing assets approximated the carrying amount at 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 Company 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.

The Company may also receive a portion of subsequent interest collections on loans sold that exceed the contractual servicing fee. In that case the Company records an interest-only strip based on the relative fair market value of it and the other components of the loan. The Company had interest-only strips totaling $43,267 and $50,478 at December 31, 2007 and 2006, respectively, which approximated fair value. Fair value is estimated by discounting estimated future cash flows from the interest-only strips using assumptions similar to those used in valuing servicing assets.

NOTE D - PREMISES AND EQUIPMENT

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

	2007	2006
Furniture, Fixtures, and Equipment	$ 2,534,582	$ 1,980,101
Leasehold Improvements	764,272	635,694
	3,298,854	2,615,795
Less Accumulated Depreciation and Amortization	(1,695,386)	(1,151,959)
	$ 1,603,468	$ 1,463,836

NOTE D - PREMISES AND EQUIPMENT - Continued

The Company leases its facilities under noncancellable operating leases expiring through 2014. At December 31, 2007, the future minimum annual payments for these leases are as follows:

2008	$ 877,000
2009	822,000
2010	830,000
2011	721,000
2012	730,000
Thereafter	437,000
Total Minimum Payments Required	$ 4,417,000

The minimum rental payments shown above are given for the existing lease obligations and include annual rent adjustments.

Rental expense was $862,360 and $605,954 for 2007 and 2006, respectively.

NOTE E - DEPOSITS

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

Due in One Year or Less	$ 28,281,931
Due from One to Three Years	4,927,237
	$ 33,209,168

NOTE F - JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

On September 17, 2003, the Company issued $3,093,000 of junior subordinated deferrable interest debentures (the “debentures”) to CalWest Statutory Trust I (the “Trust”). These debentures are subordinated to effectively all borrowings of the Company and are due and payable on September 17, 2033. Interest is payable quarterly on these debentures at LIBOR plus 3.0% for an effective rate of 7.00% as of December 31, 2007. The debentures can be redeemed for 105% of the principal balance through September 17, 2008 and at par thereafter. The debentures can also be redeemed at par if certain events occur that impact the tax treatment or the capital treatment of the issuance.

NOTE F - JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES - Continued

The Company also purchased a 3% common interest in the Trust. The balance of the equity of the Trust is comprised of mandatorily redeemable preferred securities. The Federal Reserve Board has issued final regulations confirming that these types of mandatorily redeemable preferred securities qualify as Tier 1 Capital (up to 25% of other components of Tier 1 Capital) and the remainder as Tier 2 Capital.

NOTE G - OTHER BORROWINGS

Other borrowings as of December 31, 2007 consisted of $21,000,000 in Federal Home Loan Bank advances as follows:

Maturity	Weighted-Average Rate	Amount
1/2/08	3.25%	$ 1,000,000
1/3/08	4.27%	$ 2,000,000
1/3/08	4.41%	$ 6,000,000
1/25/08	5.30%	$ 2,500,000
7/28/08	5.23%	$ 2,500,000
8/6/08	4.97%	$ 2,000,000
7/29/09	5.13%	$ 5,000,000
		$21,000,000

These advances are secured by investment securities. As of December 31, 2007, the Company had a remaining borrowing capacity of approximately $7.5 million with the Federal Home Loan Bank of San Francisco.

The Company may also borrow up to $14.0 million overnight on an unsecured basis from its correspondent banks. No amounts were outstanding at December 31, 2007 under these arrangements.

NOTE H - INCOME TAXES

Income taxes for the years ended December 31 consists of the following:

	2007	2006
Currently Payable:		
Federal	$(118,601)	$ 302,209
State	1,600	96,160
	(117,001)	398,369
Deferred	(370,000)	102,000
	$(487,001)	$ 500,369

A comparison of the federal statutory income tax rates to the Company's effective income tax follows:

	2007		2006	
	Amount	Rate	Amount	Rate
Federal tax rate	$(346,000)	34.0 %	$ 453,000	34.0 %
California franchise taxes, net of federal tax benefit	(77,000)	7.6 %	95,000	7.1 %
Tax-free income	(122,000)	12.0 %	(78,000)	(5.8)%
Stock-Based Compnesation	45,000	(4.4)%	26,000	2.0 %
Other items - net	12,999	(1.4)%	4,369	0.3 %
	$(487,001)	47.8 %	$ 500,369	37.6 %

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

The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying consolidated balance sheets:

NOTE H - INCOME TAXES – Continued

	2007	2006
Deferred Tax Assets:		
Allowance for Loan Losses Due to Tax Limitations	$ 619,000	$ 250,000
Unrealized Loss on Investment Securities	56,000	8,000
California Franchise Tax	1,000	33,000
Depreciation Differences	64,000	33,000
Deferred Compensation Plans	116,000	13,000
Other	103,000	23,000
	959,000	360,000
Deferred Tax Liabilities:		
Cash Method of Reporting for Tax Purposes	-	(47,000)
Deferred Loan Costs	(358,000)	(152,000)
Other	(86,000)	(64,000)
	(444,000)	(263,000)
Net Deferred Tax Assets	$ 515,000	$ 97,000

NOTE I - OTHER EXPENSES

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

	2007	2006
Marketing and Business Promotion	$ 635,773	$ 576,076
Professional and Consulting	572,070	574,541
Office Expenses	494,663	483,482
Data Processing	521,366	318,736
Directors Expense	78,286	122,672
Regulatory Assessments	86,532	64,686
Other Expenses	609,743	581,346
	$ 2,998,433	$ 2,721,539

NOTE J - STOCK OPTION PLAN

The shareholders approved the Company's 1999 Stock Option Plan in October 1999, under which 200,037 shares of the Company's common stock may be issued. In July 2003, the shareholders approved the 2003 Stock Option Plan under which 192,995 shares of the Company's common stock may be issued, raising the total shares available to 393,032. Under the terms of the Company's stock option plans, employees may be granted nonqualified stock options or incentive stock options and directors may be granted nonqualified stock options.

In May 2006, the shareholders approved the Company's 2006 Equity Based Compensation Plan under which 201,651 shares of the Company's common stock may be issued. The 2006 Plan authorizes the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock awards and restricted stock units. Under the Plan vesting restrictions on awards may be time based and/or performance based. Participation in the 2006 Plan is open to all employees of the Company and the Bank as well as the Company's directors. Under the terms of the 2006 Plan employees may be granted nonqualified stock options or incentive stock options and directors may be granted nonqualified stock options. Generally, all awards expire no later than ten years from the date of the grant. Upon approval of the 2006 Plan no further grants will be made from the 2003 or 1999 Stock Option Plans.

The fair value of each option grant in 2007 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions (there were no stock options granted in 2006):

	2007
Risk Free Interest Rate	4.68%
Estimated Average Life	5 years
Expected Dividend Rates	0.00%
Expected Stock Volatility	20.00%
Weighted-Average Option Value	$ 3.97

Since the Company 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 Company 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 J - STOCK OPTION PLAN - Continued

A summary of the status of the Company's stock option plan as of December 31, and changes during the years is presented below:

	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	307,629	$ 8.61		
Granted	20,900	$ 15.40		
Forfeited	(6,050)	$ 12.58		
Exercised	-	$ -		
Outstanding at End of Year	322,479	$ 8.98	4.4 Years	None
Options Exercisable at Year-End	264,211	$ 8.35	3.8 Years	None

As of December 31, 2007 there was $137,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 2.1 years.

NOTE K - EARNINGS PER SHARE (EPS)

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

	2007		2006	
	Income	Shares	Income	Shares
Net Income (Loss) as Reported	$(531,796)		$ 831,752	
Shares Outstanding at Year End		2,350,289		2,350,226
Impact of Weighting Shares Purchased During the Year		(608)		(7,384)
Used in Basic EPS	(531,796)	2,349,681	831,752	2,342,842
Dilutive Effect of Outstanding Stock Options		N/A		122,114
Used in Dilutive EPS	$(531,796)	N/A	$ 831,752	2,464,956

Due to operating loss in 2007, the dilutive effect of outstanding stock options would have been 39,622 shares but was disregarded as their inclusion would be anti-dilutive.

NOTE L - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to certain directors and the companies with which they are associated. In the Company's opinion, all loans and loan commitments to such parties are made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons. The balance of these loans outstanding at December 31, 2007 and 2006 was approximately $1,242,000 and $1,126,000, respectively.

Also, in the ordinary course of business, certain executive officers, directors and companies with which they are associated have deposits with the Company. In the Company's opinion, all deposit relationships with such parties are made on substantially the same terms including interest rates and maturities, as those prevailing at the time of comparable transactions with other persons. The balance of these deposits at December 31, 2007 and 2006 was approximately $1,486,000 and $1,034,000, respectively.

NOTE M - COMMITMENTS

In the ordinary course of business, the Company 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 Company's financial statements.

The Company'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 Company 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 Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2007	2006
Commitments to Extend Credit	$ 33,288,000	$ 35,625,000
Standby Letters of Credit	598,000	-
	$ 33,886,000	$ 35,625,000

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 Company evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company is based on management's credit evaluation of the customer. The majority of the Company's commitments to extend credit and standby letters of credit are secured by real estate.

NOTE M - COMMITMENTS - Continued

The Company is involved in various litigation which has arisen in the ordinary course of its business. In the opinion of management, the disposition of such pending litigation will not have a material effect on the Company's financial statements.

NOTE N - DEFERRED COMPENSATION BENEFITS

The Company has entered into deferred compensation agreements with certain key officers. Under these agreements, the Company is obligated to provide, upon retirement, a 15 year benefit to the officers. The annual benefits are based on a percentage of the officer's compensation prior to retirement. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of the agreements until the expected retirement dates of the participants. The expense incurred and amount accrued for these agreements totaled $250,000 and $31,400 for 2007 and 2006, respectively. The Company is a beneficiary of life insurance policies that have been purchased as a method of financing the benefits under these agreements. Income earned on the cash surrender value of these polices is tax-free to the Company and is utilized to reduce the overall costs of the deferred compensation benefits.

NOTE O - REGULATORY MATTERS

The Company and Bank are 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 Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Their capital amounts and classifications 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 Company and 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 Company and Bank meet all capital adequacy requirements.

As of December 31, 2007, the most recent notification from the Comptroller of the Currency 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 Company and Bank must maintain minimum ratios as set forth in the table below. The following table also sets forth the company's and Bank's actual capital amounts and ratios (dollar amounts in thousands):

NOTE O - REGULATORY MATTERS - Continued

	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						
Bank:						
Total Capital (to Risk-Weighted Assets)	$ 24,223	15.85%	$ 12,229	8.0%	$ 15,286	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 22,313	14.60%	$ 6,114	4.0%	$ 9,171	6.0%
Tier 1 Capital (to Average Assets)	$ 22,313	11.82%	$ 7,554	4.0%	$ 9,442	5.0%
Company:						
Total Capital (to Risk-Weighted Assets)	$ 25,034	16.33%	$ 12,257	8.0%	$ 15,322	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 23,127	15.09%	$ 6,129	4.0%	$ 9,193	6.0%
Tier 1 Capital (to Average Assets)	$ 23,127	12.25%	$ 7,554	4.0%	$ 9,442	5.0%
As of December 31, 2006						
Bank:						
Total Capital (to Risk-Weighted Assets)	$ 23,487	20.14%	$ 9,329	8.0%	$ 11,661	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 22,509	19.30%	$ 4,665	4.0%	$ 6,997	6.0%
Tier 1 Capital (to Average Assets)	$ 22,509	14.13%	$ 6,372	4.0%	$ 7,965	5.0%
Company:						
Total Capital (to Risk-Weighted Assets)	$ 24,425	21.05%	$ 9,283	8.0%	$ 11,604	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 23,477	20.21%	$ 4,642	4.0%	$ 6,962	6.0%
Tier 1 Capital (to Average Assets)	$ 23,477	14.72%	$ 6,372	4.0%	$ 7,965	5.0%

The Bank is restricted as to the amount of dividends, which can be paid. Dividends declared by national banks that exceed the net income (as defined) for the current year plus retained net income for the preceding two years must be approved by the OCC. The Bank may not pay dividends that would result in its capital levels being reduced below the minimum requirements shown above. With certain exceptions, a California corporation, like the Company, may not pay a dividend to its shareholders unless its retained earnings equal at least the amount of the proposed dividend.

NOTE P - 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 future expected loss experience, current economic conditions, 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 P - 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 Company 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 P - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The estimated fair value of financial instruments at December 31, 2007 and 2006 are summarized as follows (dollar amounts in thousands):

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and Due from Banks	$ 6,418	$ 6,418	$ 7,402	$ 7,402
Federal Funds Sold	1,450	1,450	7,915	7,915
Interest-bearing Deposits	198	198	3,099	3,099
Investment Securities	47,598	47,598	49,871	49,496
Net Loans	124,460	120,963	93,121	91,153
Federal Reserve Bank and Federal Home Loan Bank Stock	1,729	1,729	1,363	1,363
Cash Surrender Value of Life Insurance	5,814	5,814	3,615	3,615
Accrued Interest Receivable	881	881	784	784
Financial Liabilities				
Deposits	148,748	148,989	137,644	137,626
Debentures	3,903	3,903	3,093	3,093
Other Borrowings	21,000	21,092	9,500	9,500
Accrued Interest Payable and Other Liabilities	1,268	1,268	311	311

NOTE Q - CALWEST BANCORP

CalWest Bancorp has no significant business activity other than its investment in South County Bank. Accordingly, no separate financial information on the Company is provided. However, separate earnings for CalWest Bancorp are reported in the supplementary information section of this report.

NOTE R - STOCK DIVIDENDS

The Company issued a 10% stock dividend in 2007 and 2006. All earnings per share amounts have been retroactively restated to reflect this change as well as the stock options outstanding as disclosed in Note J.

CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2007

	South County Bank	CalWest Bancorp	Eliminations	Consolidated
Interest Income				
Interest and Fees on Loans	$ 9,811,397	$ -	$ -	$ 9,811,397
Interest on Investment Securities	2,057,765	9,368		2,067,133
Other Interest Income	418,588			418,588
Total Interest Income	12,287,750	9,368	-	12,297,118
Interest Expense				
Interest on Money Market and NOW Accounts	2,085,866			2,085,866
Interest on Savings Deposits	87,226			87,226
Interest on Time Deposits	1,146,490			1,146,490
Other Interest Expense	513,713	262,425		776,138
Total Interest Expense	3,833,295	262,425	-	4,095,720
Net Interest Income	8,454,455	(253,057)	-	8,201,398
Provision for Loan Losses	1,395,000			1,395,000
Net Interest Income (Loss) after Provision for Loan Losses	7,059,455	(253,057)	-	6,806,398
Noninterest Income				
Service Charges and Fees	852,350			852,350
Gain and Servicing Income on Loans Sold	812,689			812,689
Gain on Sale of Sercuirties	313,500			313,500
Earnings on Company Owned Life Insurance	198,937			198,937
Other Income	28,740			28,740
Total Noninterest Income	2,206,216	-	-	2,206,216
Noninterest Expense				
Salaries and Employee Benefits	5,277,746			5,277,746
Occupancy Expenses	1,072,885			1,072,885
Furniture and Equipment	682,347			682,347
Other Expenses	2,925,254	73,179		2,998,433
Total Noninterest Expense	9,958,232	73,179	-	10,031,411
Income (Loss) before Taxes and Income from Subsidiary	(692,561)	(326,236)	-	(1,018,797)
Income from Subsidiary		(333,797)	333,797	-
Income Taxes (Benefit)	(358,764)	(128,237)		(487,001)
Net Income	$ (333,797)	$ (531,796)	$ 333,797	$ (531,796)

2007 Sponsorships & Donations

American Cancer Society
Bell Tower Foundation
California Womens Leadership Association
Adult Day Services Of Orange County
Association Of The Orange County Sherrif's Memorial Fund
Boy And Girls Club Of Huntington Beach
Child Guidance Center
Chomps / Life Skills
Cielo Vista Elementary School
City Of Hope
City Of Huntington Beach
City Of Irvine
City Of Rancho Santa Margarita Community Services
Community Clinic Healthcare
Crofton Hills College
El Morro Pta
Exchange Club Of Irvine
Fountain Valley Educational Foundation
Fountain Valley Kiwanis Club
Friends Of Concordia University
Friends Of The Library
FrienDship Shelter
Golden West College Foundation
Grace Lutheran Preschool Pops
Grand Terrace Lions Club
Hawaii Pacific University
Hbsh Boosters
Holy Trinity Catholic Church
Huntington Beach 3/1 Marines Foundation
Huntington Beach Chamber Of Commerce
Huntington Beach High School Boys Basketball
Irvine Chamber Of Commerce
Irvine Police Association
Irvine Spectrum Rotary Club
Kfs Education Services
Kiwanis Club Of Huntington Beach
Laguna Beach Community Clinic
Laguna Beach Education Foundation
Laguna Beach High ScHool Soccer Boosters
Laguna Beach Live!
Laguna Beach Rotary
Laguna Beach Seniors
Laguna Beach Women's Club
Laguna Chamber Of Commerce
Laguna Niguel Chamber Of Commerce
Laguna Playhouse
Mission Viejo High School
Moreno Valley Chamber Of Commerce
Moreno Valley Hispanic Chamber Of Commerce
New Horizon Elementary School, Irvine
Newport / Irvine Rotary Club
Olive Crest
Pacific Marine Mammal Center
Philharmonic Society Of Orange County
Project 999 - Memorial Ride
Rancho Santa Margarita Soccer Club
Redlands ChamBer Of Commerce
Riverside Against Drugs
Rotary Club Of Coto De Caza
Rotary Club Of Moreno Valley
Rotary Club Of Saddleback Valley
Rsm / Coto Rotary Club Del Sol
Rsm Police Services - 999 Memorial Ride
Saddleback College Foundation
Saddleback Community Outreach
San Bernardino County Museum
Santa Margarita Catholic High School
Soroptomist International
Soroptomist International Of Long Beach
South Orange County Chambers Of Commerce
Trabuco Hills High School
University Of Redlands

Bank Information

ADMINISTRATION OFFICE
2 VENTURE
SUITE 120
IRVINE, CA 92618
(949)766-3000
(949)766-3098 FAX
www.southcountybank.com

LOAN PRODUCTION OFFICES
MAIN OFFICE
2 VENTURE, SUITE 120
IRVINE, CA 92618
(949)766-3000
(949)766-3098 FAX

REAL ESTATE / CONSTRUCTION
1200 CALIFORNIA STREET, SUITE 240
REDLANDS, CA 92374
(909)583-9125
(909)793-5136 FAX

SMALL BUSINESS ADMINISTRATION (SBA)
7755 CENTER AVENUE, SUITE 100
HUNTINGTON BEACH, CA 92647
(714)845-3065
(714)891-9502 FAX

BANK ATM LOCATIONS

- 22342 AVENIDA EMPRESA, RSM, CA
- 22431 ANTONIO PRKWY., RSM, CA
- CONCORDIA UNIV., IRVINE, CA
- 540 S. COAST HIGHWAY, LAGUNA BEACH, CA 92651
- ARCO MINIMART, 29800 SANTA MARGARITA PKWY, RSM, CA 92688
- 2 VENTURE, SUITE 140, IRVINE, CA 92618
- 25125 SUNNYMEAD BLVD., MORENO VALLEY, CA
- 7755 CENTER AVENUE, SUITE 100, HUNTINGTON BEACH CA 92647
- SADDLEBACK CHURCH, 1 SADDLEBACK PRKWY., LAKE FOREST CA 92630
- CRAFTON HILLS COLLEGE, 11711 SAN CANYON RD, YUCAIPA, CA 92399

Branch Locations

RANCHO SANTA MARGARITA BRANCH
22342 AVENIDA EMPRESA, SUITE 101-A
RANCHO SANTA MARGARITA, CA 92688
(949)766-3015
(949)766-3097 FAX

LAGUNA BEACH BRANCH
540 SOUTH COAST HIGHWAY #202
LAGUNA BEACH, CA 92651
(949)464-2800
(949)497-0210 FAX

IRVINE BRANCH
2 VENTURE, SUITE 140
IRVINE, CA 92618
(949)766-3040
(949)766-3038 FAX

INLAND VALLEY BANK
DIVISION OF SOUTH COUNTY BANK
MORENO VALLEY BRANCH
25125 SUNNYMEAD BLVD, SUITE AA
MORENO VALLEY, CA 92553
(951)247-3877
(951)247-3884 FAX
www.inlandvalleybank.com

INLAND VALLEY BANK
DIVISION OF SOUTH COUNTY BANK
REDLANDS BRANCH
1200 CALIFORNIA STREET, SUITE 240
REDLANDS, CA 92374
(909)583-9150
(909)793-5180 FAX
www.inlandvalleybank.com

SURF CITY BANK
DIVISION OF SOUTH COUNTY BANK
HUNTINGTON BEACH BRANCH
7755 CENTER AVENUE, SUITE 100
HUNTINGTON BEACH, CA 92647
(714)845-3050
(714)891-9506 FAX
www.surfcitybank.net

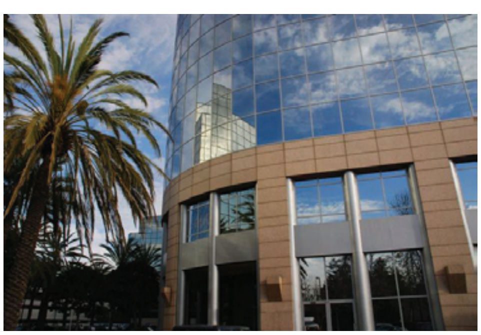
CalWest Bancorp

STOCK SYMBOL CALW
TRANSFER AGENT - COMPUTERSHARE
(800) 835-8778

South County BANK

INLAND VALLEY BANK

Surf City Bank



BANK DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

BRUCE M. WILLIAMS
REAL ESTATE
CHAIRMAN OF THE BOARD OF DIRECTORS

WALTER E. STORCH
INSURANCE
VICE CHAIRMAN, DIRECTOR

CHRISTOPHER J. LEANDERS
ATTORNEY
SECRETARY, DIRECTOR

THOMAS E. YOTT
PRESIDENT, CEO AND DIRECTOR

ARTHUR J. COHEN
ATTORNEY
DIRECTOR

BEN LOZANO
CPA
DIRECTOR

JAMES K. GRAHAM
AUTO DEALERSHIP
DIRECTOR

PETER MAINSTAIN
CPA
DIRECTOR

EXECUTIVE OFFICERS

THOMAS E. YOTT
PRESIDENT, CEO AND DIRECTOR

EUGENE WOOD
PRESIDENT - INLAND VALLEY BANK DIVISION

LISA LOUGHRAN
EXECUTIVE VICE PRESIDENT
SURF CITY BANK DIVISION

NAJAM SAIDUDDIN
EXECUTIVE VICE PRESIDENT
CHIEF FINANCIAL OFFICER

ROBERT COLE
EXECUTIVE VICE PRESIDENT
CHIEF CREDIT OFFICER

JILL PIERCE
EXECUTIVE VICE PRESIDENT
CHIEF ADMINISTRATOR OFFICER

KENT H. FALK
EXECUTIVE VICE PRESIDENT
BUSINESS DEVELOPMENT

South County
BANK

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